

ELKHORN AREA SCHOOL DISTRICT
Elkhorn, Wisconsin

AUDITED FINANCIAL STATEMENTS

Year Ended June 30, 2017

Table of Contents

	<u>Page(s)</u>
Independent Auditors' Report	1 - 2
Management Discussion & Analysis	3 - 11
Basic Financial Statements	
Statement of Net Position	12
Statement of Activities	13
Balance Sheet – Governmental Funds	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	15
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	17
Statements of Fiduciary Net Position and Changes in Fiduciary Net Position	18
Notes to Financial Statements	19 - 43

ELKHORN AREA SCHOOL DISTRICT
Elkhorn, Wisconsin

AUDITED FINANCIAL STATEMENTS
Year Ended June 30, 2017

TABLE OF CONTENTS
(Continued)

Required Supplementary Information

Budgetary Comparison Schedule – General Fund	45
Budgetary Comparison Schedule – Special Education Fund	46
Schedules of Proportionate Share of the Net Pension Asset (Liability) and Employer Contributions	47
Schedules of Funding Progress and Employer Contributions	48
Schedules of Changes to Net OPEB Liability and Related Ratios and Investment Returns	49
Notes to Required Supplementary Information	50 - 51

Other Supplementary Information

Combining Balance Sheet – Nonmajor Governmental Funds	53
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	54
Schedule of Charter School Authorizer Operating Costs	55
Agency Funds – Schedule of Changes in Assets and Liabilities	56
Schedule of Expenditures of State Awards	57
Schedule of Expenditures of Federal Awards	58
Notes to Schedules of Expenditures of State and Federal Awards	59
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	60 - 61
Independent Auditors' Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance and the Wisconsin State Single Audit Guidelines	62 - 63
Schedule of Prior Audit Findings	64
Schedule of Findings and Questioned Costs	65 - 67
Corrective Action Plan	68 - 69

David A. Grotkin
Joel A. Joyce
Brian J. Mechenich
Carrie A. Gindt



Patrick G. Hoffert
Jason J. Wrasse
Joshua T. Bierbach

To the School Board
Elkhorn Area School District
Elkhorn, Wisconsin

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Change in Accounting Principle

As discussed in Notes 1Q and 9 to the financial statements, during the year ended June 30, 2017, the District adopted new accounting guidance GASB Statement No. 74, *Financial Reporting for Post-Employment Benefits Other than Pension Plans*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information, in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The financial information listed in the table of contents as other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying schedules of expenditures of federal and state awards are presented for purposes of additional analysis as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the *Wisconsin State Single Audit Guidelines*, and is also not a required part of the basic financial statements.

The financial information listed in the table of contents as other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 28, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. The 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.

November 28, 2017
Milwaukee, Wisconsin

ELKHORN AREA SCHOOL DISTRICT
Management Discussion & Analysis Statement
June 30, 2017

The discussion and analysis of the Elkhorn Area School District's financial performance provides an overall review of financial activities for the 2015-2016 and 2016-2017 fiscal years. It should be read in conjunction with the Independent Auditors' Report and the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

Total governmental activities revenues for the 2015-2016 fiscal year were \$40,974,974; including \$18,932,959 of property taxes, \$15,171,989 of general state and federal aids, \$6,870,026 of charges for services, local revenues, and operating grants. Total governmental activities expenditures were \$38,331,971; including \$23,253,923 for direct instruction, and \$15,078,048 for instructional support and other support services. The District's financial status, as reflected in total net position, increased by \$2,643,003.

Total governmental activities revenues for the 2016-2017 fiscal year were \$43,198,266; including \$18,737,823 of property taxes, \$16,297,840 of general state and federal aids, \$8,162,603 of charges for services, local revenues, and operating grants. Total governmental activities expenditures were \$42,293,888; including \$24,463,581 for direct instruction, and \$17,830,307 for instructional support and other support services. The District's financial status, as reflected in total net position, increased by \$904,378.

The following events took place during fiscal 2017:

- The District began a significant construction project during the 2017 fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements are comprised of three parts 1) management's discussion and analysis, 2) basic financials statements (District-wide and fund statements) including notes to the financial statements, and 3) other required supplementary information. In addition, other information supplementary to the basic financial statements is provided.

