

**MERRILL AREA PUBLIC SCHOOL DISTRICT
MERRILL, WISCONSIN**

ANNUAL FINANCIAL REPORT

JUNE 30, 2017

MERRILL AREA PUBLIC SCHOOL DISTRICT

Merrill, Wisconsin

June 30, 2017

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Merrill, Wisconsin
June 30, 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Education
Merrill Area Public School District
Merrill, Wisconsin

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Merrill Area Public School District, Merrill, Wisconsin (the "District") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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 of 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 auditors' 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 auditors consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Merrill Area Public School District as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and the schedules relating to pensions and other postemployment benefits on pages 34 through 38 be presented to supplement the basic financial statements. Such information, although not 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinions on the basic financial statements are not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The financial information listed in the table of contents as supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards and schedule of state financial assistance 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* issued by the Wisconsin Department of Administration and are also not a required part of the basic financial statements.

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

Report on Summarized Financial Information

We have previously audited the District's 2016 financial statements, and our report dated January 18, 2017, expressed unmodified opinions on those respective financial statements of the governmental activities, the major fund and the aggregate remaining fund information. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 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.



Certified Public Accountants
Green Bay, Wisconsin
November 30, 2017

BASIC FINANCIAL STATEMENTS

MERRILL AREA PUBLIC SCHOOL DISTRICT
Merrill, Wisconsin
Statement of Net Position
June 30, 2017
(With summarized financial information as of June 30, 2016)

	Governmental Activities	
	2017	2016
ASSETS		
Cash and investments	\$ 5,271,426	\$ 7,872,820
Receivables		
Taxes	2,758,276	2,973,924
Accounts	476,041	427,651
Due from other governments	1,412,887	2,056,482
Prepaid items	133	916,416
Capital assets		
Land	1,256,000	1,256,000
Construction work in progress	-	134,926
Land improvements	3,337,193	1,648,109
Buildings	45,601,158	45,601,158
Machinery and equipment	2,225,136	2,036,678
Less: Accumulated depreciation	(27,886,273)	(27,305,373)
TOTAL ASSETS	34,451,977	37,618,791
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	6,581	13,157
Deferred outflows related to pension	6,937,740	10,242,588
Deferred outflows related to other post employment benefits	908,808	1,241,142
TOTAL DEFERRED OUTFLOWS OF RESOURCES	7,853,129	11,496,887
LIABILITIES		
Short-term notes payable	3,000,000	5,650,000
Accounts payable	948,758	793,612
Accrued payroll liabilities	257,410	394,054
Accrued interest payable	77,452	81,032
Unearned revenues	-	506
Deposits and other fund liabilities	84,575	52,357
Long-term obligations		
Due within one year	1,735,000	1,973,257
Due in more than one year	2,546,597	4,116,870
Other post-employment benefits liability	5,346,525	6,204,855
Net pension liability	976,929	1,934,555
TOTAL LIABILITIES	14,973,246	21,201,098
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pension	3,093,187	4,071,239
Deferred inflows related to other post employment benefits	4,605	-
TOTAL DEFERRED INFLOWS OF RESOURCES	3,097,792	4,071,239
NET POSITION		
Net investment in capital assets	21,154,795	20,409,498
Restricted for		
Debt service	110,682	120,407
TEACH program	308	308
Community services and programs	13,111	-
Food service program	138,445	99,147
Long-term capital improvement	1,000	-
Unrestricted	2,815,727	3,213,981
TOTAL NET POSITION	\$ 24,234,068	\$ 23,843,341

The notes to the basic financial statements are an integral part of this statement.

MERRILL AREA PUBLIC SCHOOL DISTRICT
Merrill, Wisconsin
Statement of Activities
For the Year Ended June 30, 2017
(With summarized financial information for the year ended June 30, 2016)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
					2017	2016
Governmental Activities						
Instruction	\$ 22,090,706	\$ 56,943	\$ 8,052,399	\$ -	\$(13,981,364)	\$(13,628,246)
Support services	16,733,635	621,457	1,721,722	1,449,158	(12,941,298)	(12,531,159)
Interest and fiscal charges	349,237	-	-	-	(349,237)	(256,377)
Community services	137,287	13,795	-	-	(123,492)	(72,505)
Non-program	1,502,770	-	293,362	-	(1,209,408)	(1,593,682)
Total School District	\$40,813,635	\$ 692,195	\$10,067,483	\$ 1,449,158	(28,604,799)	(28,081,969)
General Revenues						
Property taxes					10,541,373	11,115,354
Other taxes					19,939	23,675
State and federal aids not restricted to specific functions					18,115,521	17,767,893
Interest and investment earnings					24,159	9,689
Miscellaneous					294,534	648,863
Total General Revenues					28,995,526	29,565,474
Change in net position					390,727	1,483,505
Net position - July 1					23,843,341	22,359,836
Net position - June 30					\$ 24,234,068	\$ 23,843,341

The notes to the basic financial statements are an integral part of this statement.

MERRILL AREA PUBLIC SCHOOL DISTRICT

Merrill, Wisconsin

Balance Sheet

Governmental Funds

June 30, 2017

(With summarized financial information as of June 30, 2016)

	General	Other Governmental Funds	Total Governmental Funds	
			2017	2016
ASSETS				
Cash and investments	\$ 4,969,248	\$ 302,178	\$ 5,271,426	\$ 7,872,820
Receivables				
Taxes	2,758,276	-	2,758,276	2,973,924
Accounts	445,329	30,712	476,041	427,651
Due from other funds	138,095	-	138,095	352,709
Due from other governments	1,238,971	173,916	1,412,887	2,056,482
Prepaid items	133	-	133	916,416
TOTAL ASSETS	\$ 9,550,052	\$ 506,806	\$ 10,056,858	\$ 14,600,002
LIABILITIES AND FUND BALANCES				
Liabilities				
Short-term notes payable	\$ 3,000,000	\$ -	\$ 3,000,000	\$ 5,650,000
Accounts payable	931,006	17,752	948,758	793,612
Accrued payroll liabilities	255,642	1,768	257,410	394,054
Accrued interest payable	44,500	-	44,500	37,587
Due to other funds	-	138,095	138,095	352,709
Unearned revenues	-	-	-	506
Deposits and other fund liabilities	83,800	775	84,575	52,357
Total Liabilities	4,314,948	158,390	4,473,338	7,280,825
Fund Balances				
Nonspendable				
Prepaid items	133	-	133	916,416
Restricted				
Debt service	-	143,634	143,634	163,852
TEACH program	-	308	308	308
Community services and programs	-	13,111	13,111	-
Food service programs	-	138,445	138,445	99,147
Long-term capital improvement	-	1,000	1,000	-
Committed for Bridges Virtual Academy	295,378	-	295,378	295,378
Assigned				
Equipment and other	-	51,918	51,918	1,003,606
Unassigned				
General fund	4,939,593	-	4,939,593	4,840,470
Total Fund Balances	5,235,104	348,416	5,583,520	7,319,177
TOTAL LIABILITIES AND FUND BALANCES	\$ 9,550,052	\$ 506,806	\$ 10,056,858	\$ 14,600,002

(Continued)

MERRILL AREA PUBLIC SCHOOL DISTRICT
Merrill, Wisconsin
Balance Sheet (Continued)
Governmental Funds
June 30, 2017
(With summarized financial information as of June 30, 2016)

<u>Reconciliation to the Statement of Net Position</u>	2017	2016
Total Fund Balances from previous page	\$ 5,583,520	\$ 7,319,177
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	24,533,214	23,371,498
Deferred outflow of resources is reported in the statement of net position for the loss on advance refunding.	6,581	13,157
The District's other post-employment benefits are not due and payable in the current period, and, therefore are not reported in the fund statements		
Deferred outflows of resources	908,808	1,241,142
Other post-employment benefits liability	(5,346,525)	(6,204,855)
Deferred inflows of resources	(4,605)	-
The District's proportionate share of the Wisconsin Retirement System pension plan is not an available financial resource; therefore, it is not reported in the fund financial statements:		
Deferred outflows of resources	6,937,740	10,242,588
Net pension liability	(976,929)	(1,934,555)
Deferred inflows or resources	(3,093,187)	(4,071,239)
Some liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds.		
Bonds and notes payable	(3,385,000)	(5,070,000)
Debt premium	-	(15,157)
Compensated absences	(896,597)	(1,004,970)
Accrued interest on long-term obligations	(32,952)	(43,445)
Net Position of Governmental Activities as Reported on the Statement of Net Position (see page 4)	<u>\$ 24,234,068</u>	<u>\$ 23,843,341</u>

The notes to the basic financial statements are an integral part of this statement.

MERRILL AREA PUBLIC SCHOOL DISTRICT
Merrill, Wisconsin
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2017
(With summarized financial information for the year ended June 30, 2016)

