

Merrill Area Public School District
Merrill, Wisconsin

ANNUAL FINANCIAL REPORT

June 30, 2018

Merrill Area Public School District

Merrill, Wisconsin

JUNE 30, 2018

Table of Contents

INDEPENDENT AUDITORS' REPORT	1
BASIC FINANCIAL STATEMENTS	
District-wide Financial Statements	
Statement of Net Position	4
Statement of Activities	5
Fund Financial Statements	
Balance Sheet - Governmental Funds	7
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	9
Statement of Net Position - Fiduciary Funds	11
Statement of Changes in Net Position - Fiduciary Funds	12
Notes to Basic Financial Statements	13
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund - Budgetary Basis	34
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Special Education Special Revenue Fund - Budgetary Basis	35
Schedule of Changes in Net OPEB Liability and Related Ratios	36
Schedule of Employer Contributions - Other Postemployment Benefit Plan	37
Schedule of Proportionate Share of Net Pension Liability (Asset) - Wisconsin Retirement System	38
Schedule of Contributions - Wisconsin Retirement System	38
Notes to Required Supplementary Information	39
SUPPLEMENTARY INFORMATION	
Combining Balance Sheet - Nonmajor Governmental Funds	41
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	43
Schedule of Changes in Assets and Liabilities - Pupil Activity Funds	45
Schedule of Charter School Authorizer Services and Costs	46

Merrill Area Public School District

Merrill, Wisconsin

JUNE 30, 2018

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 <i>Government Auditing Standards</i>	47
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FEDERAL AND STATE AWARDS

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 <i>State Single Audit Guidelines</i>	49
Schedule of Expenditures of Federal Awards	51
Schedule of Expenditures of State Awards	52
Notes to the Schedules of Expenditures of Federal and State Awards	53
Schedule of Findings and Questioned Costs	54
Schedule of Prior Year Audit Findings and Corrective Action Plan	57

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, 2018, 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 District as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the 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 expenditures of state awards are presented for purposes of additional analysis, as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the *State Single Audit Guidelines* issued by the Wisconsin Department of Administration and are also not a required part of the basic financial statements.

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

REPORT ON SUMMARIZED FINANCIAL INFORMATION

We have previously audited the District's 2017 financial statements, and our report dated November 30, 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, 2017, 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 December 1, 2018, 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
December 1, 2018

BASIC FINANCIAL STATEMENTS

Merrill Area Public School District

Merrill, Wisconsin

STATEMENT OF NET POSITION

JUNE 30, 2018

WITH COMPARATIVE AMOUNTS AS OF JUNE 30, 2017

	Governmental Activities	
	2018	2017
ASSETS		
Cash and investments	\$ 6,009,991	\$ 5,271,426
Receivables		
Taxes	2,669,708	2,758,276
Accounts	109,870	476,041
Due from other governments	1,453,292	1,412,887
Inventories and prepaid items	2,196	133
Net pension asset	3,496,654	-
Capital assets		
Nondepreciable	1,561,811	1,256,000
Depreciable	22,550,181	23,277,214
Total assets	37,853,703	34,451,977
DEFERRED OUTFLOWS OF RESOURCES		
Loss on advance refunding	-	6,581
Pension related amounts	5,841,840	6,937,740
Other postemployment related amounts	873,382	908,808
Total deferred outflows of resources	6,715,222	7,853,129
LIABILITIES		
Short-term notes payable	2,400,000	3,000,000
Accounts payable	1,039,001	948,758
Accrued and other current liabilities	486,383	257,410
Accrued interest payable	49,574	77,452
Unearned revenues	8,329	-
Deposits payable	109,438	84,575
Long-term obligations		
Due in one year	245,000	1,735,000
Due in more than one year	2,339,713	2,546,597
Other postemployment benefits liability	5,003,350	5,346,525
Net pension liability	-	976,929
Total liabilities	11,680,788	14,973,246
DEFERRED INFLOWS OF RESOURCES		
Pension related amounts	6,912,993	3,093,187
Other postemployment related amounts	645,202	4,605
Total deferred inflows of resources	7,558,195	3,097,792
NET POSITION		
Net investment in capital assets	22,461,992	21,154,795
Restricted for	389,915	263,546
Unrestricted	2,478,035	2,815,727
Total net position	\$ 25,329,942	\$ 24,234,068

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, 2018

WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES				
Instruction	\$ 21,535,057	\$ 61,651	\$ 8,296,583	\$ -
Support services	17,670,659	636,297	2,072,022	1,000,250
Community services	154,987	13,260	-	-
Non-program	1,596,470	62,612	493,661	-
Interest and fiscal charges	238,822	-	-	-
Total governmental activities	\$ 41,195,995	\$ 773,820	\$ 10,862,266	\$ 1,000,250
General revenues				
Property taxes				
Other taxes				
State and federal aids not restricted to specific functions				
Interest and investment earnings				
Gain on disposal of capital assets				
Miscellaneous				
Total general revenues				
Change in net position				
Net position - July 1				
Net position - June 30				

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

**Net (Expense) Revenue
and Changes in Net Position**

Governmental Activities	
2018	2017
\$ (13,176,823)	\$ (13,981,364)
(13,962,090)	(12,941,298)
(141,727)	(123,492)
(1,040,197)	(1,209,408)
<u>(238,822)</u>	<u>(349,237)</u>
<u>(28,559,659)</u>	<u>(28,604,799)</u>
10,671,222	10,541,373
39,164	19,939
18,641,191	18,115,521
30,784	24,159
-	500
<u>273,172</u>	<u>294,034</u>
<u>29,655,533</u>	<u>28,995,526</u>
1,095,874	390,727
<u>24,234,068</u>	<u>23,843,341</u>
<u>\$ 25,329,942</u>	<u>\$ 24,234,068</u>

Merrill Area Public School District

Merrill, Wisconsin

BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2018

WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2017

	General	Other Governmental Funds	Totals	
			2018	2017
ASSETS				
Cash and investments	\$ 4,753,303	\$ 1,256,688	\$ 6,009,991	\$ 5,271,426
Receivables				
Taxes	2,669,708	-	2,669,708	2,758,276
Accounts	62,896	46,974	109,870	476,041
Due from other funds	306,180	105,000	411,180	138,095
Due from other governments	1,090,376	362,916	1,453,292	1,412,887
Inventories and prepaid items	1,903	293	2,196	133
Total assets	\$ 8,884,366	\$ 1,771,871	\$ 10,656,237	\$ 10,056,858
LIABILITIES AND FUND BALANCES				
Liabilities				
Short-term notes payable	\$ 2,400,000	\$ -	\$ 2,400,000	\$ 3,000,000
Accounts payable	741,149	297,852	1,039,001	948,758
Accrued and other current liabilities	483,950	2,433	486,383	257,410
Accrued interest payable	30,133	-	30,133	44,500
Due to other funds	105,000	306,180	411,180	138,095
Unearned revenues	8,329	-	8,329	-
Deposits payable	108,663	775	109,438	84,575
Total liabilities	3,877,224	607,240	4,484,464	4,473,338
Fund balances				
Nonspendable	1,903	293	2,196	133
Restricted	-	409,356	409,356	296,498
Committed	151,590	-	151,590	295,378
Assigned	-	755,275	755,275	51,918
Unassigned	4,853,649	(293)	4,853,356	4,939,593
Total fund balances	5,007,142	1,164,631	6,171,773	5,583,520
Total liabilities and fund balances	\$ 8,884,366	\$ 1,771,871	\$ 10,656,237	\$ 10,056,858

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, 2018

WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2017

	<u>2018</u>	<u>2017</u>
RECONCILIATION TO THE STATEMENT OF NET POSITION		
Total fund balances as shown on previous page	\$ 6,171,773	\$ 5,583,520
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	24,111,992	24,533,214
Some deferred outflows and inflows of resources reflect changes in long-term liabilities and are not reported in the funds.		
Loss on advance refunding	-	6,581
Deferred outflows related to pensions	5,841,840	6,937,740
Deferred inflows related to pensions	(6,912,993)	(3,093,187)
Deferred outflows related to other postemployment benefits	873,382	908,808
Deferred inflows related to other postemployment benefits	(645,202)	(4,605)
Long-term asset are not considered available; therefore, are not reported in the funds:		
Net pension asset	3,496,654	-
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Bonds and notes payable	(1,650,000)	(3,385,000)
Compensated absences	(934,713)	(896,597)
Other postemployment benefits liability	(5,003,350)	(5,346,525)
Net pension liability	-	(976,929)
Accrued interest on long-term obligations	(19,441)	(32,952)
Net position of governmental activities as reported on the statement of net position (see page 4)	<u>\$ 25,329,942</u>	<u>\$ 24,234,068</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, 2018 WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2017