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

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

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

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

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

ELKHORN AREA SCHOOL DISTRICT
Management Discussion & Analysis Statement
 June 30, 2017
 (Continued)

Major Features of the District-wide and Fund Financial Statements

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

ELKHORN AREA SCHOOL DISTRICT
Management Discussion & Analysis Statement
June 30, 2017
(Continued)

DISTRICT WIDE STATEMENTS

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

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

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

FUND FINANCIAL STATEMENTS

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

The District has two kinds of funds:

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

ELKHORN AREA SCHOOL DISTRICT
Management Discussion & Analysis Statement
June 30, 2017
(Continued)

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Table 1, below, provides a summary of the District's net position for the year ended June 30, 2017 compared to 2016. Total net position reflects an increase of \$904,378. The calculation of net position uses historical costs for facilities that may not reflect the true value. The District's facilities are in good condition as sufficient funds are appropriated annually for preventative maintenance needs.

Table 1
Condensed Statement of Net Position

	<u>2016</u>	<u>2017</u>	<u>Percentage Change 2016-17</u>
Assets			
Current and other assets	\$ 22,231,537	\$ 32,895,004	47.96%
Capital assets	46,923,352	54,978,894	17.16%
Total assets	69,154,889	87,873,898	27.06%
Deferred Outflow of Resources	10,910,884	8,469,110	-22.37%
Liabilities			
Long-term liabilities	29,106,554	47,478,606	63.12%
Other liabilities	8,492,418	5,522,167	-34.97%
Total liabilities	37,598,969	53,000,773	50.38%
Deferred Inflow of Resources	4,354,833	4,325,886	.06%
Net Position			
Net Investment in capital assets	24,946,512	25,928,193	3.93%
Restricted	6,339,828	2,321,425	-63.38%
Unrestricted	6,825,631	10,766,731	57.73%
Total net position	\$ 38,111,971	\$ 39,016,349	2.37%

ELKHORN AREA SCHOOL DISTRICT
Management Discussion & Analysis Statement
June 30, 2017
(Continued)

Table 2 provides summarized operating results and their impact on net position.

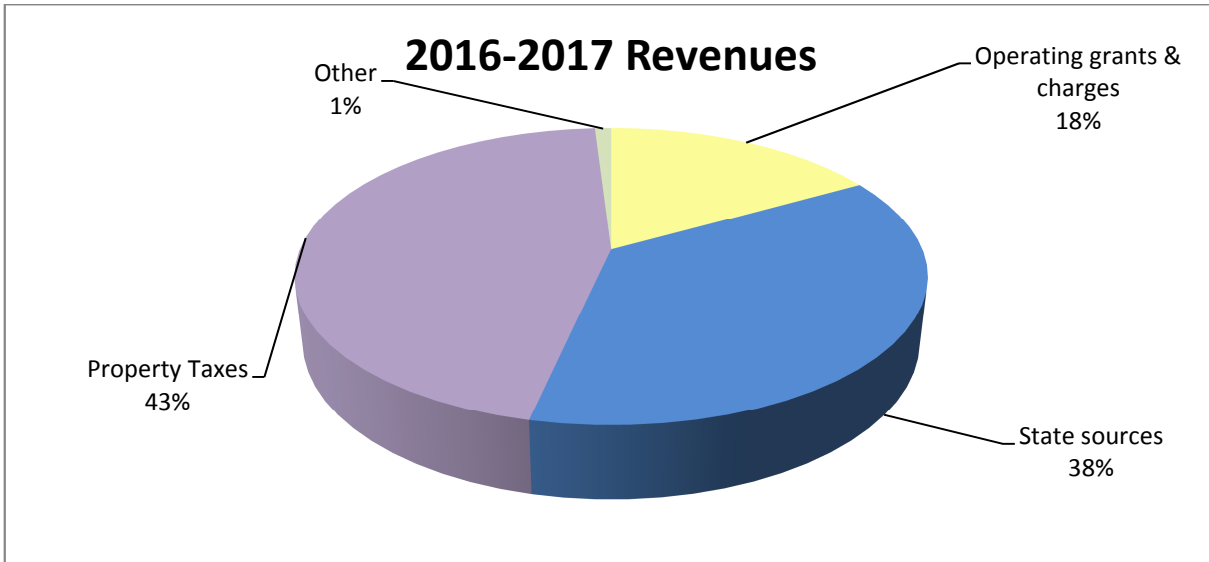
Table 2
Changes in Net Position from Operating Results
(In thousands of dollars)