	General	Other Governmental Funds	Total Governmental Funds	
			2017	2016
Revenues				
Property taxes	\$ 8,564,835	\$ 2,533,571	\$ 11,098,406	\$ 11,664,471
Other local sources	265,162	1,552,795	1,817,957	1,354,753
Interdistrict sources	4,304,488	48,998	4,353,486	3,860,174
Intermediate sources	372,797	-	372,797	191,172
State sources	20,488,139	19,142	20,507,281	20,302,948
Federal sources	1,459,793	1,407,638	2,867,431	2,865,214
Other sources	186,504	-	186,504	462,838
Total Revenues	35,641,718	5,562,144	41,203,862	40,701,570
Expenditures				
Instruction				
Regular instruction	13,825,049	486,250	14,311,299	13,770,583
Vocational instruction	863,456	5,653	869,109	858,586
Special education instruction	4,182,909	-	4,182,909	3,956,438
Other instruction	1,803,014	16,544	1,819,558	1,831,234
Total Instruction	20,674,428	508,447	21,182,875	20,416,841
Support Services				
Pupil services	1,320,660	18,204	1,338,864	1,413,114
Instructional staff services	1,340,636	100,379	1,441,015	1,354,631
General administration services	1,356,822	115,237	1,472,059	1,300,201
School administration services	1,884,534	67	1,884,601	1,878,901
Business services	378,766	-	378,766	346,151
Operation and maintenance of plant	3,208,282	2,468,178	5,676,460	3,216,984
Pupil transportation services	2,057,856	56,938	2,114,794	2,024,616
Food services	-	1,242,256	1,242,256	1,260,420
Central services	2,006,544	4,664	2,011,208	2,140,354
Insurance	294,751	1,300	296,051	295,313
Other support services	212,062	-	212,062	2,214
Total Support Services	14,060,913	4,007,223	18,068,136	15,232,899
Debt Service				
Principal	-	1,685,000	1,685,000	1,655,000
Interest	194,532	173,779	368,311	277,233
Total Debt Service	194,532	1,858,779	2,053,311	1,932,233
Community Service				
Non-program	-	132,927	132,927	81,369
General tuition payments	1,007,194	-	1,007,194	1,215,210
Private school voucher payments	161,106	-	161,106	122,638
Special education tuition payments	333,666	-	333,666	704,419
Adjustments and refunds	804	-	804	4,155
Total Non-program	1,502,770	-	1,502,770	2,046,422
Total Expenditures	36,432,643	6,507,376	42,940,019	39,709,764
Excess of Revenues Over (Under) Expenditures	(790,925)	(945,232)	(1,736,157)	991,806
Other Financing Sources (Uses)				
Sale of capital assets	500	-	500	780
Transfers in	-	26,735	26,735	-
Transfers out	(26,735)	-	(26,735)	-
Total Other Financing Sources (Uses)	(26,235)	26,735	500	780
Net Change in Fund Balances	(817,160)	(918,497)	(1,735,657)	992,586
Fund Balances - July 1	6,052,264	1,266,913	7,319,177	6,326,591
Fund Balances - June 30	\$ 5,235,104	\$ 348,416	\$ 5,583,520	\$ 7,319,177

(Continued)

MERRILL AREA PUBLIC SCHOOL DISTRICT
Merrill, Wisconsin
Statement of Revenues, Expenditures and Changes in Fund Balances (Continued)
Governmental Funds
For the Year Ended June 30, 2017
(With summarized financial information for the year ended June 30, 2016)

	2017	2016
<u>Reconciliation to the Statement of Activities</u>		
Net Change in Fund Balances from previous page	\$ (1,735,657)	\$ 992,586
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay reported in governmental fund statements	\$ 2,124,964	
Depreciation expense reported in the statement of activities	<u>(881,015)</u>	
Amount in which depreciation is less (greater) than capital outlays	1,243,949	(667,516)
In governmental funds the entire proceeds, if any, from the disposal of capital assets is reported as an other financing source. In the statement of activities only the gain (or loss) on the disposal is reported.		
	(82,233)	-
Certain employee benefits are reported in the governmental funds when amounts are paid. The statement of activities reports the value of benefits earned during the year. The accrual of these benefits decreased (increased) by:		
	108,373	2,643
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 is:		
	1,685,000	1,655,000
Change in the OPEB and related deferred inflows and outflows of resources as a result of employer contributions and related other post-employment changes in assumptions and expected and actual experiences		
	521,391	853,716
Change in the net pension liability (asset) and related deferred inflows and outflows of resources as a result of employer contributions, changes in assumptions and proportionate share, and the difference between the expected and actual experience of the pension plan		
	(1,369,170)	(1,373,780)
Interest payments on outstanding debt are reported in the governmental funds as an expenditure when paid. In the statement of activities interest is reported as it accrues.		
	10,493	7,223
The loss on debt refunding is reported in the governmental fund as an expenditure. In the statement of activities, this loss is capitalized and amortized over the life of the refunded bonds		
	(6,576)	(6,576)
Premiums on long-term debt issued are reported in governmental funds as an other financing source. In the statement of activities, premiums are recorded as a liability and amortized over the life of the bonds.		
	15,157	20,209
Change in Net Position of Governmental Activities as Reported on the Statement of Activities (see page 5)	<u>\$ 390,727</u>	<u>\$ 1,483,505</u>

The notes to the basic financial statements are an integral part of this statement.

MERRILL AREA PUBLIC SCHOOL DISTRICT

Merrill, Wisconsin

Statement of Net Position

Fiduciary Funds

June 30, 2017

(With summarized financial information as of June 30, 2016)

	Private Purpose Trust Fund	Employee Benefit Trust Fund	Agency Fund	Total Fiduciary Funds	
				2017	2016
ASSETS					
Cash and cash equivalents	\$ 562,529	\$ 940,224	\$ 157,610	\$ 1,660,363	\$ 1,656,859
Accounts receivable	-	-	504	504	504
Due from District	-	215,612	-	215,612	379,456
TOTAL ASSETS	562,529	1,155,836	158,114	1,876,479	2,036,819
LIABILITIES					
Due to District	-	406,366	-	406,366	379,456
Due to student organizations	-	-	158,114	158,114	164,757
TOTAL LIABILITIES	-	406,366	158,114	564,480	544,213
NET POSITION					
Restricted for					
Scholarships	562,529	-	-	562,529	567,937
Other postemployment benefits	-	749,470	-	749,470	924,669
TOTAL NET POSITION	\$ 562,529	\$ 749,470	\$ -	\$ 1,311,999	\$ 1,492,606

The notes to the basic financial statements are an integral part of this statement.

MERRILL AREA PUBLIC SCHOOL DISTRICT
Merrill, Wisconsin
Statement of Changes in Net Position
Fiduciary Funds
For the Year Ended June 30, 2017
(With summarized financial information for the year ended June 30, 2016)

	Private Purpose Trust Fund	Employee Benefit Trust Fund	Totals	
			2017	2016
ADDITIONS				
Private donations	\$ 39,800	\$ -	\$ 39,800	\$ 17,250
Investment income	1,443	15,555	16,998	18,390
Other local sources	-	904,426	904,426	1,253,841
Total Additions	41,243	919,981	961,224	1,289,481
DEDUCTIONS				
Trust fund disbursements	46,651	-	46,651	32,999
Benefit payments	-	1,095,180	1,095,180	1,253,841
Total Deductions	46,651	1,095,180	1,141,831	1,286,840
Change in Net Position	(5,408)	(175,199)	(180,607)	2,641
Net Position - July 1	567,937	924,669	1,492,606	1,489,965
Net Position - June 30	\$ 562,529	\$ 749,470	\$ 1,311,999	\$ 1,492,606

The notes to the basic financial statements are an integral part of this statement.

MERRILL AREA PUBLIC SCHOOL DISTRICT
Merrill, Wisconsin
Notes to Basic Financial Statements
June 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Merrill Area Public School District, Merrill, Wisconsin (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the District are described below:

1. Reporting Entity

The Merrill Area Public School District is organized as a common school district. The District, governed by a nine member elected school board, operates grades K through 12 and is comprised of all or parts of fourteen taxing districts.

In accordance with GAAP, the basic financial statements are required to include the District (the primary government) and any separate component units that have a significant operational or financial relationship with the District. The District has not identified any component units that are required to be included in the basic financial statements in accordance with standards established by GASB Statement No. 61.

2. District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *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. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Governmental funds include general, special revenue, debt service and capital projects funds. The District has no proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following major governmental fund:

GENERAL FUND

This is the District's main operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

MERRILL AREA PUBLIC SCHOOL DISTRICT
Merrill, Wisconsin
Notes to Basic Financial Statements
June 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Additionally, the government reports the following fund types:

The *private-purpose trust fund* is used to account for resources legally held in trust for scholarship awards.

The *employee benefit trust fund* is used to account for financial resources legally held in trust for post-employment health, dental and life insurance benefits.

The District accounts for assets held as an agent for various student organizations in an *agency fund*.

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

The district-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter 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 generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are recognized as revenue in the fiscal year for which taxes have been levied. Tuition, grants, fees and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when the cash is received by the District.

As a general rule the effect of interfund activity has been eliminated from the district-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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.

MERRILL AREA PUBLIC SCHOOL DISTRICT
Merrill, Wisconsin
Notes to Basic Financial Statements
June 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Fund Balance

a. Cash and Investments

Cash and investments are combined in the financial statements. Cash deposits consist of demand and time deposits with financial institutions and are carried at cost. Investments are stated at fair value. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

b. Accounts Receivable

Accounts receivable are recorded at gross amount with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that the amount of such allowance would not be material to the basic financial statements.

c. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" in the fund financial statements.

d. Prepaid Items

Payments made to vendors that will benefit periods beyond the end of the current fiscal year are recorded as prepaid items, and are accounted for on the consumption method.

Prepaid items of governmental funds in the fund financial statements are offset by nonspendable fund balance to indicate that they do not represent spendable available financial resources.

e. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the district-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of \$5,000 or higher and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	Governmental Activities Years
Land improvements	20
Buildings	20 - 50
Machinery and equipment	5 - 20

MERRILL AREA PUBLIC SCHOOL DISTRICT
Merrill, Wisconsin
Notes to Basic Financial Statements
June 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f. Compensated Absences

The District's policy allows employees to earn varying amounts of sick pay for each year employed, accumulating to varying maximum amounts. Upon retirement or termination of employment, the employees are entitled to the unused portion which is used to pay their group health insurance. The District's employees also are granted vacation in varying amounts based on length of service. All vacation and sick leave is accrued when incurred in the district-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds in the fund financial statements only if they have matured, for example, as a result of employee resignations and retirements.

District policy allows employees to continue in the District's health insurance program after retirement as discussed below.

Support Staff: Unused accumulated sick leave (up to 90 days) is determined at retirement and a dollar amount is calculated based on ending pay rate. The amount determined is used to purchase insurance for the employee (and/or surviving spouse) until the employee becomes Medicare eligible or reaches age 65 whichever comes first.

Licensed Staff/Administration: The benefits are paid in the same manner as for support staff with the exception that unused sick leave accumulations are not required. Although administration agreements have language requiring unused sick leave factors, there is also language extending the benefits in the event the accumulations are used up before Medicare eligible or age 65 occurs.

g. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The District has three items that qualify for reporting in this category. The first is the deferred charge on refunding reported in the district-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second is related to the District's proportionate share of the Wisconsin Retirement System pension plan and is deferred and amortized over the expected remaining service lives of the pension plan participants. The third is related to the District's other postemployment benefits plan and is deferred and amortized over the expected remaining service lives of the plan participants.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District currently has two items that qualifies for reporting in this category. The first item is related to the District's proportionate share of the Wisconsin Retirement System pension plan and is deferred and amortized over the expected remaining service lives of the pension plan participants. The second is related to the District's other postemployment benefits plan and is deferred and amortized over the expected remaining service lives of the plan participants.