	General	Other Governmental Funds	Totals	
			2018	2017
REVENUES				
Property taxes	\$ 8,692,742	\$ 1,978,480	\$ 10,671,222	\$ 11,098,406
Other local sources	248,505	1,695,560	1,944,065	1,817,957
Interdistrict sources	4,933,196	48,607	4,981,803	4,353,486
Intermediate sources	292,679	-	292,679	372,797
State sources	21,288,949	17,974	21,306,923	20,507,281
Federal sources	1,465,090	1,402,910	2,868,000	2,867,431
Other sources	227,177	-	227,177	186,504
Total revenues	37,148,338	5,143,531	42,291,869	41,203,862
EXPENDITURES				
Instruction				
Regular instruction	13,609,848	481,811	14,091,659	14,311,299
Vocational instruction	841,230	3,073	844,303	869,109
Special education instruction	4,484,513	-	4,484,513	4,182,909
Other instruction	1,676,091	14,386	1,690,477	1,819,558
Total instruction	20,611,682	499,270	21,110,952	21,182,875
Support services				
Pupil services	1,378,104	17,357	1,395,461	1,338,864
Instructional staff services	1,752,525	97,265	1,849,790	1,441,015
General administration services	1,186,121	98,655	1,284,776	1,472,059
School administration services	1,775,946	2,363	1,778,309	1,884,601
Business services	376,616	-	376,616	378,766
Operations and maintenance of plant	3,707,766	397,171	4,104,937	5,676,460
Pupil transportation services	2,177,027	67,818	2,244,845	2,114,794
Food services	-	1,264,774	1,264,774	1,242,256
Central services	2,238,122	5,571	2,243,693	2,011,208
Insurance	281,163	650	281,813	296,051
Other support services	4,371	-	4,371	212,062
Total support services	14,877,761	1,951,624	16,829,385	18,068,136
Debt service				
Principal	-	1,735,000	1,735,000	1,685,000
Interest and fiscal charges	113,947	131,805	245,752	368,311
Total debt service	113,947	1,866,805	1,980,752	2,053,311
Community service	-	153,516	153,516	132,927
Non-program				
General tuition payments	1,112,196	-	1,112,196	1,007,194
Special education tuition payments	331,884	-	331,884	333,666
Adjustments and refunds	4,211	-	4,211	804
Voucher payments	180,720	-	180,720	161,106
Total non-program	1,629,011	-	1,629,011	1,502,770
Total expenditures	37,232,401	4,471,215	41,703,616	42,940,019
Excess of revenues over (under) expenditures	(84,063)	672,316	588,253	(1,736,157)
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	-	-	-	500
Transfers in	-	143,899	143,899	26,735
Transfers out	(143,899)	-	(143,899)	(26,735)
Total other financing sources (uses)	(143,899)	143,899	-	500
Net change in fund balances	(227,962)	816,215	588,253	(1,735,657)
Fund balances - July 1	5,235,104	348,416	5,583,520	7,319,177
Fund balances - June 30	\$ 5,007,142	\$ 1,164,631	\$ 6,171,773	\$ 5,583,520

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, 2018 WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2017

	<u>2018</u>	<u>2017</u>
RECONCILIATION TO THE STATEMENT OF ACTIVITIES		
Net change in fund balances as shown on previous page	\$ 588,253	\$ (1,735,657)
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 assets reported as capital outlay reported in governmental fund statements	438,443	2,124,964
Depreciation expense reported in the statement of activities	(859,665)	(881,015)
Net book value of disposals	-	(82,233)
Debt issued provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
Principal repaid	1,735,000	1,685,000
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:		
Accrued interest on long-term debt	13,511	10,493
Amortization of loss on advance refunding	(6,581)	8,581
Compensated absences	(38,116)	108,373
Net pension asset	3,496,654	-
Net pension liability	976,929	957,626
Deferred outflows of resources related to pensions	(1,095,900)	(2,341,621)
Deferred inflows of resources related to pensions	(3,819,806)	14,825
Other postemployment benefits	343,175	858,330
Deferred outflows of resources related to other postemployment benefits	(35,426)	(332,334)
Deferred inflows of resources related to other postemployment benefits	(640,597)	(4,605)
Change in net position of governmental activities as reported in the statement of activities (see pages 5 - 6)	<u>\$ 1,095,874</u>	<u>\$ 390,727</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, 2018

WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2017

	Private Purpose Trust	Employee Benefit Trust	Agency Pupil Activity	Totals	
				2018	2017
ASSETS					
Cash and investments	\$ 862,094	\$ 25,985	\$ 206,332	\$ 1,094,411	\$ 1,660,363
Accounts receivable	-	-	504	504	504
Due from district	-	-	-	-	215,612
Total assets	<u>862,094</u>	<u>25,985</u>	<u>206,836</u>	<u>1,094,915</u>	<u>1,876,479</u>
LIABILITIES					
Due to district	-	25,985	-	25,985	406,366
Due to student organizations	-	-	206,836	206,836	158,114
Total liabilities	<u>-</u>	<u>25,985</u>	<u>206,836</u>	<u>232,821</u>	<u>564,480</u>
NET POSITION					
Restricted	<u>\$ 862,094</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 862,094</u>	<u>\$ 1,311,999</u>

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, 2018

WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2017

	Private Purpose Trust	Employee Benefit Trust	Totals	
			2018	2017
ADDITIONS				
Other local sources	\$ 298,342	\$ -	\$ 298,342	\$ 904,426
Contributions				
Private donations	-	-	-	39,800
Investment earnings	58,273	511	58,784	16,998
Total additions	<u>356,615</u>	<u>511</u>	<u>357,126</u>	<u>961,224</u>
DEDUCTIONS				
Trust fund disbursements	57,050	749,981	807,031	46,651
Benefit payments	-	-	-	1,095,180
Total deductions	<u>57,050</u>	<u>749,981</u>	<u>807,031</u>	<u>1,141,831</u>
Change in net position	299,565	(749,470)	(449,905)	(180,607)
Net position - July 1	<u>562,529</u>	<u>749,470</u>	<u>1,311,999</u>	<u>1,492,606</u>
Net position - June 30	<u>\$ 862,094</u>	<u>\$ -</u>	<u>\$ 862,094</u>	<u>\$ 1,311,999</u>

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, 2018

NOTE 1: 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:

A. REPORTING ENTITY

The District is organized as a common school district. The District, governed by an elected nine member 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 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 in GASB Statement No. 61.

B. 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. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for services. The District has no business-type activities.

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 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 funds:

General Fund

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

Additionally, the District reports the following fund types:

- ▶ The *private purpose trust fund* is used to account for resources legally held in trust for scholarship awards. Only earnings on the invested resources may be used to support the scholarships.
- ▶ The *employee benefit trust fund* is used to account for resources legally held in trust for other postemployment benefits.
- ▶ The District accounts for assets held as an agent for various student and parent organizations in an *agency fund*.

Merrill Area Public School District

Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The district-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is 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, and fees and fines, 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.

D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION OR FUND BALANCE

1. 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.

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, 2018

3. Accounts Receivable

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

4. 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.

5. Inventories

Inventories are recorded at cost, which approximates market, using the first-in, first-out method. Inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed rather than when purchased.

Inventories 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.

6. 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.

7. 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 a 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:

Assets	Governmental Activities Years
Land improvements	20
Buildings and improvements	20 - 50
Machinery and equipment	5 - 20

8. 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 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.

Merrill Area Public School District

Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

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.

9. Deferred Outflows/Inflows of Resources

Deferred outflows of resources are a consumption of net position by the government that is applicable to a future reporting period. Deferred inflows of resources are an acquisition of net position by the government that is applicable to a future reporting period. The recognition of those outflows and inflows as expenses or expenditures and revenues are deferred until the future periods to which the outflows and inflows are applicable.

10. 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 bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

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

11. 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.

12. 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 District's 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.

Merrill Area Public School District

Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

13. 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 Director of Finance 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.

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 Financial 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.