	<u>2016</u>	<u>2017</u>	<u>Percentage Change 2016-17</u>
Revenues			
Program revenues			
Charges for services	\$ 3,398,653	\$ 4,166,288	22.58%
Operating grants & contributions	3,181,281	3,502,423	10.09%
General revenues			
Property and other taxes	18,932,959	18,737,823	-1.03%
State and federal unrestricted aid	15,171,989	16,297,840	7.42%
Other	290,092	493,892	70.25%
Total Revenues	40,974,974	43,198,266	5.42%
Expenses			
Instruction	23,253,923	24,463,581	5.20%
Pupil & instructional services	2,834,903	3,111,002	9.73%
Administration	3,238,212	3,624,891	11.94%
Business services	5,674,539	7,350,077	29.52%
Interest (long-term debt)	769,520	1,078,778	40.18%
Food service	1,378,611	1,335,987	-3.09%
Depreciation - unallocated	1,058,031	1,324,361	25.17%
Non-program transactions	1,373	5,121	n/a%
Total Expenses	38,331,971	42,293,888	10.33%
Change in net position	\$ 2,643,003	\$ 904,378	-65.78%

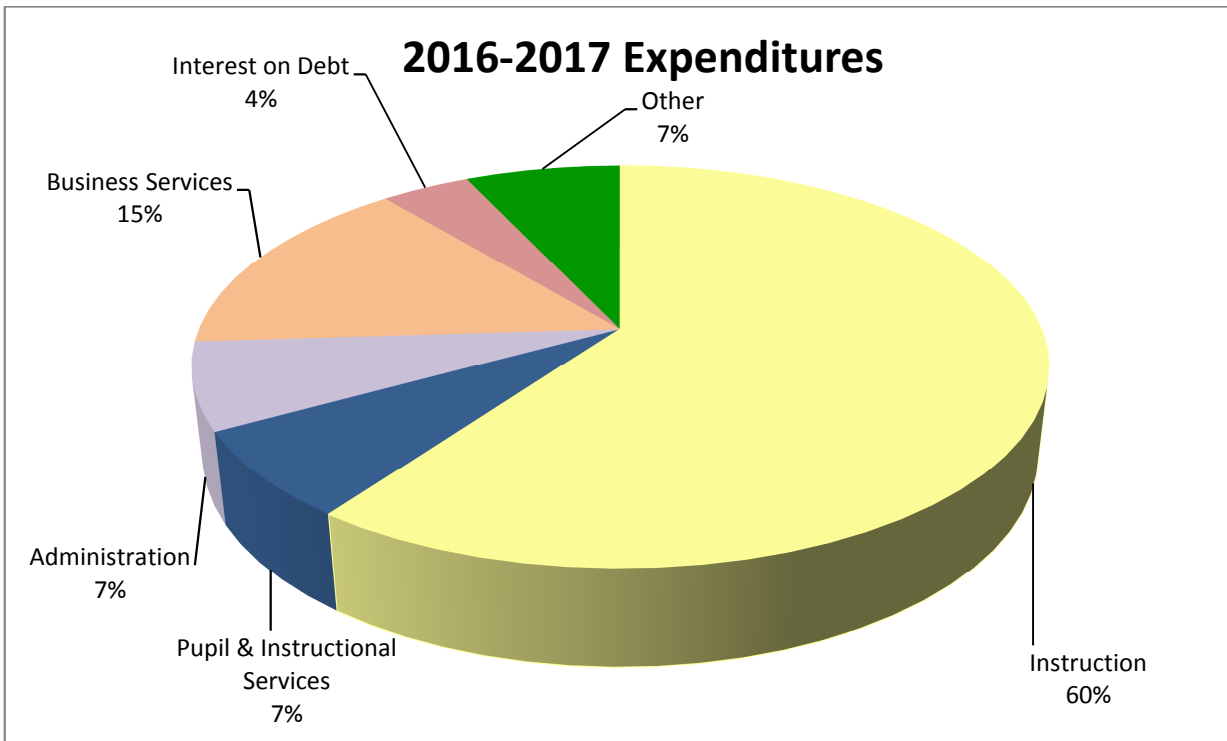
The District relies primarily on property taxes (44% of total governmental revenues), state and federal aid (38%), and operating grants, charges for services, and other sources (18%) to fund governmental activities.