MERRILL AREA PUBLIC SCHOOL DISTRICT
Merrill, Wisconsin
Notes to Basic Financial Statements
June 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

h. Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bond. Issuance costs are expensed during the current period.

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

i. Other Postemployment Benefits Other than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Merrill Area Public School District Other Postemployment Benefit Plan (the "Plan") and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

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 position of the Wisconsin Retirement System (WRS) and additions to/deductions from WRS' fiduciary net position have been determined on the same basis as they are reported by WRS. 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. Fund Equity

GOVERNMENTAL FUND FINANCIAL STATEMENTS

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - Amounts that are not in spendable form (such as inventory, prepaid items, or long-term receivables) or are legally or contractually required to remain intact.
- Restricted fund balance - Amounts that are constrained for specific purposes by external parties (such as grantor or bondholders), through constitutional provisions, or by enabling legislation.
- Committed fund balance - Amounts that are constrained for specific purposes by action of the Board of Education. These constraints can only be removed or changed by the Board of Education using the same action that was used to create them.
- Assigned fund balance - Amounts that are constrained for specific purposes by action of District management. The Board of Education has authorized the District Administrator and the Accounting Manager to assign fund balance. Residual amounts in any governmental fund, other than the General Fund, are also reported as assigned.
- Unassigned fund balance - Amounts that are available for any purpose. Positive unassigned amounts are only reported in the General Fund.

MERRILL AREA PUBLIC SCHOOL DISTRICT
Merrill, Wisconsin
Notes to Basic Financial Statements
June 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The District has adopted a fund balance spend-down policy regarding the order in which fund balance will be utilized. Where applicable, the policy requires restricted funds to be spent first, followed by committed funds, and then assigned funds. Unassigned funds would be spent last.

DISTRICT-WIDE STATEMENTS

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

- Net investment in capital assets - Amount of capital assets, net of accumulated depreciation and capital related deferred outflows of resources, less outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets and any capital related deferred inflows of resources.
- Restricted net position - Amount of net position that is subject to restrictions that are imposed 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.
- Unrestricted net position - Net position that is neither classified as restricted nor as net investment in capital assets.

5. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

6. Summarized Comparative Information

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

7. Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform with the presentation in the current year financial statements with no change in previously reported net position, changes in net position, fund balance or changes in fund balance.

NOTE B - DETAILED NOTES ON ALL FUNDS

1. Cash and Investments

The debt service and capital project funds account for their transactions through separate and distinct bank and investment accounts as required by State Statutes. In addition, the agency fund and trust funds uses separate and distinct accounts. All other funds share in common bank and investment accounts.

Invested cash consists of deposits and investments that are restricted by Wisconsin Statutes to the following:

Time deposits; repurchase agreements; securities issued by federal, state and local governmental entities; statutorily authorized commercial paper and corporate securities; and the Wisconsin local government investment pool. Investments in the private-purpose trust fund and employee benefit trust fund may be invested in other types of investments as authorized under Wisconsin statute 881.01, "*Uniform Prudent Investor Act*".

MERRILL AREA PUBLIC SCHOOL DISTRICT
Merrill, Wisconsin
Notes to Basic Financial Statements
June 30, 2017

NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)

The carrying amount of the District's cash and investments totaled \$6,931,789 on June 30, 2017 as summarized below:

Deposits with financial institutions	\$ 5,991,565
Investments	
Fixed interest annuities	940,224
	\$ 6,931,789

Reconciliation to the basic financial statements:

District-wide Statement of Net Position	
Cash and investments	\$ 5,271,426
Fiduciary funds Statement of Net Position	
Private-purpose trust fund	562,529
Employee benefit trust fund	940,224
Agency fund	157,610
Total Cash and Investments	\$ 6,931,789

Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant observable inputs; Level 3 inputs are significant unobservable inputs. The District currently has no investments subject to fair value measurements.

Deposits of the District are subject to custodial credit risk. Presented below is a discussion of the District's deposits and the related risk.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will 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. 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 risk policy. Deposits with financial institutions within the State of Wisconsin are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$250,000 for the combined amount time and savings deposits and \$250,000 for interest-bearing and noninterest-bearing demand deposits per official custodian per insured depository institution. Deposits with financial institutions located outside the State of Wisconsin are insured by the FDIC in the amount of \$250,000 for all time accounts, savings accounts and interest-bearing demand deposit accounts per official custodian per depository institution. Also, the State of Wisconsin has a State Guarantee Fund which provides a maximum of \$400,000 per public depository above the amount provided by an agency of the U.S. Government. However, due to the relatively small size of the State Guarantee Fund in relation to the Fund's total coverage, total recovery of insured losses may not be available.

As of June 30, 2017, none of the District's deposits with financial institutions were in excess of federal and state depository insurance limits.

MERRILL AREA PUBLIC SCHOOL DISTRICT
Merrill, Wisconsin
Notes to Basic Financial Statements
June 30, 2017

NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Wisconsin statutes limit investments in securities to the top two ratings assigned by nationally recognized statistical rating organizations. The District has no investments subject to credit risk.

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 the sensitivity of its fair value 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 to fair value losses arising from increasing interest rates.

Investments

The District has established an employee benefit trust fund to pay retiree's post-retirement benefits. The trust has \$940,224 invested in the fixed interest annuities with American United Life Insurance Company® (AUL), a OneAmerica® company. These fixed interest annuities are backed by AUL's general account assets. AUL bears the investment risk for the AUL Fixed Interest Account values and for paying interest.

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer. Currently, all of the District's investments within the employee benefit trust fund are invested in fixed interest annuities with AUL.

2. Property Taxes

The aggregate District tax levy is apportioned and certified in November of the current fiscal year for collection to comprising municipalities based on the immediate past October 1 full or "equalized" taxable property values. As permitted by a collecting municipality's ordinance, taxes must be paid in full or in 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 by the 20th of each subsequent month thereafter, 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.

Property taxes are recognized as revenue in the fiscal year levied as they are considered due as of January 1, the date from which interest and penalties accrue for non-payment of a scheduled installment, and full receipt of the entire levy is assured within sixty days of fiscal year end, meeting the availability criteria necessary for property tax revenue recognition by accounting principles generally accepted in the United States of America.

MERRILL AREA PUBLIC SCHOOL DISTRICT

Merrill, Wisconsin

Notes to Basic Financial Statements

June 30, 2017

NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)

3. Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,256,000	\$ -	\$ -	\$ 1,256,000
Construction work in progress	134,926	-	134,926	-
Total capital assets, not being depreciated	<u>1,390,926</u>	-	<u>134,926</u>	<u>1,256,000</u>
Capital assets, being depreciated:				
Land improvements	1,648,109	2,053,632	364,548	3,337,193
Buildings	45,601,158	-	-	45,601,158
Machinery and equipment	2,036,678	206,258	17,800	2,225,136
Subtotals	<u>49,285,945</u>	<u>2,259,890</u>	<u>382,348</u>	<u>51,163,487</u>
Less accumulated depreciation for:				
Land improvements	1,459,087	44,729	282,315	1,221,501
Buildings	24,205,108	754,383	-	24,959,491
Machinery and equipment	1,641,178	81,903	17,800	1,705,281
Subtotals	<u>27,305,373</u>	<u>881,015</u>	<u>300,115</u>	<u>27,886,273</u>
Total capital assets, being depreciated, net	<u>21,980,572</u>	<u>1,378,875</u>	<u>82,233</u>	<u>23,277,214</u>
Governmental activities capital assets, net	<u>\$23,371,498</u>	<u>\$ 1,378,875</u>	<u>\$ 217,159</u>	24,533,214
Less: related long-term debt outstanding				(3,385,000)
Plus: deferred charge on refunding on capital related debt				<u>6,581</u>
Net investment in capital assets				<u>\$21,154,795</u>

Depreciation expense was charged to functions of the District as follows:

Governmental activities	
Instruction	\$ 6,572
Support services	874,443
Total depreciation expense - governmental activities	<u>\$ 881,015</u>

MERRILL AREA PUBLIC SCHOOL DISTRICT

Merrill, Wisconsin

Notes to Basic Financial Statements

June 30, 2017

NOTE B – D-ETAILED NOTES ON ALL FUNDS (Continued)

4. Interfund Receivables, Payables and Transfers

The General Fund provided temporary cash advances to the following funds for the year ended June 30, 2017.

	Interfund Receivables	Interfund Payables
Temporary Cash Advances to Finance Operating Cash		
Deficits of Other Funds		
General Fund	\$ 138,095	\$ -
Nonmajor Governmental Funds		
Package & Co-op Program Special Revenue Fund	-	3,716
Head Start Project Special Revenue Fund	-	134,379
Totals	\$ 138,095	\$ 138,095

Interfund transfers for the year ended June 30, 2017, were as follows:

	Transfer to:			Total
	Food Service	Package & Co-op Program	Long-Term Capital Improvement	
Transfers from:				
General fund	\$ 1,208	\$ 24,527	\$ 1,000	\$ 26,735

The transfer to the food service special revenue fund reimbursed prior year uncollectible accounts, the transfer to the package & co-op program special revenue fund covered the District's portion of operating costs, and the transfer to the Long-Term Capital Improvement fund was to finance future capital improvement projects.

5. Short-term Obligations

The District issued a tax anticipation note in advance of property tax collections. The note is needed because District expenses for the year begin in July whereas tax collections are not received until January. Short-term debt activity for the year ended June 30, 2017 was as follows:

	Outstanding 7/1/2016	Issued	Redeemed	Outstanding 6/30/2017
Tax Anticipation Notes	\$ 5,650,000	\$ 7,050,000	\$ 9,700,000	\$ 3,000,000

Total interest paid during the year on short-term debt totaled \$158,888.

MERRILL AREA PUBLIC SCHOOL DISTRICT
Merrill, Wisconsin
Notes to Basic Financial Statements
June 30, 2017

NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)

6. Leases

OPERATING LEASES

The District leases computer equipment under long-term operating leases. Following is a schedule, by years, of future minimum rental payments required under the long-term operating leases:

Year Ending June 30,	Amount
2018	\$ 323,558
2019	231,708
	\$ 555,266

Rent expense under all operating leases for the year ended June 30, 2017 amounted to \$537,247.