E. 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.

F. PRIOR YEAR INFORMATION

Comparative amounts for the prior year have been presented in the basic financial statements to provide an understanding of changes in the District's financial position and operations. The comparative amounts may be summarized in total and 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 District's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Merrill Area Public School District

Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

G. 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 2: DETAILED NOTES ON ALL FUNDS

A. CASH AND INVESTMENTS

The debt service funds account for their transactions through separate and distinct bank and investment accounts as required by State Statutes. In addition, the agency fund 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 may be invested in other types of investments as authorized under Wisconsin Statute 881.01, "Uniform Prudent Investor Act".

The carrying amount of the District's cash and investments totaled \$7,104,402 on June 30, 2018 as summarized below:

Deposits with financial institutions	\$ 7,078,417
Investments	
Fixed interest annuities	<u>25,985</u>
	<u>\$ 7,104,402</u>

Reconciliation to the basic financial statements:

Government-wide statement of net position	
Cash and investments	\$ 6,009,991
Fiduciary fund statement of net position	
Private purpose trust	862,094
Employee benefit trust	25,985
Agency fund	<u>206,332</u>
	<u>\$ 7,104,402</u>

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 that are subject to fair value measurement.

Deposits and investments of the District are subject to various risks. Presented below is a discussion of the District's deposits and investments and the related risks.

Merrill Area Public School District

Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

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. The custodial credit risk for *deposits* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Wisconsin statutes require repurchase agreements to be fully collateralized by bonds or securities issued or guaranteed by the federal government or its instrumentalities. The District does not have an additional custodial credit policy. Deposits 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 of all 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 the combined amount of all deposit accounts per official custodian per depository institution. Deposits with credit unions are insured by the National Credit Union Share Insurance Fund (NCUSIF) in the amount of \$250,000 per credit union member. 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. This coverage has been considered in determining custodial credit risk.

As of June 30, 2018, \$566,672 of the District's deposits with financial institutions were in excess of federal and state depository insurance limits. No amounts were collateralized.

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 investment in securities to the top two ratings assigned by nationally recognized statistical rating organizations. The District has no investments subject to credit risk.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer. At June 30, 2018, the District had no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments.

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 \$25,985 invested in the fixed interest annuities with American United Life Insurance Company® (AUL), a OneAmerica® company. These fixed interest annuities are back 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.

Merrill Area Public School District

Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

B. CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, nondepreciable:				
Land	\$ 1,256,000	\$ -	\$ -	\$ 1,256,000
Construction in progress	-	305,811	-	305,811
Total capital assets, nondepreciable	<u>1,256,000</u>	<u>305,811</u>	<u>-</u>	<u>1,561,811</u>
Capital assets, depreciable:				
Land improvements	3,337,193	1,959	-	3,339,152
Buildings and improvements	45,601,158	-	-	45,601,158
Machinery and equipment	2,225,136	130,673	-	2,355,809
Subtotals	<u>51,163,487</u>	<u>132,632</u>	<u>-</u>	<u>51,296,119</u>
Less accumulated depreciation for:				
Land improvements	1,221,501	36,254	-	1,257,755
Buildings and improvements	24,959,491	751,551	-	25,711,042
Machinery and equipment	1,705,281	71,860	-	1,777,141
Subtotals	<u>27,886,273</u>	<u>859,665</u>	<u>-</u>	<u>28,745,938</u>
Total capital assets, depreciable, net	<u>23,277,214</u>	<u>(727,033)</u>	<u>-</u>	<u>22,550,181</u>
Governmental activities capital assets, net	<u>\$ 24,533,214</u>	<u>\$ (421,222)</u>	<u>\$ -</u>	24,111,992
Less: Capital related debt				<u>(1,650,000)</u>
Net investment in capital assets				<u>\$ 22,461,992</u>

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

Governmental activities	
Instruction	\$ 6,352
Support services	853,313
Total depreciation expense - governmental activities	<u>\$ 859,665</u>

Merrill Area Public School District

Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

C. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivables and payables between individual funds of the District, as reported in the fund financial statements, as of June 30, 2018 are detailed below:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Temporary cash advances to finance operating cash deficits of other funds		
General Fund	\$ 306,180	\$ -
Head Start Project	-	301,845
Package & Co-op Program	-	4,335
Cash transfer subsequent to year end		
General Fund	-	105,000
Long Term Capital Improvement Trust fund	105,000	-
Totals	<u>\$ 411,180</u>	<u>\$ 411,180</u>

Interfund transfers for the year ended June 30, 2018 were as follows:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General	\$ -	\$ 143,899
Long-term Capital Improvement	121,000	-
Food Service	580	-
Package & Co-op Program	22,319	-
	<u>\$ 143,899</u>	<u>\$ 143,899</u>

Interfund transfers were made for the following purposes:

Fund future capital improvement projects	\$ 121,000
Reimburse prior year uncollectible food service accounts	580
District's portion of operating costs in the package & co-op fund	22,319
	<u>\$ 143,899</u>

D. SHORT-TERM OBLIGATIONS

The District issued tax and revenue anticipation promissory notes in advance of property tax collections. The notes are 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, 2018 was as follows:

	<u>Outstanding 7/1/17</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding 6/30/18</u>
Tax and revenue anticipation notes	<u>\$ 3,000,000</u>	<u>\$ 5,400,000</u>	<u>\$ 6,000,000</u>	<u>\$ 2,400,000</u>

Short-term notes payable at June 30, 2018 of \$2,400,000 consist of the following tax and revenue anticipation promissory notes:

	<u>Date of Issue</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Indebtedness</u>	<u>Balance 6/30/18</u>
Tax and revenue anticipation notes	10/19/17	10/19/18	2.00%	\$ 5,400,000	\$ 2,400,000

Total interest paid for the year on short-term debt totaled \$96,966.

Merrill Area Public School District

Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

E. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations of the District for the year ended June 30, 2018:

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Retired</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
General obligation debt					
Bonds	\$ 3,385,000	\$ -	\$ 1,735,000	\$ 1,650,000	\$ 245,000
Compensated absences	896,597	38,116	-	934,713	-
Governmental activities					
Long-term obligations	<u>\$ 4,281,597</u>	<u>\$ 38,116</u>	<u>\$ 1,735,000</u>	<u>\$ 2,584,713</u>	<u>\$ 245,000</u>

Total interest paid during the year on long-term debt totaled \$131,805.

General Obligation Debt

General obligation debt currently outstanding is detailed as follows:

	<u>Date of Issue</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Indebtedness</u>	<u>Balance 6/30/18</u>
General obligation bonds	2/3/11	4/1/24	2.00 - 5.20%	\$ 3,390,000	\$ 1,650,000

Annual principal and interest maturities of the outstanding general obligation debt of \$1,650,000 on June 30, 2018 are detailed below:

<u>Year Ended June 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	295,000	30,870	325,870
2024	310,000	16,120	326,120
	<u>\$ 1,650,000</u>	<u>\$ 293,285</u>	<u>\$ 1,943,285</u>

For governmental activities, the other long-term liabilities are generally funded by the General Fund.

Legal Margin for New Debt

The District's legal margin for creation of additional general obligation debt on June 30, 2018 was \$119,306,926 as follows:

Equalized valuation of the District		\$ 1,210,367,014
Statutory limitation percentage		(x) 10%
General obligation debt limitation, per Section 67.03 of the Wisconsin Statutes		<u>121,036,701</u>
Total outstanding general obligation debt applicable to debt limitation	\$ 1,650,000	
Less: Amounts available for financing general obligation debt		
Debt service fund, less interest payment on 10/1	<u>(79,775)</u>	
Net outstanding general obligation debt applicable to debt limitation		<u>1,729,775</u>
Legal margin for new debt		<u>\$ 119,306,926</u>

Merrill Area Public School District

Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

F. 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 long-term operating leases:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 231,708

Rent expense under all operating leases for the year ended June 30, 2018 amounted to \$323,558.

G. PENSION PLAN

WRS Pension 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.

Employees who retire at or after age 65 (54 for protective occupation employees, 62 for elected officials and executive service retirement plan participants if hired on or before December 31, 2016) are entitled to a retirement benefit based on a formula factor, their final average earnings, and creditable service. 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 annual earnings periods. Creditable service includes current service and prior service for which a participant received earnings and made contributions as required. Creditable service also includes creditable military service. The retirement benefit will be calculated as a money purchase benefit based on the employee's contributions plus matching employer's contributions, with interest, if that benefit is higher than the formula benefit.