ELKHORN AREA SCHOOL DISTRICT
Management Discussion & Analysis Statement
June 30, 2017
(Continued)

The composition of governmental revenues by source is illustrated below in Chart 1.



The composition of governmental expenditures by type is illustrated below in Chart 2.



ELKHORN AREA SCHOOL DISTRICT
Management Discussion & Analysis Statement

June 30, 2017

(Continued)

FINANCIAL ASPECTS OF THE DISTRICT'S FUNDS

2015 – 2016

The District completed the year with a total governmental fund balance of \$17,073,429 down slightly from last year's ending fund balance of \$18,246,742.

- The general fund had an increase in fund balance of \$985,475. This increase was partially due to additional, handicapped aid, Medicaid reimbursement, other one time revenues and lower than expected short term borrowing costs.
- The debt service fund had a decrease of \$151,618. The fund balance of the debt services will fluctuate each year. The District makes interest payments in October, and is required to carry a balance at least sufficient to cover the payment until property taxes are collected in the second half of the subsequent year.
- The food service program increased its fund balance by \$10,728 due primarily to increased program participation in a co-op purchasing group.

2016-2017

The District completed the year with a total governmental fund balance of \$30,593,341 up from last year's ending fund balance of \$17,073,429, Most of the increase was due to the construction bond issue of \$22,900,000

- The general fund had an increase in fund balance of \$333,130. This increase was partially due to additional, handicapped aid, Medicaid reimbursement, other one time revenues and lower than expected utility costs along with short term borrowing costs.
- The debt service fund had an increase of \$365,120. The fund balance of the debt services will fluctuate each year. The District makes interest payments in October, and is required to carry a balance at least sufficient to cover the payment until property taxes are collected in the second half of the subsequent year.
- The food service program decreased its fund balance by \$70,921 due primarily to the purchase of new kitchen equipment at several school sites.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District reviews an interim budget in June for the subsequent year (beginning July 1st), consistent with current state statutes and regulations, and *original* budget is adopted in October following determination of official enrollment and certification of general state aids. Generally, the original budget is not significantly modified.

2015-2016

While the District's final budget for the general fund anticipated that expenditures would exceed revenues, the actual results for the year showed an increase in fund balance of \$985,475. The general fund balance, as a percentage of operating expenses, represented 23.01% for the fiscal year.

ELKHORN AREA SCHOOL DISTRICT
Management Discussion & Analysis Statement
 June 30, 2017
 (Continued)

GENERAL FUND BUDGETARY HIGHLIGHTS (Continued)

2016-2017

While the District's final budget for the general fund anticipated a balanced budget, the actual results for the year showed an increase in fund balance of \$333,130. There were no amendments to the budget during the year. The general fund balance, as a percentage of operating expenses, represented 24.65% for the fiscal year.

Excess of actual expenditures over budget in individual funds

General Fund	
Regular Curriculum	\$ 305,721
Vocational Curriculum	106,282
Physical Curriculum	95,221
Co-Curricular Activities	5,739
Instructional Staff Services	88,238
Purchased Instructional Services	100,982
Other Retiree Payments	88,933
Special Education Fund	
Other Retiree Payments	\$ 24,086

The excess expenditures were funded by current year revenues and other functions that had expended less than was budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2016, the District had invested \$71,168,084 in capital assets, including buildings, sites, library books, and equipment (see Table 4). Total accumulated depreciation on these assets was \$24,244,732. Asset acquisitions for governmental activities totaled \$12,942,758. The District recognized depreciation expense of \$1,093,735.

At the end of fiscal year 2017, the District had invested \$80,786,915 in capital assets, including buildings, sites, library books, and equipment (see Table 4). Total accumulated depreciation on these assets was \$25,808,021. Asset acquisitions for governmental activities totaled \$9,618,831. The District recognized depreciation expense of \$1,563,289.