7. Long-term Obligations

The following is a summary of changes in long-term obligations of the District for the year ended June 30, 2017:

	Outstanding 7/1/2016	Issued	Retired	Outstanding 6/30/2017	Due Within One Year
Governmental activities:					
General Obligation Debt					
Bonds	\$ 5,070,000	\$ -	\$ 1,685,000	\$ 3,385,000	\$ 1,735,000
Premium on long-term debt	15,157	-	15,157	-	-
Compensated absences	1,004,970	-	108,373	896,597	-
Governmental activities					
Long-term obligations	\$ 6,090,127	\$ -	\$ 1,808,530	\$ 4,281,597	\$ 1,735,000

Total interest paid during the year on long-term debt totaled \$173,779.

General Obligation Debt

General obligation debt currently outstanding is detailed as follows:

Bonds		
\$2,980,000 issued 3/15/05; \$995,000 due in 2018; interest at 3.95%		\$ 995,000
\$3,390,000 issued 2/3/11; \$235,000 to \$310,000 due annually through 2024; interest 2.75% to 5.20%		1,885,000
\$2,185,000 issued 1/7/14; \$505,000 due in 2018; interest at 1.15%		505,000
Total Outstanding General Obligation Debt		\$ 3,385,000

MERRILL AREA PUBLIC SCHOOL DISTRICT
Merrill, Wisconsin
Notes to Basic Financial Statements
June 30, 2017

NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)

Annual principal and interest maturities of the outstanding general obligation debt of \$3,385,000 on June 30, 2017 are detailed below:

Year Ended June 30	Governmental Activities		
	Principal	Interest	Total
2018	\$ 1,735,000	\$ 131,805	\$ 1,866,805
2019	245,000	77,765	322,765
2020	255,000	67,720	322,720
2021	265,000	56,500	321,500
2022	280,000	44,310	324,310
2023-2024	605,000	46,990	651,990
	<u>\$ 3,385,000</u>	<u>\$ 425,090</u>	<u>\$ 3,810,090</u>

For the governmental activities, the other long-term liabilities are generally liquidated by the general fund.

Legal Margin for New Debt

The District's legal margin for creation of additional general obligation debt on June 30, 2017 was \$114,358,835 as follows:

Equalized valuation of the District	\$ 1,176,661,042
Statutory limitation percentage	(x) 10%
General obligation debt limitation, per Section 67.03 of the Wisconsin Statutes	<u>117,666,104</u>
Total outstanding general obligation debt applicable to debt limitation	\$ 3,385,000
Less: Amounts available in debt service funds (1)	<u>(77,731)</u>
Legal Margin for New Debt	<u><u>3,307,269</u></u>
	<u><u>\$ 114,358,835</u></u>

(1) \$65,903 of the District's debt service fund balance is restricted for interest payments due in the subsequent fiscal year

8. Pension Plan

a. 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>.

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.

MERRILL AREA PUBLIC SCHOOL DISTRICT

Merrill, Wisconsin

Notes to Basic Financial Statements

June 30, 2017

NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)

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.

b. 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:

Year	Core Fund Adjustment	Variable Fund Adjustment
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)

c. 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 & Elected Officials category was merged into the General Employees 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.

MERRILL AREA PUBLIC SCHOOL DISTRICT

Merrill, Wisconsin

Notes to Basic Financial Statements

June 30, 2017

NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)

During the reporting period, the WRS recognized \$1,101,511 in contributions from the District.

Contribution rates as of June 30, 2017 are:

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

d. 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 \$976,929 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 0.11852503%, which was a decrease of 0.00052596% from its proportion measured as of December 31, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$2,515,175.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 372,503	\$ 3,072,358
Changes in assumptions	1,021,417	-
Net differences between projected and actual earnings on pension plan investments	4,862,845	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	17,331	20,829
Employer contributions subsequent to the measurement date	663,644	-
Total	\$ 6,937,740	\$ 3,093,187

MERRILL AREA PUBLIC SCHOOL DISTRICT

Merrill, Wisconsin

Notes to Basic Financial Statements

June 30, 2017

NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)

The \$663,644 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 in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year ended June 30	Deferred Outflow of Resources	Deferred inflows of Resources
2017	\$ 2,283,641	\$ 986,761
2018	2,283,641	986,761
2019	1,867,513	986,761
2020	(162,397)	132,775
2021	1,698	129
Total	\$ 6,274,096	\$ 3,093,187

e. Actuarial Assumption

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:	December 31, 2016
Actuarial Cost Method:	Entry Age
Asset Valuation Method:	Fair 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.

MERRILL AREA PUBLIC SCHOOL DISTRICT
Merrill, Wisconsin
Notes to Basic Financial Statements
June 30, 2017

NOTE B - DETAILED NOTES ON ALL FUNDS (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:

	Current Asset Allocation %	Destination Target Asset Allocation %	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %
<u>Core Fund Asset Class</u>				
Global Equities	50.0%	45%	8.3%	5.4%
Fixed Income	24.5%	37%	4.2%	1.4%
Inflation Sensitive Assets	16%	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%
<u>Variable Fund Asset Class</u>				
U.S. Equities	70%	70%	7.6%	4.7%
International Equities	30%	30%	8.5%	5.6%
Total Variable Fund	100%	100%	7.9%	5.0%

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.

MERRILL AREA PUBLIC SCHOOL DISTRICT
Merrill, Wisconsin
Notes to Basic Financial Statements
June 30, 2017

NOTE B - DETAILED NOTES ON ALL FUNDS (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 (6.2%)	Current Discount Rate (7.2%)	1% Increase to Discount Rate (8.2%)
District's proportionate share of the net pension liability (asset)	\$ 12,852,130	\$ 976,929	\$ (8,167,514)

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>.

f. Payable to the WRS

At June 30, 2017 the District reported a payable of \$0 for the outstanding amount of contributions to the pension plan for the year ended June 30, 2017.

9. Minimum Fund Balance Policy

The Board of Education has adopted a policy that fund balance in the amount of 14% of the operating budget for the General Fund (Fund 10) be maintained as committed, assigned and unassigned fund balance for cash flow and working capital purposes. The minimum fund balance amount is calculated as follows:

Budgeted 2017-18 General Fund Expenditures - Fund 10	\$ 35,133,727
Minimum Fund Balance %	(x) 14%
Minimum Fund Balance Amount	<u>\$ 4,918,722</u>

The District's committed, assigned, and unassigned general fund balance is \$5,234,971.

MERRILL AREA PUBLIC SCHOOL DISTRICT
Merrill, Wisconsin
Notes to Basic Financial Statements
June 30, 2017

NOTE C - OTHER INFORMATION

1. Other Postemployment Benefits Other Than Pension Benefits (OPEB)

a. Plan Description

The Plan is a single-employer defined benefit postemployment health plan that covers retired employees of the District. Eligible retired employees have access to group medical coverage through the District's group plan. District paid medical benefits are paid for as indicated below. All employees of the District are eligible for the Plan if they meet the following age and service requirements below.

b. Benefits Provided

The District shall make contributions to individual HRA accounts based upon sick leave balances upon retirement and years of service. The balance is to be used for eligible expenses such as continued coverage in the District's group medical plan.

c. Employees Covered by Benefit Terms

At June 30, 2015, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	41
Inactive employees entitled to but not yet receiving benefit payments	17
Active employees	206
	264

d. Contributions

Teachers

Receiving a prior benefit - Continued HRA contributions frozen at 87.4% of the annual medical and dental premiums at time of retirement (90% if retired prior to 2011-12 school year) annually until Medicare eligibility. Funds may be used for continued coverage in the District's group medical plan.

Eligible to Retire as of (Date)	Amount of Contribution	Length of Contribution
6/30/2017	\$ 12,500	7 years
7/1/2017 - 6/30/2020	\$ 10,000	6 years
7/1/2020 - 6/30/2023	\$ 7,000	5 years
7/1/2023 or thereafter	No early retirement / postemployment benefits	

Administrators

Receiving a prior benefit - District will contribute 90% of the medical premiums and 75% of the dental premiums on behalf of the retiree until Medicare-eligibility.
Actively-Funded benefit - District shall make annual contributions up to \$2,000 to the vendor selected by the Administrator in the District's 403(b) plan.

Support Staff

Unused sick leave accumulated upon retirement will be converted at the retiree's final per diem rate. Maximum number of days varies based on state date and job title. The resulting funds will be contributed to an HRA to be used for eligible expenses such as continued coverage in the District's group medical plan.

MERRILL AREA PUBLIC SCHOOL DISTRICT
Merrill, Wisconsin
Notes to Basic Financial Statements
June 30, 2017

NOTE C - OTHER INFORMATION (Continued)

e. Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2016, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2015.

Actuarial Assumptions. The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date:	June 30, 2015
Measurement Date:	June 30, 2016
Inflation:	2.50%
Salary Increases:	Ranges from 0.20% to 5.80%
Investment Rate of Return:	3.00%
Healthcare cost trend rates:	7.50% decreasing by 0.50% per year down to 6.50%, then by 0.10% per year down to 5.0%, and level thereafter

Mortality rates are the same as those used in the December 31, 2014 Wisconsin Retirement System's annual report.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2014 - June 30 2015. The total OPEB liability for June 30, 2016 is based upon a roll-forward of the liability calculated from the June 30, 2015 actuarial valuation.

The long-term expected rate of return on OPEB plan investments was valued at 3.00%. The 20 year tax-exempt AA Municipal bond rate as of the measurement date was used for all years of benefit payments.

Discount rate. The discount rate used to measure the total OPEB liability was 3.00%. The projection of cash flows used to determine the discount rate assumed that 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 total OPEB liability.