Vested participants may retire at or after age 55 (50 for protective occupation employees) and receive an actuarially-reduced benefit. Participants terminating covered employment prior to eligibility for an annuity may either receive employee-required contributions plus interest as a separation benefit or leave contributions on deposit and defer application until eligible to receive a retirement benefit.

The WRS also provides death and disability benefits for employees.

Merrill Area Public School District

Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

Post-Retirement Adjustments

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

<u>Year</u>	<u>Core Fund Adjustment</u>	<u>Variable Fund Adjustment</u>
2007	3%	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)
2017	2.0	4

Contributions

Required contributions are determined by an annual actuarial valuation in accordance with Chapter 40 of the Wisconsin Statutes. The employee required contribution is one-half of the actuarially determined contribution rate for general category employees, including teachers, and executives and elected officials. Starting on January 1, 2016, the executives and elected officials category was merged into the general employee category. Required contributions for protective employees are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement.

During the reporting period ending December 31, 2017, the WRS recognized \$1,163,449 in contributions from the District.

Contribution rates for the reporting period are:

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

Merrill Area Public School District

Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the District reported an asset of \$3,496,654 for its proportionate share of the net pension asset. The net pension asset was measured as of December 31, 2017, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2016 rolled forward to December 31, 2017. 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 asset was based on the District's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2017, the District's proportion was 0.11776742%, which was a decrease of 0.00075761% from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$1,514,581.

At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 4,442,584	\$ 2,078,094
Net differences between projected and actual earnings on pension plan investments	-	4,805,826
Changes in assumptions	690,870	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	10,067	29,073
Employer contributions subsequent to the measurement date	698,319	-
Total	<u>\$ 5,841,840</u>	<u>\$ 6,912,993</u>

\$698,319 reported as deferred outflows related to pension resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Expense</u>
2018	\$ 376,152
2019	(37,344)
2020	(1,205,751)
2021	(910,888)
2022	8,359
Total	<u>\$ (1,769,472)</u>

Merrill Area Public School District

Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

Actuarial Assumptions

The total pension liability in the December 31, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date:	December 31, 2016
Measurement date of net pension liability (asset):	December 31, 2017
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, 2017 is based upon a roll-forward of the liability calculated from the December 31, 2016 actuarial valuation.

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:

Merrill Area Public School District

Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

	<u>Current Asset Allocation %</u>	<u>Long-term Expected Nominal Rate of Return %</u>	<u>Long-term Expected Real Rate of Return %</u>
Core Fund Asset Class			
Global equities	50%	8.2%	5.3%
Fixed income	24.5%	4.2%	1.4%
Inflation sensitive assets	15.5%	3.8%	1.0%
Real estate	8%	6.5%	3.6%
Private equity/debt	8%	9.4%	6.5%
Multi-asset	4%	6.5%	3.6%
Total Core Fund	110%	7.3%	4.4%
Variable Fund Asset Class			
U.S. equities	70%	7.5%	4.6%
International equities	30%	7.8%	4.9%
Total Variable Fund	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 3.31%. 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 members 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.

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 7.2 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:

	<u>1% Decrease to Discount Rate (6.20%)</u>	<u>Current Discount Rate (7.20%)</u>	<u>1% Increase to Discount Rate (8.20%)</u>
District's proportionate share of the net pension liability (asset)	\$ 9,047,038	\$ (3,496,654)	\$ (13,030,249)

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>.

Merrill Area Public School District

Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

Payable to the Pension Plan

At June 30, 2018, the District reported a payable of \$0 for the outstanding amount of contributions to the pension plan for the year ended June 30, 2018.

H. OTHER POSTEMPLOYMENT BENEFITS

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.

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.

Employees Covered by Benefit Terms

At June 30, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	32
Inactive employees entitled to but not yet receiving benefit payments	21
Active employees	202
	255

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 retire 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. Upon retiree's death, the surviving spouse may continue participation in the health insurance plan as long as there remains a balance in the fund. Upon exhaustion of the funds, retire employees may self-pay the full (100%) of required premiums to remain on the school district's plan.

Merrill Area Public School District

Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

Net OPEB Liability

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

Actuarial Assumptions. The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation:	2.5%
Salary increases:	Ranges from 0.2% to 5.6%
Investment rate of return:	3.5%
Healthcare cost trend rates:	7.5% for 2017 decreasing by 0.5% per year down to 6.5%, then by 0.1% per year down to 5.0% and level thereafter
Dental cost trend rates:	level at 5.0%

Mortality rates are the same as those used in the December 2012 Wisconsin Retirement System's annual report.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experiences study for the period July 1, 2014 - June 30, 2015. The total OPEB liability for June 30, 2018 is based upon a roll-forward of the liability calculated from the June 30, 2017 actuarial valuation.

The long-term expected rate of return on OPEB plan investments was valued at 3.50%. A blend of expected earnings on District funds and the current yield for 20 year tax-exempt AA Municipal bond rate or higher 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 3.50%. 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.

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at June 30, 2016	\$ 6,271,194	\$ 924,669	\$ 5,346,525
Changes for the year:			
Service cost	171,523	-	171,523
Interest	174,420	-	174,420
Differences between expected and actual experience	954,481		954,481
Changes of assumptions or other inputs	(732,863)	-	(732,863)
Contributions - employer	-	895,181	(895,181)
Net investment income	-	15,555	(15,555)
Benefit payments	(1,085,935)	(1,085,935)	-
Net changes	(518,374)	(175,199)	(343,175)
Balance at June 30, 2017	\$ 5,752,820	\$ 749,470	\$ 5,003,350

Merrill Area Public School District

Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.50%) or 1-percentage-point higher (4.50%) than the current rate:

	1% Decrease to Discount Rate (2.5%)	Current Discount Rate (3.5%)	1% Increase to Discount Rate (4.5%)
Net OPEB liability	\$ 5,179,293	\$ 5,003,350	\$ 4,829,775

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	\$ 4,913,302	\$ 5,003,350	\$ 5,099,243

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.

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

For the year ended June 30, 2018, the District recognized OPEB expense of \$353,380. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 835,171	\$ -
Changes in assumptions	-	645,202
Net difference between projected and actual earnings on OPEB plan investments	17,679	-
District contributions subsequent to the measurement date	20,532	-
Total	<u>\$ 873,382</u>	<u>\$ 645,202</u>

Merrill Area Public School District

Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

\$20,532 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, and reported in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in other postemployment benefits expense as follows:

Year Ended June 30,	Expense
2018	\$ 32,316
2019	32,316
2020	32,315
2021	28,908
2022	27,044
Thereafter	54,749
Total	<u>\$ 207,648</u>

Payable to the OPEB Plan

At June 30, 2018, the District reported a payable of \$0 for the outstanding amount of contribution to the Plan required for the year ended June 30, 2018.

I. FUND EQUITY

Restricted Fund Balance

In the fund financial statements, portions of governmental fund balances are not available for appropriation or are legally restricted for use for a specific purpose. At June 30, 2018, restricted fund balance was as follows:

Special Revenue Funds

Restricted for

TEACH program	\$ 308
Community service programs	375
Food service programs	<u>168,440</u>
	<u>169,123</u>

Debt Service Funds

Restricted for

Non-referendum debt service	59,134
Referendum debt service	<u>59,099</u>
	<u>118,233</u>

Capital Projects Fund

Restricted for

Capital improvements	<u>122,000</u>
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Total restricted fund balance

\$ 409,356

Committed Fund Balance

In the fund financial statements, portions of government fund balances are committed by County Board action. At June 30, 2018, General Fund balance was committed as follows:

General Fund

Committed for

Bridges Virtual Academy	<u>\$ 151,590</u>
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Merrill Area Public School District

Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

Assigned Fund Balance

Portions of governmental fund balances have been assigned to represent tentative management plans that are subject to change. At June 30, 2018, fund balance was assigned as follows:

Special Revenue Trust Fund	
Assigned for equipment and other	<u>\$ 755,275</u>

Minimum General Fund Balance Policy

The District has also adopted a minimum fund balance policy in the amount of 14% of the operating budget for the General Fund (Fund 10) to 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 2019 General Fund expenditures	\$ 37,378,123
Minimum fund balance %	(x) 14%
Minimum fund balance amount	<u>\$ 5,232,937</u>

The District's committed, assigned, and unassigned General Fund balance of \$5,005,239 is below the minimum fund balance amount.