Table 4
Capital Assets

	<u>2016</u>	<u>2017</u>	<u>Percent</u> <u>Change</u>
Land (not depreciated)	\$ 668,548	\$ 1,711,130	155.95%
Construction in process	12,785,554	1,657,123	-87.04%
Site improvements	2,198,895	2,221,536	1.03%
Building & building Improvements	49,928,251	67,507,696	35.21%
Furniture & Equipment	5,586,836	7,689,430	37.63%
Accumulated depreciation	(24,244,732)	(25,808,021)	6.45%
Net Capital Assets	\$ 46,923,352	\$ 54,978,894	17.16%

ELKHORN AREA SCHOOL DISTRICT
Management Discussion & Analysis Statement
 June 30, 2017
 (Continued)

Long-term Debt

At year-end the District had \$48,068,697 in general obligation bonds and other general obligation debt outstanding. Our current debt limit per Wisconsin statutes is \$180,243,229. The District retired \$3,814,604 of outstanding general obligation debt during the fiscal year. The District's current Bond Rating is Aa2, a very good rating for the size of our District. Debt of the District is secured by an irrevocably tax levy adopted by the School Board at the time of issuance. Wisconsin state statutes require that the first property tax receipts be segregated for annual debt service payments. (Detailed information about the District's long-term liabilities is presented in Note 5 to the financial statements.)

Table 5
Outstanding Long-term Obligations

	<u>2016</u>	<u>2017</u>	Percentage Change <u>2016-17</u>
General obligation debt	\$ 28,928,390	\$ 48,024,836	66.01%
Capital Leases	54,911	43,861	-20.12%
Total long-term obligations	\$ <u>28,983,301</u>	\$ <u>48,068,697</u>	65.84%

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- In November of 2016, a referendum passed authorizing the District to issue \$22,900,000 in general obligation bonds for the purpose of building and improvements

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives.

If you have questions about this report or need additional financial information, contact William Trewyn, Business Manager, Elkhorn Area School District, 3 N. Jackson Street, Elkhorn, WI 53121; (262) 723-3160.

ELKHORN AREA SCHOOL DISTRICT
Elkhorn, Wisconsin

Statement of Net Position
June 30, 2017

	Governmental Activities
ASSETS	
Current assets	
Cash	\$ 14,626,329
Investments	11,830,395
Taxes receivable	5,650,974
Accounts receivable	69,298
Due from other governments	580,748
Inventory	37,717
Prepaid expense	99,543
Total current assets	32,895,004
Capital assets	
Nondepreciable	3,368,253
Depreciable, net of accumulated depreciation	51,610,641
Total capital assets	54,978,894
Total assets	87,873,898
Deferred outflows of resources	
Deferred outflows related to pensions	8,469,110
Liabilities	
Current liabilities	
Accounts payable	1,110,637
Withholdings and related fringes payable	906,417
Accrued interest	371,117
Accrued payroll	178,752
Deposits payable	73,424
Health benefit claims payable	29,766
Current portion of long-term debt	2,852,054
Total current liabilities	5,522,167
Noncurrent liabilities	
Long-term debt	45,216,643
Unamortized premium	699,240
WRS pension	1,041,558
Post-employment benefits	521,165
Total noncurrent liabilities	47,478,606
Total liabilities	53,000,773
Deferred inflows of resources	
Deferred inflows related to pensions	4,325,886
Net Position	
Net investment in capital assets	25,928,193
Restricted for:	
Debt service	842,153
Food service	501,094
Capital projects	544,832
Community service	123,547
Other	309,799
Unrestricted	10,766,731
Total net position	\$ 39,016,349

The accompanying notes to financial statements
are an integral part of these statements.

ELKHORN AREA SCHOOL DISTRICT
Elkhorn, Wisconsin

Statement of Activities
Year Ended June 30, 2017

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenues and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
Instruction:				
Regular instruction	\$ 17,936,979	\$ 3,462,052	\$ 1,039,498	\$ (13,435,429)
Special education instruction	3,461,113	41,858	1,571,308	(1,847,947)
Vocational instruction	1,195,261	---	---	(1,195,261)
Other instruction	1,870,228	54,645	---	(1,815,583)
Total instruction	24,463,581	3,558,555	2,610,806	(18,294,220)
Support services:				
Pupil services	1,900,504	---	---	(1,900,504)
Instructional staff services	1,210,498	---	99,109	(1,111,389)
Administration services	3,624,981	---	---	(3,624,981)
Operation and maintenance of plant	4,349,082	9,397	---	(4,339,685)
Pupil transportation	1,697,305	---	61,744	(1,635,561)
Central services	551,514	---	---	(551,514)
Other support services	631,349	---	---	(631,349)
Community services	120,827	---	---	(120,827)
Food service	1,335,987	598,336	730,764	(6,887)
Interest	1,078,778	---	---	(1,078,778)
Non-program transactions	5,121	---	---	(5,121)
Unallocated depreciation**	1,324,361	---	---	(1,324,361)
Total support services	17,830,307	607,733	891,617	(16,330,957)
Total school district	\$ 42,293,888	\$ 4,166,288	\$ 3,502,423	(34,625,177)