MERRILL AREA PUBLIC SCHOOL DISTRICT
Merrill, Wisconsin
Notes to Basic Financial Statements
June 30, 2017

NOTE C - OTHER INFORMATION (Continued)

f. Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at 6/30/15	\$ 7,112,521	\$ 907,666	\$ 6,204,855
Changes for the year:			
Service cost	158,655	-	158,655
Interest	246,423	-	246,423
Changes of assumptions or other input	(5,263)	-	(5,263)
Contributions - employer	-	1,241,142	(1,241,142)
Net investment income	-	17,003	(17,003)
Benefit payments	(1,241,142)	(1,241,142)	-
Net changes	(841,327)	17,003	(858,330)
Balance at 6/30/16	<u>\$ 6,271,194</u>	<u>\$ 924,669</u>	<u>\$ 5,346,525</u>

Sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rates. The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.0%) or 1-percentage-point higher (4.0%) than the current rate:

	1% Decrease to Discount Rate (2.00%)	Current Discount Rate (3.00%)	1% Increase to Discount Rate (4.00%)
Net OPEB liability	\$ 5,560,123	\$ 5,346,525	\$ 5,134,593

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (6.5% decreasing to 4.0%) or 1-percentage-point higher (8.5% decreasing to 6.0%) 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	\$ 5,168,997	\$ 5,346,525	\$ 5,536,221

OPEB plan fiduciary net position. Information about the OPEB plan's fiduciary net position is presented in the Employee Benefit Trust Fund in these financial statements.

MERRILL AREA PUBLIC SCHOOL DISTRICT
Merrill, Wisconsin
Notes to Basic Financial Statements
June 30, 2017

NOTE C - OTHER INFORMATION (Continued)

- g. 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 \$373,790. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions or other inputs	\$ -	\$ 4,605
Net difference between projected and actual earnings on OPEB plan investments	13,627	-
District contributions subsequent to the measurement date	895,181	-
Total	\$ 908,808	\$ 4,605

\$895,181 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability 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:

Year ended June 30	Amount
2017	\$ 2,749
2018	2,749
2019	2,749
2020	2,748
2021	(658)
Thereafter	(1,315)
Total	\$ 9,022

- h. Payable to the OPEB Plan

At June 30, 2017, the District reported a payable of \$215,612 for the outstanding amount of contributions to the Plan required for the year ended June 30, 2017.

2. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. The District completes an annual review of its insurance coverage to ensure adequate coverage.

3. Contingencies

- a. The District participates in a number of federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Accordingly, the District's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

MERRILL AREA PUBLIC SCHOOL DISTRICT

Merrill, Wisconsin

Notes to Basic Financial Statements

June 30, 2017

NOTE C - OTHER INFORMATION (Continued)

b. From time to time, the District is party to other various pending claims and legal proceedings. Although the outcome of such matters cannot be forecast with certainty, it is the opinion of management and 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 or results of operations.

4. Limitation on School District Revenues

Wisconsin Statutes limit the amount of revenues a school district may derive from general school aids and property taxes unless a higher amount is approved by a referendum.

This limitation does not apply to revenue needed for payment of any general obligation debt service (including refinanced debt) authorized by either of the following:

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

b. A referendum on or after August 12, 1993.

5. Upcoming Accounting Pronouncements

In January, 2017, the GASB issued GASB Statement No. 84, *Fiduciary Activities*. The Statement establishes criteria for identifying fiduciary activities and addresses financial reporting for these activities. This statement is effective for reporting periods beginning after June 15, 2018. The District is currently evaluating the impact this standard will have on the financial statements when adopted.

In June 2017, the GASB issued GASB Statement No. 87, *Leases*. The Statement establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. This statement is effective for reporting periods beginning after December 15, 2019. The District is currently evaluating the impact this standard will have on the financial statements when adopted.

REQUIRED SUPPLEMENTARY INFORMATION

MERRILL AREA PUBLIC SCHOOL DISTRICT
Merrill, Wisconsin
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund - Budgetary Basis
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Property taxes	\$ 8,582,514	\$ 8,564,835	\$ 8,564,835	\$ -
Other local sources	142,439	210,861	265,162	54,301
Interdistrict sources	4,309,478	4,344,530	4,297,144	(47,386)
Intermediate sources	49,220	100,200	113,194	12,994
State sources	19,150,239	19,359,490	19,463,996	104,506
Federal sources	757,941	824,696	780,855	(43,841)
Other sources	221,421	173,191	183,788	10,597
Total Revenues	33,213,252	33,577,803	33,668,974	91,171
Expenditures				
Instruction				
Regular instruction	14,012,291	13,810,095	13,825,049	(14,954)
Vocational instruction	751,142	824,358	849,226	(24,868)
Other instruction	1,804,666	1,782,933	1,794,110	(11,177)
Total Instruction	16,568,099	16,417,386	16,468,385	(50,999)
Support Services				
Pupil services	962,754	975,494	941,694	33,800
Instructional staff services	1,153,909	1,114,238	1,126,360	(12,122)
General administration services	1,037,242	1,211,936	1,356,822	(144,886)
School administration services	1,836,527	1,850,745	1,884,534	(33,789)
Business services	331,404	363,356	378,766	(15,410)
Operation and maintenance of plant	3,045,586	3,286,956	3,208,282	78,674
Pupil transportation services	1,995,322	1,951,446	1,931,602	19,844
Central services	2,015,129	1,979,957	1,986,342	(6,385)
Insurance	292,898	308,282	294,751	13,531
Other support services	1,824	-	-	-
Total Support Services	12,672,595	13,042,410	13,109,153	(66,743)
Debt Service				
Interest	51,800	126,955	194,532	(67,577)
Non-program				
General tuition payments	894,006	1,042,001	1,007,194	34,807
Private school voucher payments	250,000	175,752	161,106	14,646
Adjustments and refunds	2,300	-	804	(804)
Total Non-program	1,146,306	1,217,753	1,169,104	48,649
Total Expenditures	30,438,800	30,804,504	30,941,174	(136,670)
Excess of Revenues Over Expenditures	2,774,452	2,773,299	2,727,800	(45,499)
Other Financing Sources (Uses)				
Sale of capital assets	-	-	500	500
Transfers out	(3,275,520)	(3,467,324)	(3,545,460)	(78,136)
Total Other Financing Sources (Uses)	(3,275,520)	(3,467,324)	(3,544,960)	(77,636)
Net Change in Fund Balance	(501,068)	(694,025)	(817,160)	(123,135)
Fund Balance - July 1	6,052,264	6,052,264	6,052,264	-
Fund Balance - June 30	\$ 5,551,196	\$ 5,358,239	\$ 5,235,104	\$ (123,135)

See notes to the required supplementary information.

MERRILL AREA PUBLIC SCHOOL DISTRICT
Merrill, Wisconsin
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Special Education Special Revenue Fund - Budgetary Basis
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Interdistrict sources	\$ 5,000	\$ 5,000	\$ 7,344	\$ 2,344
Intermediate sources	210,000	210,000	259,603	49,603
State sources	1,198,232	1,029,347	1,024,143	(5,204)
Federal sources	714,147	789,646	678,938	(110,708)
Other sources	-	-	2,716	2,716
Total Revenues	2,127,379	2,033,993	1,972,744	(61,249)
Expenditures				
Instruction				
Vocational instruction	30,000	-	14,230	(14,230)
Special education instruction	4,166,254	4,349,522	4,182,909	166,613
Other instruction	9,446	9,870	8,904	966
Total Instruction	4,205,700	4,359,392	4,206,043	153,349
Support Services				
Pupil services	417,299	390,520	378,966	11,554
Instructional staff services	238,316	237,853	214,276	23,577
Pupil transportation services	77,361	91,139	126,254	(35,115)
Central services	8,623	22,669	20,202	2,467
Other support services	-	-	212,062	(212,062)
Total Support Services	741,599	742,181	951,760	(209,579)
Non-program				
Special education tuition payments	455,600	398,544	333,666	64,878
Total Expenditures	5,402,899	5,500,117	5,491,469	8,648
Excess of Revenues Under Expenditures	(3,275,520)	(3,466,124)	(3,518,725)	(52,601)
Other Financing Sources				
Transfers in	3,275,520	3,466,124	3,518,725	52,601
Net Change in Fund Balance	-	-	-	-
Fund Balance - July 1	-	-	-	-
Fund Balance - June 30	\$ -	\$ -	\$ -	\$ -

See notes to the required supplementary information.

MERRILL AREA PUBLIC SCHOOL DISTRICT
Merrill, Wisconsin
Schedule of Changes in Net OPEB Liability and Related Ratios
Last 10 Fiscal Years

	2016	2017
Total OPEB Liability		
Service cost	\$ 158,655	\$ 158,655
Interest	274,317	246,423
Changes of assumptions	-	(5,263)
Benefit payments	(1,112,463)	(1,241,142)
Net change in total OPEB liability	(679,491)	(841,327)
Total OPEB liability - beginning	7,792,012	7,112,521
Total OPEB liability - ending (a)	<u>\$ 7,112,521</u>	<u>\$ 6,271,194</u>
Plan Fiduciary Net Position		
Contributions - Employer	\$ 1,146,675	\$ 1,241,142
Net investment income	20,595	17,003
Benefit payments	(1,112,463)	(1,241,142)
Net change in plan fiduciary net position	54,807	17,003
Plan fiduciary net position - beginning	852,859	907,666
Plan fiduciary net position - ending (b)	<u>\$ 907,666</u>	<u>\$ 924,669</u>
District's net OPEB liability - ending (a) - (b)	<u>\$ 6,204,855</u>	<u>\$ 5,346,525</u>
Plan fiduciary net position as a percentage of the total OPEB liability	12.76%	14.74%
Covered-employee payroll	\$ 7,987,968	\$ 8,544,948
District's net OPEB liability as a percentage of covered-employee payroll	77.68%	62.57%

* Amounts presented above based on the District's fiscal reporting date, measured as of the prior fiscal year end. Amounts for prior years are not available.

See notes to the required supplementary information.

MERRILL AREA PUBLIC SCHOOL DISTRICT
Merrill, Wisconsin
Schedule of Employer Contributions
Other Postemployment Benefits
Last 10 Fiscal Years

	2016	2017
Actuarially determined contribution (ADC)	\$ 1,105,206	\$ 1,338,639
Contributions in relation to the ADC	1,146,675	1,241,142
Contribution deficiency (excess)	<u>\$ (41,469)</u>	<u>\$ 97,497</u>
Covered-employee payroll	\$ 7,987,968	\$ 8,544,948
Contributions as a percentage of covered-employee payroll	14.36%	14.52%

Key Methods and Assumption Used to Calculate ADC

Actuarial cost method	Unit Credit	Entry Age Normal
Asset valuation method	Market Value	Market Value
Amortization method	10 year Level Dollar	6 year Level Dollar
Discount rate	5.00%	3.75%
Inflation	3.00%	2.50%

* Amounts presented above based on the District's fiscal reporting date, measured as of the prior fiscal year end. Amounts for prior years are not available.