Restricted Fiduciary Fund Net Position

In the fund financial statements, portions of fiduciary fund net position are not available for appropriation or are legally restricted for use for a specific purpose. At June 30, 2018, restricted fiduciary fund net position was as follows:

Fiduciary Fund	
Restricted for	
Scholarships	<u>\$ 862,094</u>

Net Position

The District reports restricted net position at June 30, 2018 as follows:

Governmental activities	
Restricted for	
TEACH program	\$ 308
Community service programs	375
Food service programs	168,440
Debt service	98,792
Capital improvements	122,000
Total governmental activities restricted net position	<u>\$ 389,915</u>

Merrill Area Public School District

Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 3: OTHER INFORMATION

A. 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.

B. CONTINGENCIES

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.

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 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.

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

D. UPCOMING ACCOUNTING PRONOUNCEMENTS

In January 2017, the GASB issued 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 December 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 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, 2018

	Budget		Actual	Variance Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 8,593,286	\$ 8,692,742	\$ 8,692,742	\$ -
Other local sources	161,258	198,775	248,505	49,730
Interdistrict sources	4,748,064	4,923,083	4,922,991	(92)
Intermediate sources	87,420	94,600	29,146	(65,454)
State sources	19,324,758	20,109,542	20,156,755	47,213
Federal sources	876,727	784,634	727,664	(56,970)
Other sources	145,068	206,475	227,177	20,702
Total revenues	33,936,581	35,009,851	35,004,980	(4,871)
EXPENDITURES				
Instruction				
Regular instruction	13,615,725	13,586,852	13,609,848	(22,997)
Vocational instruction	768,045	800,752	818,627	(17,875)
Other instruction	1,741,033	1,713,773	1,676,091	37,682
Total instruction	16,124,803	16,101,377	16,104,566	(3,189)
Support services				
Pupil services	988,425	931,552	947,672	(16,120)
Instructional staff services	1,420,949	1,647,890	1,518,391	129,499
General administration services	1,359,237	1,189,980	1,186,121	3,859
School administration services	1,809,563	1,745,677	1,775,946	(30,269)
Business services	356,104	371,043	376,616	(5,573)
Operations and maintenance of plant	3,424,018	3,627,693	3,657,419	(29,726)
Pupil transportation services	1,993,103	1,982,024	1,983,037	(1,013)
Central services	2,012,622	2,258,768	2,219,343	39,425
Insurance	308,771	283,681	281,163	2,518
Other support services	-	-	4,371	(4,371)
Total support services	13,672,792	14,038,307	13,950,079	88,228
Debt service				
Interest and fiscal charges	148,652	113,449	113,947	(498)
Non-program				
General tuition payments	1,003,089	1,103,071	1,112,196	(9,125)
Adjustments and refunds	804	4,945	4,211	734
Voucher payments	161,106	188,250	180,720	7,530
Total non-program	1,164,999	1,296,266	1,297,127	(861)
Total expenditures	31,111,246	31,549,399	31,465,719	83,680
Excess of revenues over expenditures	2,825,335	3,460,452	3,539,261	78,809
OTHER FINANCING USES				
Transfers out	(3,294,943)	(3,830,841)	(3,767,223)	63,618
Net change in fund balance	(469,608)	(370,389)	(227,962)	142,427
Fund balance - July 1	5,235,104	5,235,104	5,235,104	-
Fund balance - June 30	\$ 4,765,496	\$ 4,864,715	\$ 5,007,142	\$ 142,427

See notes to 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, 2018

	Budget		Actual	Variance Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Interdistrict sources	\$ 5,000	\$ 5,000	\$ 10,205	\$ 5,205
Intermediate sources	220,000	220,000	263,533	43,533
State sources	1,029,347	1,129,257	1,132,194	2,937
Federal sources	702,306	1,053,482	737,426	(316,056)
Total revenues	1,956,653	2,407,739	2,143,358	(264,381)
EXPENDITURES				
Instruction				
Vocational instruction	-	22,603	22,603	-
Special education instruction	4,065,759	4,758,000	4,484,513	273,487
Other instruction	9,306	175	-	175
Total instruction	4,075,065	4,780,778	4,507,116	273,662
Support services				
Pupil services	387,831	429,501	430,432	(931)
Instructional staff services	209,160	236,553	234,134	2,419
Operations and maintenance of plant	-	15,950	50,347	(34,397)
Pupil transportation services	116,100	196,031	193,990	2,041
Central services	18,807	20,492	18,779	1,713
Total support services	731,898	898,527	927,682	(29,155)
Non-program				
Special education tuition payments	417,898	436,972	331,884	105,088
Total expenditures	5,224,861	6,116,277	5,766,682	349,595
Excess of revenues under expenditures	(3,268,208)	(3,708,538)	(3,623,324)	85,214
OTHER FINANCING SOURCES				
Transfers in	3,268,208	3,708,538	3,623,324	(85,214)
Net change in fund balance	-	-	-	-
Fund balance - July 1	-	-	-	-
Fund balance - June 30	\$ -	\$ -	\$ -	\$ -

See notes to required supplementary information.

Merrill Area Public School District

Merrill, Wisconsin

SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS LAST 10 FISCAL YEARS *

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Total OPEB liability			
Service cost	\$ 171,523	\$ 158,655	\$ 158,655
Interest	174,420	246,423	274,317
Changes of benefit terms	-	-	-
Differences between expected and actual experience	954,481	-	-
Changes of assumptions	(732,863)	(5,263)	-
Benefit payments	<u>(1,085,935)</u>	<u>(1,241,142)</u>	<u>(1,112,463)</u>
Net change in total OPEB liability	(518,374)	(841,327)	(679,491)
Total OPEB liability - beginning	<u>6,271,194</u>	<u>7,112,521</u>	<u>7,792,012</u>
Total OPEB liability - ending (a)	<u>\$ 5,752,820</u>	<u>\$ 6,271,194</u>	<u>\$ 7,112,521</u>
Plan fiduciary net position			
Contributions - employer	\$ 895,181	\$ 1,241,142	\$ 1,146,675
Net investment income	15,555	17,003	20,595
Benefit payments	(1,085,935)	(1,241,142)	(1,112,463)
Administrative expenses	-	-	-
Net change in plan fiduciary net position	(175,199)	17,003	54,807
Plan fiduciary net position - beginning	<u>924,669</u>	<u>907,666</u>	<u>852,859</u>
Plan fiduciary net position - ending (b)	<u>\$ 749,470</u>	<u>\$ 924,669</u>	<u>\$ 907,666</u>
District's net OPEB liability - ending (a) - (b)	<u>\$ 5,003,350</u>	<u>\$ 5,346,525</u>	<u>\$ 6,204,855</u>
Plan fiduciary net position as a percentage of the total OPEB liability	13.03%	14.74%	12.76%
Covered-employee payroll	\$ 9,714,910	\$ 8,544,948	\$ 7,987,968
District's net OPEB liability as a percentage of covered-employee payroll	51.50%	62.57%	77.68%

* The amounts presented for each fiscal year were determined as of the current fiscal year end. Amounts for prior years were not available.

See notes to required supplementary information.

Merrill Area Public School District

Merrill, Wisconsin

SCHEDULE OF EMPLOYER CONTRIBUTIONS OTHER POSTEMPLOYMENT BENEFIT PLAN LAST 10 FISCAL YEARS *

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Actuarially determined contribution (ADC)	\$ 1,338,639	\$ 1,338,639	\$ 1,105,206
Contributions in relation to the ADC	895,181	1,241,142	1,146,675
Contribution deficiency (excess)	<u>\$ 443,458</u>	<u>\$ 97,497</u>	<u>\$ (41,469)</u>
Covered-employee payroll	\$ 9,714,910	\$ 8,544,948	\$ 7,987,968
Contributions as a percentage of covered-employee payroll	9.21%	14.52%	14.36%

Key Methods and Assumption Used to Calculate ADC

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

* The amounts presented for each fiscal year were determined as of the current fiscal year end.
Amounts for prior years were not available.