General revenues:

Taxes:

Property taxes, levied for general purposes	13,944,507
Property taxes, levied for debt service	4,644,650
Property taxes, levied for specific purposes	135,000
Other taxes	13,666

Federal and state aid not restricted to specific purposes:

General	15,472,403
Other	825,437
Interest and investment earnings	114,513
Miscellaneous	379,379

Change in net position 904,378

Net position - beginning of year 38,111,971

Net position - end of year \$ 39,016,349

**This amount excludes the depreciation that is included in the direct expenses of the various programs.

The accompanying notes to financial statements
are an integral part of these statements.

ELKHORN AREA SCHOOL DISTRICT

Elkhorn, Wisconsin

**Balance Sheet
Governmental Funds**

June 30, 2017

	<u>General</u>	<u>Capital Projects</u>	<u>Non-major Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash	\$ 221,295	\$ 14,405,034	\$ ---	\$ 14,626,329
Investments	3,429,467	6,618,302	1,782,626	11,830,395
Taxes receivable	5,650,974	---	---	5,650,974
Accounts receivable	23,804	20,000	25,494	69,298
Due from other funds	20,000	---	---	20,000
Due from other governments	529,577	---	48,504	578,081
Inventory	15,245	---	22,472	37,717
Prepaid expenditures	95,418	---	4,125	99,543
Total assets	\$ 9,985,780	\$ 21,043,336	\$ 1,883,221	\$ 32,912,337
Liabilities and fund balances				
Liabilities				
Accounts payable	\$ 296,056	\$ 761,268	\$ 53,313	\$ 1,110,637
Withholdings and related payables	881,688	---	24,729	906,417
Accrued payroll	176,774	---	1,978	178,752
Due to other funds	---	20,000	---	20,000
Deposits payable	46,816	---	26,608	73,424
Health benefit claims payable	29,766	---	---	29,766
Total liabilities	1,431,100	781,268	106,628	2,318,996
Fund Balances				
Nonspendable	110,663	---	22,866	133,529
Restricted	---	20,262,068	1,753,727	22,015,795
Unassigned	8,444,017	---	---	8,444,017
Total fund balances	8,554,680	20,262,068	1,776,593	30,593,341
Total liabilities and fund balances	\$ 9,985,780	\$ 21,043,336	\$ 1,883,221	\$ 32,912,337

The accompanying notes to financial statements
are an integral part of these statements.

ELKHORN AREA SCHOOL DISTRICT

Elkhorn, Wisconsin

**Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position**

June 30, 2017

Total fund balances - governmental funds \$ 30,593,341

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

Cost of the assets	\$ 80,786,915	
Accumulated depreciation	<u>(25,808,021)</u>	
		54,978,894

The District's proportionate share of the net pension liability at the WRS is reported on the statement of net position, but is not reported in the governmental funds.

(1,041,558)

Deferred outflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.

8,469,110

Deferred inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.

(4,325,886)

The District made less than the required annual contribution to fund their post-employment benefit liability resulting in a post-employment benefit liability, which is not considered currently payable and thus not reported in the governmental funds.

(521,165)

Long-term debt and related items are not due and payable in the current period and therefore are not reported in the governmental funds. Long-term debt and related items at year-end consist of:

Bonds payable	37,935,000	
Promissory notes	9,879,836	
State trust fund loan	210,000	
Unamortized premium	699,240	
Capital leases payable	<u>43,861</u>	
		(48,767,937)

Accrued interest subsidy is not receivable in the current period and therefore is not reported as an asset in the governmental funds.

2,667

Accrued interest payable on long-term obligations is not due and payable in the current period and therefore is not reported as a liability in the governmental funds.

(371,117)

Total net position - governmental activities **\$ 39,016,349**

The accompanying notes to financial statements are an integral part of these statements.