See notes to the required supplementary information.

Merrill Area Public School District
Merrill, Wisconsin
Schedule of Proportionate Share of the Net Pension Liability (Asset)
Wisconsin Retirement System
Last 10 Fiscal Years

Fiscal Year Ending	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 Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)
6/30/15	0.11780464%	\$ (2,893,604)	\$ 16,428,345	17.61%	102.74%
6/30/16	0.11905099%	1,934,555	17,435,499	11.10%	98.20%
6/30/17	0.11852503%	976,929	16,689,563	5.85%	99.12%

Schedule of Contributions
Wisconsin Retirement System
Last 10 Fiscal Years

Fiscal Year Ending	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
6/30/15	\$ 1,149,985	\$ 1,149,985	\$ -	\$ 16,428,345	7.00%
6/30/16	1,185,614	1,185,614	-	17,435,499	6.80%
6/30/17	1,101,511	1,101,511	-	16,689,563	6.60%

See notes to the required supplementary information.

MERRILL AREA PUBLIC SCHOOL DISTRICT
Merrill, Wisconsin
Notes to Required Supplementary Information
For the Year Ended June 30, 2017

NOTE A - WISCONSIN RETIREMENT SYSTEM

There were no changes of benefit terms or assumptions for any participating employer in the WRS.

The amounts reported for each fiscal year were determined as of the calendar year-end that occurred within the prior fiscal year. The District is required to present the last ten fiscal years of data; however accounting standards allow the presentation of as many years as are available until ten fiscal years are presented.

NOTE B - OTHER POST-EMPLOYMENT PLAN

The Plan's valuation date is July 1, 2015 while the measurement date is June 30, 2016 using the entry-age normal actuarial method. Actuarial assumptions are based upon an experience study conducted in 2015 using the Wisconsin Retirement Service (WRS) experience from 2012 - 2014.

The discount rate was adjusted down from 3.75% to 3.00% as of the most recent measurement date. All other assumptions and methods remain unchanged from the valuation performed on July 1, 2015. In addition, the District has not made any significant changes to the eligibility or benefits during the current year.

Plan information for prior years is not available.

NOTE C - BUDGETS AND BUDGETARY ACCOUNTING

Operating budgets are adopted each fiscal year for all governmental funds in accordance with Section 65.90 of the Wisconsin Statutes using the budgetary accounting procedures prescribed by the Wisconsin Department of Public Instruction. The DPI requires the district to separate special education revenues and expenditures from other general fund amounts. Budgetary expenditure control is exercised at the one digit function level for the general fund and at the fund level for all other funds. Reported budget amounts are as originally adopted or as amended by Board of Education resolution.

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

- Based upon requests from District staff, District administration recommends budget proposals to the Board of Education.
- The Board of Education 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 Board of Education may make alterations to the proposed budget.
- Once the Board of Education (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 Board of Education.
- Appropriations lapse at year end unless authorized as a carryover by the Board of Education. The portion of fund balance representing carryover appropriations is reported as a committed or assigned fund balance in the fund financial statements.
- Encumbrance accounting is used by the District.

The District did not have any material violation of legal or contractual provisions for the fiscal year ended June 30, 2017.

MERRILL AREA PUBLIC SCHOOL DISTRICT
Merrill, Wisconsin
Notes to Required Supplementary Information
For the Year Ended June 30, 2017

NOTE D - BUDGETS AND BUDGETARY INFORMATION

Budgetary information is derived from the annual operating budget and is presented in accordance with generally accepted accounting principles, except the District adopts a separate budget for the special education special revenue fund. An explanation of the differences between Revenues, Expenditures, and Other Financing Sources (Uses) for budgetary funds on budgetary fund basis and a GAAP general fund basis is summarized below:

	General Fund	Special Education Fund
Revenues		
Actual amounts (budgetary basis)	\$ 33,668,974	\$ 1,972,744
Reclassification of special education	1,972,744	(1,972,744)
Total Revenues	<u>35,641,718</u>	<u>-</u>
Expenditures		
Actual amounts (budgetary basis)	30,941,174	5,491,469
Reclassification of special education	5,491,469	(5,491,469)
Total Expenditures	<u>36,432,643</u>	<u>-</u>
Excess of Revenues Over (Under) Expenditures		
Actual amounts (budgetary basis)	2,727,800	(3,518,725)
Reclassification of special education	(3,518,725)	3,518,725
Excess of Revenues Over (Under) Expenditures	<u>(790,925)</u>	<u>-</u>
Other Financing Sources (Uses)		
Actual amounts (budgetary basis)	(3,544,960)	3,518,725
Reclassification of special education	3,518,725	(3,518,725)
Total Other Financing Sources (Uses)	<u>(26,235)</u>	<u>-</u>
Net Change in Fund Balance		
Actual amounts (budgetary basis)	<u>(817,160)</u>	<u>-</u>
Fund Balance - July 1		
Actual amounts (budgetary basis)	<u>6,052,264</u>	<u>-</u>
Fund Balance - June 30		
Actual amounts (budgetary basis)	<u>\$ 5,235,104</u>	<u>\$ -</u>

SUPPLEMENTARY INFORMATION

MERRILL AREA PUBLIC SCHOOL DISTRICT
Merrill, Wisconsin
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2017

	Special Revenue Funds					
	TEACH	Special Revenue Trust	Head Start Project	Community Service	Food Service	Package & Co-op Program
ASSETS						
Cash and investments	\$ 308	\$ 58,722	\$ -	\$ 13,086	\$ 85,003	\$ -
Receivables						
Accounts	-	50	-	572	30,090	-
Due from other governments	-	-	138,426	-	31,717	3,773
TOTAL ASSETS	\$ 308	\$ 58,772	\$ 138,426	\$ 13,658	\$ 146,810	\$ 3,773
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	\$ -	\$ 6,854	\$ 3,020	\$ -	\$ 7,453	\$ -
Accrued payroll liabilities	-	-	1,027	547	137	57
Due to other funds	-	-	134,379	-	-	3,716
Deposits and other fund liabilities	-	-	-	-	775	-
Total Liabilities	-	6,854	138,426	547	8,365	3,773
Fund Balances						
Restricted						
Debt service	-	-	-	-	-	-
TEACH program	308	-	-	-	-	-
Community service programs	-	-	-	13,111	-	-
Food service programs	-	-	-	-	138,445	-
Capital improvements	-	-	-	-	-	-
Assigned						
Equipment and other	-	51,918	-	-	-	-
Total Fund Balances	308	51,918	-	13,111	138,445	-
TOTAL LIABILITIES AND FUND BALANCES	\$ 308	\$ 58,772	\$ 138,426	\$ 13,658	\$ 146,810	\$ 3,773

Capital Project Funds	Debt Service Funds		Total Nonmajor Governmental Funds
Long-Term Capital Improvement Trust Fund	Non-Referendum Debt Service	Referendum Debt Service	
\$ 1,000	\$ 63,208	\$ 80,851	\$ 302,178
-	-	-	30,712
-	-	-	173,916
<hr/>			
\$ 1,000	\$ 63,208	\$ 80,851	\$ 506,806
<hr/>			
\$ -	\$ -	\$ 425	\$ 17,752
-	-	-	1,768
-	-	-	138,095
-	-	-	775
-	-	425	158,390
<hr/>			
-	63,208	80,426	143,634
-	-	-	308
-	-	-	13,111
-	-	-	138,445
1,000	-	-	1,000
-	-	-	51,918
1,000	63,208	80,426	348,416
<hr/>			
\$ 1,000	\$ 63,208	\$ 80,851	\$ 506,806
<hr/>			

MERRILL AREA PUBLIC SCHOOL DISTRICT

Merrill, Wisconsin

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended June 30, 2017

	Special Revenue Funds					
	TEACH	Special Revenue Trust	Head Start Project	Community Service	Food Service	Package & Co-op Program
Revenues						
Property taxes	\$ -	\$ -	\$ -	\$ 138,745	\$ 557,033	\$ -
Other local sources	-	1,538,232	-	13,795	-	-
Interdistrict sources	-	-	-	-	-	48,998
State sources	-	-	-	-	19,142	-
Federal sources	-	-	699,918	-	707,720	-
Total Revenues	-	1,538,232	699,918	152,540	1,283,895	48,998
Expenditures						
Instruction						
Regular instruction	-	29,601	456,118	-	-	531
Vocational instruction	-	5,653	-	-	-	-
Other Instruction	-	2,741	13,803	-	-	-
Total Instruction	-	37,995	469,921	-	-	531
Support Services						
Pupil services	-	-	18,204	-	-	-
Instructional staff services	-	7,465	19,920	-	-	72,994
General administration services	-	-	115,237	-	-	-
School administration services	-	-	67	-	-	-
Operation and maintenance of plant	-	2,439,454	23,675	1,500	3,549	-
Pupil transportation services	-	4,794	47,142	5,002	-	-
Food services	-	-	-	-	1,242,256	-
Central services	-	212	4,452	-	-	-
Insurance	-	-	1,300	-	-	-
Total Support Services	-	2,451,925	229,997	6,502	1,245,805	72,994
Debt Service						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Total Debt Service	-	-	-	-	-	-
Community Service	-	-	-	132,927	-	-
Total Expenditures	-	2,489,920	699,918	139,429	1,245,805	73,525
Excess of Revenues Over (Under) Expenditures	-	(951,688)	-	13,111	38,090	(24,527)
Other Financing Sources						
Transfers in	-	-	-	-	1,208	24,527
Net Change in Fund Balances	-	(951,688)	-	13,111	39,298	-
Fund Balances - July 1	308	1,003,606	-	-	99,147	-
Fund Balances - June 30	\$ 308	\$ 51,918	\$ -	\$ 13,111	\$ 138,445	\$ -