See notes to 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

Plan 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)
12/31/14	0.11780464%	\$ (2,893,604)	\$ 16,428,345	17.61%	102.74%
12/31/15	0.11905099%	1,934,555	17,435,499	11.10%	98.20%
12/31/16	0.11852503%	976,929	16,689,563	5.85%	99.12%
12/31/17	0.11776742%	(3,496,654)	17,119,429	20.43%	0.00%

SCHEDULE OF CONTRIBUTIONS WISCONSIN RETIREMENT SYSTEM LAST 10 FISCAL YEARS

District 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	\$ 1,141,630	\$ 1,141,630	\$ -	\$ 16,587,420	6.88%
6/30/16	1,320,446	1,320,446	-	19,543,591	6.76%
6/30/17	1,151,287	1,151,287	-	17,259,844	6.67%
6/30/18	1,202,001	1,202,001	-	17,879,643	6.72%

See notes to required supplementary information.

Merrill Area Public School District

Merrill, Wisconsin

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2018

A. OTHER POSTEMPLOYMENT BENEFITS

There were no changes of benefit terms.

The amounts reported for each fiscal year were determined as of the prior fiscal year-end. 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.

B. WISCONSIN RETIREMENT SYSTEM

There were no changes of benefit terms 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 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.

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. Budgetary expenditure control is exercised at the function level. 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 as an extension of formal budgetary control during the year.
- ▶ The DPI requires the District to separate special education revenues and expenditures from other General Fund amounts.

The District did not have any material violation of legal or contractual provisions for the fiscal year ended June 30, 2018.

Merrill Area Public School District

Merrill, Wisconsin

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

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 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:

	<u>General</u>	<u>Special Education Fund</u>
Revenues		
Actual amounts (budgetary basis)	\$ 35,004,980	\$ 2,143,358
Reclassification of special education	2,143,358	(2,143,358)
Total revenues	<u>37,148,338</u>	<u>-</u>
Expenditures		
Actual amounts (budgetary basis)	31,465,719	5,766,682
Reclassification of special education	5,766,682	(5,766,682)
Total expenditures	<u>37,232,401</u>	<u>-</u>
Excess of revenues over (under) expenditures		
Actual amounts (budgetary basis)	3,539,261	(3,623,324)
Reclassification of special education	(3,623,324)	3,623,324
Excess of revenues over (under) expenditures	<u>(84,063)</u>	<u>-</u>
Other financing sources (uses)		
Actual amounts (budgetary basis)	(3,767,223)	3,623,324
Reclassification of special education	3,623,324	(3,623,324)
Total other financing sources (uses)	<u>(143,899)</u>	<u>-</u>
Net change in fund balance		
Actual amounts (budgetary basis)	<u>(227,962)</u>	<u>-</u>
Fund balance - July 1		
Actual amounts (budgetary basis)	<u>5,235,104</u>	<u>-</u>
Fund balance - June 30		
Actual amounts (budgetary basis)	<u>\$ 5,007,142</u>	<u>\$ -</u>

SUPPLEMENTARY INFORMATION

Merrill Area Public School District

Merrill, Wisconsin

COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS JUNE 30, 2018

	Special Revenue					Package & Co-op Program
	TEACH	Special Revenue Trust	Head Start Project	Community Service	Food Service	
ASSETS						
Cash and investments	\$ 308	\$ 1,005,526	\$ -	\$ 868	\$ 114,328	\$ -
Receivables						
Accounts	-	-	-	809	45,603	562
Due from other funds	-	-	-	-	-	-
Due from other governments	-	-	333,048	-	26,095	3,773
Inventories and prepaid items	-	-	293	-	-	-
	<u>308</u>	<u>1,005,526</u>	<u>333,341</u>	<u>1,677</u>	<u>186,026</u>	<u>4,335</u>
Total assets	<u>\$ 308</u>	<u>\$ 1,005,526</u>	<u>\$ 333,341</u>	<u>\$ 1,677</u>	<u>\$ 186,026</u>	<u>\$ 4,335</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	\$ -	\$ 250,251	\$ 30,527	\$ -	\$ 16,649	\$ -
Accrued and other current liabilities	-	-	969	1,302	162	-
Due to other funds	-	-	301,845	-	-	4,335
Deposits payable	-	-	-	-	775	-
	<u>-</u>	<u>250,251</u>	<u>333,341</u>	<u>1,302</u>	<u>17,586</u>	<u>4,335</u>
Total liabilities	<u>-</u>	<u>250,251</u>	<u>333,341</u>	<u>1,302</u>	<u>17,586</u>	<u>4,335</u>
Fund balances						
Nonspendable	-	-	293	-	-	-
Restricted	308	-	-	375	168,440	-
Assigned	-	755,275	-	-	-	-
Unassigned	-	-	(293)	-	-	-
	<u>308</u>	<u>755,275</u>	<u>-</u>	<u>375</u>	<u>168,440</u>	<u>-</u>
Total fund balances	<u>308</u>	<u>755,275</u>	<u>-</u>	<u>375</u>	<u>168,440</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 308</u>	<u>\$ 1,005,526</u>	<u>\$ 333,341</u>	<u>\$ 1,677</u>	<u>\$ 186,026</u>	<u>\$ 4,335</u>

<u>Debt Service</u>		<u>Capital Projects</u>	<u>Total</u>
<u>Non-Referendum Debt Service</u>	<u>Referendum Debt Service</u>	<u>Long-Term Capital Improvement Trust</u>	<u>Nonmajor Governmental Funds</u>
\$ 59,134	\$ 59,524	\$ 17,000	\$ 1,256,688
-	-	-	46,974
-	-	105,000	105,000
-	-	-	362,916
-	-	-	293
<u>\$ 59,134</u>	<u>\$ 59,524</u>	<u>\$ 122,000</u>	<u>\$ 1,771,871</u>
\$ -	\$ 425	\$ -	\$ 297,852
-	-	-	2,433
-	-	-	306,180
-	-	-	775
-	425	-	607,240
-	-	-	293
59,134	59,099	122,000	409,356
-	-	-	755,275
-	-	-	(293)
<u>59,134</u>	<u>59,099</u>	<u>122,000</u>	<u>1,164,631</u>
<u>\$ 59,134</u>	<u>\$ 59,524</u>	<u>\$ 122,000</u>	<u>\$ 1,771,871</u>

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, 2018

	Special Revenue			
	TEACH	Trust	Head Start Project	Community Service
REVENUES				
Property taxes	\$ -	\$ -	\$ -	\$ 138,745
Other local sources	-	1,098,797	-	13,260
Interdistrict sources	-	-	-	-
State sources	-	-	-	-
Federal sources	-	-	706,782	-
Total revenues	-	1,098,797	706,782	152,005
EXPENDITURES				
Instruction				
Regular instruction	-	45,989	435,712	-
Vocational instruction	-	3,073	-	-
Other instruction	-	-	14,386	-
Total instruction	-	49,062	450,098	-
Support services				
Pupil services	-	736	16,621	-
Instructional staff services	-	712	25,737	-
General administration services	-	-	98,655	-
School administration services	-	1,842	521	-
Operations and maintenance of plant	-	336,867	54,911	1,549
Pupil transportation services	-	3,780	54,362	9,676
Food services	-	2,097	-	-
Central services	-	344	5,227	-
Insurance	-	-	650	-
Total support services	-	346,378	256,684	11,225
Debt service				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total debt service	-	-	-	-
Community service	-	-	-	153,516
Total expenditures	-	395,440	706,782	164,741
Excess of revenues over (under) expenditures	-	703,357	-	(12,736)
OTHER FINANCING SOURCES				
Transfers in	-	-	-	-
Net change in fund balances	-	703,357	-	(12,736)
Fund balances - July 1	308	51,918	-	13,111
Fund balances - June 30	\$ 308	\$ 755,275	\$ -	\$ 375

		Debt Service		Capital Projects	Total
Food Service	Package & Co-op Program	Non-Referendum Debt Service	Referendum Debt Service	Long-Term Capital Improvement Trust	Nonmajor Governmental Funds
\$ -	\$ -	\$ 317,180	\$ 1,522,555	\$ -	\$ 1,978,480
581,834	-	441	1,228	-	1,695,560
-	48,607	-	-	-	48,607
17,974	-	-	-	-	17,974
696,128	-	-	-	-	1,402,910
<u>1,295,936</u>	<u>48,607</u>	<u>317,621</u>	<u>1,523,783</u>	<u>-</u>	<u>5,143,531</u>
-	110	-	-	-	481,811
-	-	-	-	-	3,073
-	-	-	-	-	14,386
-	<u>110</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>499,270</u>
-	-	-	-	-	17,357
-	70,816	-	-	-	97,265
-	-	-	-	-	98,655
-	-	-	-	-	2,363
3,844	-	-	-	-	397,171
-	-	-	-	-	67,818
1,262,677	-	-	-	-	1,264,774
-	-	-	-	-	5,571
-	-	-	-	-	650
<u>1,266,521</u>	<u>70,816</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,951,624</u>
-	-	235,000	1,500,000	-	1,735,000
-	-	86,695	45,110	-	131,805
-	-	<u>321,695</u>	<u>1,545,110</u>	<u>-</u>	<u>1,866,805</u>
-	-	-	-	-	153,516
<u>1,266,521</u>	<u>70,926</u>	<u>321,695</u>	<u>1,545,110</u>	<u>-</u>	<u>4,471,215</u>
<u>29,415</u>	<u>(22,319)</u>	<u>(4,074)</u>	<u>(21,327)</u>	<u>-</u>	<u>672,316</u>
<u>580</u>	<u>22,319</u>	<u>-</u>	<u>-</u>	<u>121,000</u>	<u>143,899</u>
<u>29,995</u>	<u>-</u>	<u>(4,074)</u>	<u>(21,327)</u>	<u>121,000</u>	<u>816,215</u>
<u>138,445</u>	<u>-</u>	<u>63,208</u>	<u>80,426</u>	<u>1,000</u>	<u>348,416</u>
<u>\$ 168,440</u>	<u>\$ -</u>	<u>\$ 59,134</u>	<u>\$ 59,099</u>	<u>\$ 122,000</u>	<u>\$ 1,164,631</u>

Merrill Area Public School District

Merrill, Wisconsin

SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES PUPIL ACTIVITY FUNDS FOR THE YEAR ENDED JUNE 30, 2018

	<u>Balance 7/1/2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2018</u>
ASSETS				
Cash	\$ 157,610	\$ 462,813	\$ 414,091	\$ 206,332
Accounts receivable	504	-	-	504
Total assets	<u>\$ 158,114</u>	<u>\$ 462,813</u>	<u>\$ 414,091</u>	<u>\$ 206,836</u>
LIABILITIES				
Due to student organizations				
Middle School	\$ 30,498	\$ 73,293	\$ 38,616	\$ 65,175
High School	<u>127,616</u>	<u>389,520</u>	<u>375,475</u>	<u>141,661</u>
Total liabilities	<u>\$ 158,114</u>	<u>\$ 462,813</u>	<u>\$ 414,091</u>	<u>\$ 206,836</u>

Merrill Area Public School District

Merrill, Wisconsin

SCHEDULE OF CHARTER SCHOOL AUTHORIZER SERVICES AND COSTS FOR THE YEAR ENDED JUNE 30, 2018

		<u>Bridges Virtual Academy</u>	<u>Maple Grove</u>	<u>Merrill Adult Diploma Academy</u>
	Function			
SERVICES PROVIDED				
Undifferentiated curriculum	110000	\$ 1,529,186	\$ 129,663	\$ -
Regular curriculum	120000	1,266,734	28,335	18,295
Vocational curriculum	130000	4,324	-	-
Health education	141000	9,093	-	-
Physical education	143000	219,068	34,708	-
Special education	150000	94,666	13,834	-
Culturally/socially disadvantaged	171000	-	-	86,083
Guidance	213000	41,139	127	-
Psychological services	215000	-	4,083	-
Other pupil services	219000	2,582	-	-
Instructional staff training	221300	-	1,106	277
Library media services	222000	95,392	2,991	-
General administration	231000	360	-	-
Building administration	240000	280,206	157,612	21,008
General operations	253000	-	23,968	-
Maintenance and repairs	254000	640	50	-
Facilities acquisition & remodeling	255000	4,670	-	-
Pupil transportation	256000	472	-	435
Food services	257000	-	45,411	-
Central services	260000	476,492	491	122
		<u>\$ 4,025,024</u>	<u>\$ 442,379</u>	<u>\$ 126,220</u>
	Object			
OPERATING ACTIVITY				
Employee salaries	100	\$ 1,694,744	\$ 241,230	\$ 84,947
Employee benefits	200	791,883	111,567	27,383
Purchased services	300	972,342	52,766	2,810
Non-capital objects	400	509,637	36,816	10,696
Capital objects	500	23,696	-	384
Dues and fees	940	32,722	-	-
		<u>\$ 4,025,024</u>	<u>\$ 442,379</u>	<u>\$ 126,220</u>

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, Merrill, Wisconsin (the "District") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 1, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 2018-001 that we consider to be a significant deficiency.

COMPLIANCE AND OTHER MATTERS

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

MERRILL AREA PUBLIC SCHOOL DISTRICT'S RESPONSE TO FINDING

The District's response to the finding identified in our audit is described in the accompanying prior year audit findings and corrective action plan. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

PURPOSE OF THIS REPORT

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



Certified Public Accountants

Green Bay, Wisconsin
December 1, 2018

FEDERAL AND STATE AWARDS

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 the Merrill Area Public School District, Merrill, Wisconsin's (the "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 the District's major federal and state programs for the year ended June 30, 2018. The 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 the requirements of 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 the 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, Uniform Guidance and the *State Single Audit Guidelines* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

OPINION ON EACH MAJOR FEDERAL AND STATE PROGRAM

In our opinion, the 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, 2018.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal 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 District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies 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.

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
December 1, 2018

Merrill Area Public School District
Merrill, Wisconsin

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Grantor Agency/Federal Program Title	CFDA Number	Pass-Through Agency	Pass-Through Entity Identifying Number	(Accrued) Deferred Revenue 7/1/17	Cash Received (Refunded)	Accrued (Deferred) Revenue 6/30/18	Total Expenditures	Subrecipient Payments
U.S. DEPARTMENT OF AGRICULTURE								
<i>Child Nutrition Cluster</i>								
School Breakfast Program	10.553	WI DPI	2018-353500-SB-546	\$ (2,546)	\$ 77,240	\$ 1,818	\$ 76,512	\$ -
National School Lunch Program	10.555	WI DPI	2018-353500-NSL-547	(15,163)	504,371	10,588	499,796	-
National School Lunch Program	10.555	WI DPI	2018-353500-NSL-Snacks-566	-	946	238	1,184	-
Donated Commodities	10.555	WI DPI	2018-353500-NSL-547	-	89,248	-	89,248	-
Total National School Lunch Program				<u>(15,163)</u>	<u>594,565</u>	<u>10,826</u>	<u>590,228</u>	<u>-</u>
Summer Food Service Program for Children	10.559	WI DPI	2018-353500-SFSP-586	(13,565)	14,392	13,107	13,934	-
Total Child Nutrition Cluster				<u>(31,274)</u>	<u>686,197</u>	<u>25,751</u>	<u>680,674</u>	<u>-</u>
Child and Adult Care Food Program	10.558	WI DPI	2018-353500-CCI-551	(443)	15,552	344	15,453	-
Total U.S. Department of Agriculture				<u>(31,717)</u>	<u>701,749</u>	<u>26,095</u>	<u>696,127</u>	<u>-</u>
U.S. DEPARTMENT OF EDUCATION								
Title I Grants to Local Educational Agencies	84.010	WI DPI	2018-353500-Title I-141	(242,518)	300,332	341,820	399,634	-
<i>Special Education Cluster (IDEA)</i>								
Special Education Grants to States	84.027	WI DPI	2018-353500-IDEA-341	(452,822)	1,090,650	78,527	716,355	-
Special Education Preschool Grants	84.173	WI DPI	2018-353500-Pre-S-347	(23,655)	23,655	21,071	21,071	-
Total Special Education Cluster (IDEA)				<u>(476,477)</u>	<u>1,114,305</u>	<u>99,598</u>	<u>737,426</u>	<u>-</u>
Career and Technical Education - Basic Grants to States	84.048	WI DPI	2018-353500-CP-CTE-400	(24,483)	24,483	24,888	24,888	-
Twenty-First Century Community Learning Centers	84.287	WI DPI	2018-353500-21st Century	(67,260)	67,260	160,936	160,936	-
Improving Teacher Quality State Grants	84.367	WI DPI	2018-353500-Title II-365	(50,817)	129,280	63,744	142,207	-
Total U.S. Department of Education				<u>(861,555)</u>	<u>1,635,660</u>	<u>690,986</u>	<u>1,465,091</u>	<u>-</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES								
Head Start	93.600	Direct Program	n/a	(138,426)	512,160	333,048	706,782	-
<i>Medicaid Cluster</i>								
Medical Assistance Program	93.778	CESA #9	44236800	-	240,536	-	240,536	-
Total Medicaid Cluster				<u>-</u>	<u>240,536</u>	<u>-</u>	<u>240,536</u>	<u>-</u>
Total U.S. Department of Health and Human Services				<u>(138,426)</u>	<u>752,696</u>	<u>333,048</u>	<u>947,318</u>	<u>-</u>
TOTAL FEDERAL AWARDS				<u>\$ (1,031,698)</u>	<u>\$ 3,090,105</u>	<u>\$ 1,050,129</u>	<u>\$ 3,108,536</u>	<u>\$ -</u>
Reconciliation to the basic financial statements								
Federal sources							\$ 2,868,000	
Federal awards included in Intermediate sources							240,536	
Total expenditures of federal awards							<u>\$ 3,108,536</u>	