Capital Projects Funds Long-Term Capital Improvement Trust Fund	Debt Service Funds		Total Nonmajor Governmental Funds
	Non- Referendum Debt Service	Referendum Debt Service	
\$ -	\$ 315,520	\$ 1,522,273	\$ 2,533,571
-	240	528	1,552,795
-	-	-	48,998
-	-	-	19,142
-	-	-	1,407,638
-	315,760	1,522,801	5,562,144
-	-	-	486,250
-	-	-	5,653
-	-	-	16,544
-	-	-	508,447
-	-	-	18,204
-	-	-	100,379
-	-	-	115,237
-	-	-	67
-	-	-	2,468,178
-	-	-	56,938
-	-	-	1,242,256
-	-	-	4,664
-	-	-	1,300
-	-	-	4,007,223
-	225,000	1,460,000	1,685,000
-	94,344	79,435	173,779
-	319,344	1,539,435	1,858,779
-	-	-	132,927
-	319,344	1,539,435	6,507,376
-	(3,584)	(16,634)	(945,232)
1,000	-	-	26,735
1,000	(3,584)	(16,634)	(918,497)
-	66,792	97,060	1,266,913
\$ 1,000	\$ 63,208	\$ 80,426	\$ 348,416

MERRILL AREA PUBLIC SCHOOL DISTRICT
Merrill, Wisconsin
Pupil Activity Fund
Schedule of Changes in Assets and Liabilities
For the Year Ended June 30, 2017

	Balance 7/1/16	Additions	Deletions	Balance 6/30/17
ASSETS				
Cash and cash equivalents	\$ 164,253	\$ 745,544	\$ 752,187	\$ 157,610
Accounts receivable	504	-	-	504
TOTAL ASSETS	\$ 164,757	\$ 745,544	\$ 752,187	\$ 158,114
LIABILITIES				
Due to student organizations				
Middle schools	\$ 47,789	\$ 245,738	\$ 263,029	\$ 30,498
Senior high school	116,968	499,806	489,158	127,616
TOTAL LIABILITIES	\$ 164,757	\$ 745,544	\$ 752,187	\$ 158,114

MERRILL AREA SCHOOL DISTRICT
Merrill, Wisconsin
Schedule of Charter School Authorizer Services and Costs
For the Year Ended June 30, 2017

Function	Bridges Virtual Academy	Maple Grove	Merrill Adult Diploma Academy
Services Provided			
Undifferentiated curriculum	110000	\$ 1,488,835	\$ 268,888
Regular curriculum	120000	977,774	20,067
Vocational curriculum	130000	2,588	-
Health education	141000	1,628	-
Physical education	143000	225,443	27,754
Special education	150000	2,811	13,661
Culturally/socially disadvantaged	171000	-	-
Guidance	213000	-	14,021
Psychological services	215000	-	3,720
Other pupil services	219000	2,570	-
Instructional staff training	221300	-	1,462
Library media services	222000	88,379	2,433
Building administration	240000	281,838	172,033
General operations	253000	-	69,388
Pupil transportation	256000	-	-
Food services	257000	-	41,972
Central services	260000	392,083	655
Total	\$ 3,463,949	\$ 636,054	\$ 130,529

Object	Bridges Virtual Academy	Maple Grove	Merrill Adult Diploma Academy
Operating Activity			
Employee salaries	100	\$ 1,470,237	\$ 383,643
Employee benefits	200	630,186	182,344
Purchased services	300	875,581	44,546
Non-capital objects	400	448,045	24,872
Capital objects	500	14,564	649
Dues and fees	940	25,336	-
Total	\$ 3,463,949	\$ 636,054	\$ 130,529

**ADDITIONAL INDEPENDENT AUDITORS' REPORT
FOR BASIC FINANCIAL STATEMENTS**

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

To the Board of Education
Merrill Area Public School District
Merrill, 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, the major fund, and the aggregate remaining fund information of the Merrill Area Public School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Merrill Area Public School District's basic financial statements, and have issued our report thereon dated November 30, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Merrill Area Public 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 Merrill Area Public School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Merrill Area Public 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 District's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2017-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Merrill Area Public 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*.

Merrill Area Public School District's Response to Finding

Merrill Area Public School District's response to the finding identified in our audit is described in the accompanying schedule of prior year audit findings and corrective action plan. Merrill Area Public 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 Merrill Area Public School District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Merrill Area Public School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Certified Public Accountants
Green Bay, Wisconsin
November 30, 2017

FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

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

To the Board of Education
Merrill Area Public School District
Merrill, Wisconsin

Report on Compliance for Each Major Federal and State Program

We have audited Merrill Area Public School District's compliance with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Compliance Supplement* and the *State Single Audit Guidelines* issued by the Wisconsin Department of Administration that could have a direct and material effect on each of Merrill Area Public School District's major federal and state programs for the year ended June 30, 2017. Merrill Area Public School District's major federal and state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal and state 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 Merrill Area Public 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; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the *State Single Audit Guidelines* issued by the Wisconsin Department of Administration. 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 Merrill Area Public 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 Merrill Area Public School District's compliance.

Opinion on Each Major Federal and State Program

In our opinion, Merrill Area Public 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.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2017-002.

Report on Internal Control Over Compliance


Management of the Merrill Area Public 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 Merrill Area Public School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal or 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 Merrill Area Public School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

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 or state 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 or state 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 or state 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2017-002 to be a significant deficiency.

Merrill Area Public School District's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of prior year audit findings and corrective action plan. Merrill Area Public School 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.


Certified Public Accountants
Green Bay, Wisconsin
November 30, 2017

Merrill Area Public School District
Merrill, Wisconsin
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Grantor Agency/Federal Program Title	CFDA Number	Pass-Through Agency	Pass-Through Entity Identifying Number	Revenues			Total Expenditures	Subrecipient Payments
				(Accrued) Deferred Revenue 7/1/2016	Cash Received	Accrued (Deferred) Revenue 6/30/2017		
U.S. DEPARTMENT OF AGRICULTURE								
<i>Child Nutrition Cluster</i>								
School Breakfast Program	10.553	WI DPI	2017-353500-SB-546	\$ (13,597)	\$ 90,131	\$ 2,546	\$ 79,080	\$ -
National School Lunch Program	10.555	WI DPI	2017-353500-NSL-547	(78,973)	570,275	15,163	508,465	-
National School Lunch Program	10.555	WI DPI	2017-353500-NSL-Snacks-566	(131)	3,848	-	3,717	-
National School Lunch Program	10.555	WI DPI	2017-353500-NSL-547	-	89,452	-	89,452	-
Total National School Lunch Program				<u>(79,104)</u>	<u>663,575</u>	<u>15,163</u>	<u>599,634</u>	<u>-</u>
Summer Food Service Program for Children	10.559	WI DPI	2017-353500-SFSP-586	(9,260)	9,260	13,565	13,565	-
Total Child Nutrition Cluster				<u>(101,961)</u>	<u>762,966</u>	<u>31,274</u>	<u>692,279</u>	<u>-</u>
Child and Adult Care Food Program	10.558	WI DPI	2017-353500-CCI-551	(2,279)	17,277	443	15,441	-
Total U.S. Department of Agriculture				<u>(104,240)</u>	<u>780,243</u>	<u>31,717</u>	<u>707,720</u>	<u>-</u>
U.S. DEPARTMENT OF EDUCATION								
Title I Grants to Local Educational Agencies	84.010	WI DPI	17-353500-Title I-141	(218,473)	379,555	242,518	403,600	-
<i>Special Education Cluster</i>								
Special Education Grants to States	84.027	WI DPI	2017-353500-IDEA-341	(162,661)	365,122	452,822	655,283	-
Special Education Preschool Grants	84.173	WI DPI	17-353500-Pre-S-347	(20,970)	20,970	23,655	23,655	-
Total Special Education Cluster				<u>(183,631)</u>	<u>386,092</u>	<u>476,477</u>	<u>678,938</u>	<u>-</u>
Career and Technical Education – Basic Grants to States	84.048	WI DPI	2017-353500-CP-CTE-400	(25,476)	25,476	24,483	24,483	-
Twenty-First Century Community Learning Centers	84.287	WI DPI	17-353500-367-CLC	(146,366)	227,374	67,260	148,268	-
Improving Teacher Quality State Grants	84.367	WI DPI	17-353500-Title II-365	(34,402)	188,089	50,817	204,504	-
Total U.S. Department of Education				<u>(608,348)</u>	<u>1,206,586</u>	<u>861,555</u>	<u>1,459,793</u>	<u>-</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES								
Head Start	93.600	Direct Program	n/a	(353,681)	915,173	138,426	699,918	-
<i>Medicaid Cluster</i>								
Medical Assistance Program	93.778	CESA #9	44236800	(137,838)	442,170	-	304,332	-
Total U.S. Department of Health and Human Services				<u>(491,519)</u>	<u>1,357,343</u>	<u>138,426</u>	<u>1,004,250</u>	<u>-</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ (1,204,107)</u>	<u>\$ 3,344,172</u>	<u>\$ 1,031,698</u>	<u>\$ 3,171,763</u>	<u>\$ -</u>
				Reconciliation to the Basic Financial Statements				
				Federal sources			\$ 2,867,431	
				Intermediate sources			304,332	
				Total Expenditures of Federal Awards			<u>\$ 3,171,763</u>	

The notes to the schedule of expenditures of federal awards are an integral part of this schedule.