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

Merrill Area Public School District
Merrill, Wisconsin

SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Grantor Agency/State Program Title	State I.D. Number	Pass-Through Agency	State Identifying Number	(Accrued) Deferred Revenue 7/1/17	Cash Received (Refunded)	Accrued (Deferred) Revenue 6/30/18	Total Expenditures	Subrecipient Payments
WISCONSIN DEPARTMENT OF PUBLIC INSTRUCTION								
Special Education and School Age Parents	255.101	Direct Program	353500-100	\$ -	\$ 1,132,194	\$ -	\$ 1,132,194	\$ -
Special Education and School Age Parents	255.101	CESA #9	44236800	-	26,073	-	26,073	-
Total Special Education and School Age Parents				-	1,158,267	-	1,158,267	-
State School Lunch Aid	255.102	Direct Program	353500-107	-	13,755	-	13,755	-
Common School Fund Library Aid	255.103	Direct Program	353500-104	-	115,032	-	115,032	-
General Transportation Aid	255.107	Direct Program	353500-102	-	177,618	-	177,618	-
Equalization Aids	255.201	Direct Program	353500-116	(296,881)	17,412,467	293,640	17,409,226	-
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	-	4,219	-	4,219	-
Student Achievement Guarantee in Education (SAGE)	255.504	Direct Program	353500-160	-	766,767	-	766,767	-
Educator Effective Evaluation System	255.940	Direct Program	353500-154	-	-	19,120	19,120	-
Per Pupil Aid	255.945	Direct Program	353500-113	-	1,199,700	-	1,199,700	-
High Cost Transportation Aid	255.947	Direct Program	353500-114	-	262,831	-	262,831	-
Career and Technical Education Incentive Grants	255.950	Direct Program	353500-151	-	44,977	-	44,977	-
Assessments of Reading Readiness	255.956	Direct Program	353500-166	-	8,519	-	8,519	-
Total Wisconsin Department of Public Instruction				(325,756)	21,193,027	341,635	21,208,906	-
WISCONSIN DEPARTMENT OF WORKFORCE DEVELOPMENT								
Youth Apprenticeship Grant	445.112	Northcentral Technical College	n/a	-	27,971	-	27,971	-
TOTAL STATE AWARDS				<u>\$ (325,756)</u>	<u>\$ 21,220,998</u>	<u>\$ 341,635</u>	<u>\$ 21,236,877</u>	<u>\$ -</u>
Reconciliation to the basic financial statements								
State sources							\$ 21,306,923	
Less: State sources not considered state awards								
State tax computer aid							(32,265)	
Payment in lieu of taxes and other revenues							(80,803)	
Other state revenue							(11,022)	
State awards included in								
Intermediate sources							54,044	
Total expenditures of federal awards							<u>\$ 21,236,877</u>	

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

Merrill Area Public School District

Merrill, Wisconsin

NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1: BASIS OF PRESENTATION

The accompanying schedules of expenditures of federal and state awards for the Merrill Area Public School District are 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.

The schedules of expenditures of federal and state awards include all federal and state awards of the District. Because the schedules present only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

Revenues and expenditures in the schedules are presented in accordance with the modified accrual basis of accounting and are generally in agreement with revenues and expenditures reported in the District's 2018 fund financial statements. Accrued revenue at year-end consists of federal and state program expenditures scheduled for reimbursement to the District in the succeeding year while unearned revenue represents advances for federal and state programs that exceed recorded District expenditures. Because of subsequent program adjustments, these amounts may differ from the prior year's ending balances.

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

NOTE 3: SPECIAL EDUCATION AND SCHOOL AGE PARENTS PROGRAM

The 2017 - 2018 eligible costs under the State Special Education Program as reported by the District are \$4,940,982. Compiled information required by compliance requirement 1-1 of the Special Education Audit Program was reported to the Wisconsin Department of Public Instruction.

NOTE 4: FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule of expenditures of federal awards at the fair market value of the commodities received and disbursed.

NOTE 5: OVERSIGHT AGENCIES

The federal and state oversight agencies for the District are as follows:

Federal - U.S. Department of Health and Human Services
State - Wisconsin Department of Public Instruction

NOTE 6: PASS THROUGH ENTITIES

Federal have been passed through the following entities:

WI DHS - Wisconsin Department of Health Services

Merrill Area Public School District

Merrill, Wisconsin

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2018

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 AND STATE AWARDS

Internal control over major programs:	
▶ Material weakness(es) identified?	No
▶ Significant deficiency(ies) identified?	None Reported
Type of auditors' report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?	No
Any audit findings disclosed that are required to be reported in accordance with the <i>State Single Audit Guidelines</i> ?	No

Identification of major federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
	<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>Special Education Cluster</i>
84.027	Special Education Grants to States
84.173	Special Education Preschool Grants

Identification of major state programs:

<u>State ID Number</u>	<u>Name of State Program</u>
255.201	Equalization Aids

Audit threshold used to determine between Type A and Type B programs:

Federal Awards	\$750,000
State Awards	\$250,000

Auditee qualified as low-risk auditee Yes

Merrill Area Public School District

Merrill, Wisconsin

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2018

SECTION II - FINANCIAL STATEMENT FINDINGS

FINDING NO.	CONTROL DEFICIENCIES
2018-001	<p>Preparation of Annual Financial Report Repeat of Finding 2017-001</p>
Condition:	<p>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 format, and note disclosures to assist in the preparation of the annual financial report in an efficient manner.</p>
Criteria:	<p>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 or other required state financial reports.</p>
Cause:	<p>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>
Effect:	<p>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>
Recommendation:	<p>We recommend the District continue reviewing the annual financial report. 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>

SECTION III: FEDERAL AND STATE AWARD FINDINGS AND QUESTIONED COSTS

There are no audit findings and questioned costs required to be reported under the Uniform Guidance and the *State Single Audit Guidelines* issued by the Wisconsin Department of Administration for the year ended June 30, 2018.

Merrill Area Public School District

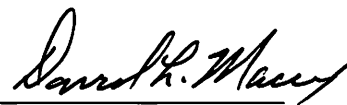
Merrill, Wisconsin

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2018

SECTION IV: OTHER ISSUES

- | | |
|---|----------|
| 1. Does the auditor have substantial doubt as to the auditee's ability to continue as a going concern? | No |
| 2. Does the audit report show audit issues (i.e. material non-compliance, non-material non-compliance, questioned cost, material weakness, significant deficiencies, management letter comment, excess revenue or excess reserve) related to grant/contracts with funding agencies that require audits to be in accordance with the <i>State Single Audit Guidelines</i> :
Department of Health Services
Department of Public Instruction | No
No |
| 3. Was a Management Letter or other document conveying audit comments issued as a result of this audit? | Yes |

4. Name and signature of partner



David Maccoux, CPA

5. Date of report

December 1, 2018

Merrill Area Public School District

Merrill, Wisconsin

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND CORRECTIVE ACTION PLAN FOR THE YEAR ENDED JUNE 30, 2018

PRIOR YEAR AUDIT FINDINGS

The findings noted in the 2017 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:

<u>Finding No.</u>	<u>Prior Year Audit Finding</u>
2017-001	Preparation of Annual Financial Report The District's Director of Finance will continue to review and approve the financial statements prior to finalization by our auditors
2017-002	Free and Reduced Meal Plan Applications The District assigned 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.

CORRECTIVE ACTION PLAN

<u>Finding No.</u>	<u>Corrective Action Plan</u>
2018-001	Preparation of Annual Financial Report 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.