Merrill Area Public School District
Merrill, Wisconsin
Schedule of State Financial Assistance
For the Year Ended June 30, 2017

Grantor Agency/State Program Title	State I.D. Number	Pass-through Agency	State Identifying Number	Revenues			Total Expenditures	Subrecipient Payments
				(Accrued) Deferred Revenue 7/1/2016	Cash Received	Accrued (Deferred) Revenue 6/30/2017		
DEPARTMENT OF PUBLIC INSTRUCTION								
Special Education and School Age Parents	255.101	Direct Program	353500-100	\$ -	\$ 1,024,143	\$ -	\$ 1,024,143	\$ -
Special Education and School Age Parents	255.101	CESA #9	Unknown	-	21,964	-	21,964	-
Total Special Education and School Age Parents				-	1,046,107	-	1,046,107	-
State School Lunch Aid	255.102	Direct Program	353500-107	-	14,468	-	14,468	-
Common School Fund Library Aid	255.103	Direct Program	353500-104	-	102,410	-	102,410	-
General Transportation Aid	255.107	Direct Program	353500-102	-	182,784	-	182,784	-
Equalization Aids	255.201	Direct Program	353500-116	(303,842)	17,408,684	296,881	17,401,723	-
Head Start Supplement	255.327	Direct Program	353500-145	(28,875)	28,875	28,875	28,875	-
State School Breakfast Aid	255.344	Direct Program	353500-108	-	4,674	-	4,674	-
Student Achievement Guarantee in Education (SAGE)	255.504	Direct Program	353500-160	-	794,487	-	794,487	-
Educator Effective Evaluation System	255.940	Direct Program	353500-154	(18,720)	37,920	-	19,200	-
Per Pupil Aid	255.945	Direct Program	353500-113	(417,450)	1,099,450	-	682,000	-
High Cost Transportation Aid	255.947	Direct Program	353500-114	-	92,112	-	92,112	-
Career and Technical Education Incentive Grants	255.950	Direct Program	353500-151	-	33,960	-	33,960	-
Assessments of Reading Readiness	255.956	Direct Program	353500-166	-	7,757	-	7,757	-
Total Department of Public Instruction				(768,887)	20,853,688	325,756	20,410,557	-
DEPARTMENT OF WORKFORCE DEVELOPMENT								
Youth Apprenticeship Grant	445.112	Northcentral Technical College	Unknown	-	45,001	-	45,001	-
TOTAL STATE FINANCIAL ASSISTANCE				\$ (768,887)	\$ 20,898,689	\$ 325,756	\$ 20,455,558	\$ -

Reconciliation to the Basic Financial Statements	
State sources	\$ 20,507,281
Intermediate sources	66,965
Less: State sources not considered state financial assistance	
State tax exempt computer aid	(31,798)
Payment in lieu of taxes and other state revenues	(86,890)
Total State Financial Assistance	<u>\$ 20,455,558</u>

The notes to the schedule of state financial assistance are an integral part of this schedule.

MERRILL AREA PUBLIC SCHOOL DISTRICT

Merrill, Wisconsin

Notes to the Schedules of Expenditures of Federal Awards and State Financial Assistance
For the Year Ended June 30, 2017

NOTE A - BASIS OF PRESENTATION

The accompanying schedules of expenditures of federal awards and state financial assistance include the federal and state grant activity of the Merrill Area Public School District and are presented on the modified accrual basis of accounting. The information in these schedules is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the *State Single Audit Guidelines* issued by the Wisconsin Department of Administration. Therefore, some amounts presented in these schedules may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - SPECIAL EDUCATION AND SCHOOL AGE PARENTS PROGRAM

The 2016-2017 eligible costs under the State Special Education Program as reported by the District are \$4,259,457.

NOTE C - OVERSIGHT AGENCIES

The U.S. Department of Health and Human Services is designated the federal oversight agency for the District. The Wisconsin Department of Public Instruction is the state oversight agency for the District.

NOTE D - INDIRECT COSTS

The District has not elected to charge a de minimis indirect cost rate of 10% of modified total direct costs.

NOTE E - PASS THROUGH ENTITIES

Federal awards have been passed through the following entities:

WI DPI - Wisconsin Department of Public Instruction
CESA #9 - Cooperative Educational Services Agency #9

MERRILL AREA PUBLIC SCHOOL DISTRICT
Merrill, Wisconsin
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

Section I - Summary of Auditors' Results

Basic Financial Statements

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

Federal Awards and State Financial Assistance

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	Yes
Type of auditors' report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	Yes
Any audit findings disclosed that are required to be reported in accordance with the <i>State Single Audit Guidelines</i> ?	Yes

Identification of major federal and state programs:

CFDA Number	Name of Federal Programs/Cluster
	<i>Child Nutrition Cluster</i>
10.553	School Breakfast Program
10.555	National School Lunch Program
10.559	Summer Food Service Program for Children
	<i>Medicaid Cluster</i>
93.778	Medical Assistance Program

State I.D. Number	Name of State Programs
255.101	Special Education and School Age Parents
255.107	Pupil Transportation Aid
255.201	Equalization Aids
255.504	Student Achievement Guarantee in Education
255.945	Per Pupil Aid

Audit threshold used to determine between Type A and Type B programs:	
Federal	\$750,000
State	\$250,000
Auditee qualified as low-risk auditee?	Yes

MERRILL AREA PUBLIC SCHOOL DISTRICT
Merrill, Wisconsin
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section II - Financial Statement Findings

Finding No.	Control Deficiency
2017-001	<p>Preparation of Annual Financial Report</p> <p>Repeat of Finding 2015-001</p> <p>Condition: Current District staff maintains accounting records which reflect the District's financial transactions; however, preparing the District's annual financial report, including note disclosures, involves the selection and application of specific accounting principles which would require additional experience and knowledge. The District contracts with us and our knowledge of applicable accounting principles, financial statement formats, and note disclosures to assist in the preparation of the annual financial report in an efficient manner.</p> <p>Criteria: The preparation and review of the annual financial report by staff with expertise in financial reporting is an internal control intended to prevent, detect and correct a potential omission or misstatement in the financial statements or notes.</p> <p>Cause: District management has determined that the additional costs associated with training staff to become experienced in applicable accounting principles and note disclosures outweigh the derived benefits.</p> <p>Effect: Without our involvement, the District may not be able to completely prepare an annual financial report in accordance with accounting principles generally accepted in the United States of America.</p> <p>Recommendation: We recommend the District continue reviewing the annual financial. While it may not be cost beneficial to train additional staff to completely prepare the report, a thorough review of this information by appropriate staff of the District is necessary to obtain a complete and adequate understanding of the District's annual financial report.</p>

MERRILL AREA PUBLIC SCHOOL DISTRICT
Merrill, Wisconsin
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section III - Federal and State Financial Assistance Findings and Questioned Costs

Finding No.	Uniform Guidance and State Single Audit Findings
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2017-002 Free and Reduced Meal Plan Applications

Federal CFDA #: 10.553 School Breakfast Program, 10.555 National School Lunch Program
10.559 Summer Food Service Program for Children

Compliance Requirements: Eligibility, Special Tests and Provisions

Condition: Families applying for the National School Lunch Program are required to complete an application detailing the size of the household and the income received. Based on this information provided in the application, the District will determine if the household is eligible for free or reduced meal prices. Of the 25 students tested for income determination, two students were provided free meals when they should have received reduced priced meals. The District is also required to perform an income verification on a sample of the applications. Only one of the four applications the District selected for income verification contained support that the verification was completed.

Criteria: Federal guidelines allow only families that have household incomes at or below 130% of the federal poverty level or receiving certain income assistance programs, to be eligible for receiving free school meal, and families with household incomes between 130% and 185% of the federal poverty level to receive school meals at a reduced price. In addition the District must verify by November 15th of the school year, the current free and reduced price eligibility of households from a sample of applications it has received. The sample size should be the lesser of 3 percent or 3,000 of the approved application on file as of October 1.

Cause: The District relies on staff to accurately input and Skyward to calculate income based off of applications and staff assess the calculations for reasonableness. During the data input, one form of income was incorrectly inputted on one application, and staff incorrectly categorized students on the other application. The District also relies on staff to retain supporting documentation of income verification and eligibility status changes. Due to a change in the personnel overseeing this process, the documentation was not retained.

Effect: The District could be incorrectly providing free or reduced lunches to students.

Questioned Costs: Not determined.

Recommendation: We recommend the District review their procedures over obtaining and testing income for student applications. Someone other than the preparer should review the calculations and necessary supporting documentation for accuracy. We also recommend the District review and document its procedures regarding the verification process to ensure procedures are meeting federal requirements and that staff are appropriately trained on these requirements.

MERRILL AREA PUBLIC SCHOOL DISTRICT
Merrill, Wisconsin
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section IV - Other Issues

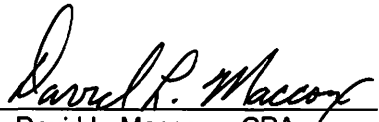
Does the auditors' report or the notes to the financial statements include disclosure with regard to substantial doubt as to the auditee's ability to continue as a going concern? No

Does the audit report show audit issues (i.e. material non-compliance, non-material non-compliance, questioned costs, material weakness, significant deficiency, 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*?

Wisconsin Department of Public Instruction Yes
Wisconsin Department of Workforce Development Yes

Was a Management Letter or other document conveying audit comments issued as a result of this audit? Yes

Name and signature of Shareholder



David L. Maccoux, CPA

Date of report

November 30, 2017

MERRILL AREA PUBLIC SCHOOL DISTRICT
Merrill, Wisconsin
Schedule of Prior Year Audit Findings and Corrective Action Plan
For the Year Ended June 30, 2017

Status of Prior Year Audit Finding

The findings noted in the June 30, 2016 Schedule of Findings and Questioned Costs have been reported to the proper federal and state agencies. The current status of the prior year audit findings, as provided by management, follows:

Finding No.	Prior Year Audit Finding
2015-001	<p>Preparation of Annual Financial Report</p> <p>The District's Director of Finance will continue to review and approve the financial statements prior to finalization by our auditors.</p>
2016-001	<p>Uniform Grant Guidance Implementation</p> <p>The District updated policies and procedures to conform to the requirements of the Uniform Guidance during 2016-17 fiscal year.</p>
2016-002	<p>Transportation Aid Reporting</p> <p>The District implemented procedures to have another staff member review the claim and supporting documentation prior to submission of the report.</p>
2016-003	<p>Special Education Aid Allowable Costs</p> <p>The District coordinated procedures between the Human Resources Department, Special Education Director and Finance Director to ensure special education staff are properly licensed and correctly coded</p>

Corrective Action Plan for Audit Findings

Finding No.	Corrective Action Plan
2017-001	<p>Preparation of Annual Financial Report</p> <p>The District will continue to review and approve the financial statements prior to finalization by our auditors. If necessary additional assistance will be procured by the use of a third party certified public accountant to provide additional review and technical assistance to the Director of Finance.</p>
2017-002	<p>Free and Reduced Meal Plan Applications</p> <p>The District will review procedures regarding the obtaining and testing of income for student applications. In addition the District will assign an additional staff member to review the calculations and supporting documentation and create new procedures for the verification process reflecting the requirement to have an additional review of the calculations.</p>