ELKHORN AREA SCHOOL DISTRICT
Elkhorn, Wisconsin

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

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Local	\$ 14,254,717	\$ 87,804	\$ 5,904,181	\$ 20,246,702
Interdistrict payments within Wisconsin	2,879,352	---	386,013	3,265,365
Intermediate sources	43,961	---	---	43,961
State	17,349,700	---	24,883	17,374,583
Federal	1,171,627	---	740,119	1,911,746
Other	322,439	16,652	16,815	355,906
Total revenues	36,021,796	104,456	7,072,011	43,198,263
Expenditures:				
Instruction:				
Current	21,739,924	---	877,573	22,617,497
Interdistrict	962,721	---	---	962,721
Capital outlay	299,348	---	22,641	321,989
Support Services:				
Current	12,375,308	1,028,043	1,651,729	15,055,080
Capital outlay	24,705	9,161,182	110,955	9,296,842
Debt service	17,042	---	4,795,103	4,812,145
Total expenditures	35,419,048	10,189,225	7,458,001	53,066,274
Excess (deficiency) of revenues over (under) expenditures	602,748	(10,084,769)	(385,990)	(9,868,011)
Other Financing Sources (uses):				
Operating transfers in	---	---	269,618	269,618
Operating transfers out	(269,618)	---	---	(269,618)
Face value of bonds issued	---	22,900,000	---	22,900,000
Premium on issuance of bonds	---	---	487,923	487,923
Total other financing sources (uses)	(269,618)	22,900,000	757,541	23,387,923
Net change in fund balances	333,130	12,815,231	371,551	13,519,912
Fund Balances - Beginning of year	8,221,550	7,446,837	1,405,042	17,073,429
Fund Balances - End of year	\$ 8,554,680	\$ 20,262,068	\$ 1,776,593	\$ 30,593,341

The accompanying notes to financial statements
are an integral part of these statements.

ELKHORN AREA SCHOOL DISTRICT

Elkhorn, Wisconsin

**Reconciliation of the Governmental Funds Statement of
Revenues, Expenditures, and Changes in Fund Balances
to the Statement of Activities**

Year Ended June 30, 2017

Total net change in fund balances - governmental funds \$ 13,519,912

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Depreciation expense	\$ (1,563,289)	
Capital outlays	<u>9,618,831</u>	8,055,542

Proceeds received for the issuance of debt is classified as an other financing source in the governmental funds, but the proceeds increase long-term liabilities in the statement of net position.

(22,900,000)

Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Promissory Notes	788,554	
Bonds payable	2,945,000	
State trust fund loan payable	70,000	
Capital leases	<u>11,050</u>	3,814,604

Amortization of premium from the issuance of debt reduces the balance of the respective item in the statement of net position. The amortization is an expenditure in the statement of net position, but is not shown in the governmental funds.

Current period amortization of premium on issuance		95,179
--	--	--------

In the statement of activities, the cost of pension benefits earned net of employee contributions is reported as pension expenses. In the governmental funds however, expenditures for these items are measured by the amount of financial resources used.

Pension expense	(2,617,591)	
District pension contributions	<u>1,224,847</u>	(1,392,744)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as a revenue in the funds when it is receivable, and as an expenditure in the funds when it is due, and thus is a source or use of current financial resources. In the statements of activities, however, interest revenue or expenditure is recognized as the interest accrues, regardless of when it is due.

Accrued interest receivable	(821)	
Accrued interest payable	<u>(174,840)</u>	(175,661)

In the statement of activities post-employment benefits are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used.

375,469

Bond premiums are recorded as an other financing source in the governmental funds, but these are amortized over the life of the bonds in the statement of activities.

(487,923)

Change in net position of governmental activities \$ 904,378

The accompanying notes to financial statements
are an integral part of these statements.

ELKHORN AREA SCHOOL DISTRICT

Elkhorn, Wisconsin

Statement of Fiduciary Net Position

June 30, 2017

	<u>Private Purpose Trusts</u>	<u>Employee Benefit Trusts</u>	<u>Agency Fund</u>
Assets			
Cash	\$ 966	\$ ---	\$ 65,186
Investments	151,883	716,633	---
Total assets	<u>\$ 152,849</u>	<u>\$ 716,633</u>	<u>\$ 65,186</u>
Liabilities and net position			
Liabilities:			
Due to student groups	\$ ---	\$ ---	\$ 65,186
Net position:			
Non-spendable corpus	66,010	---	---
Restricted	86,839	716,633	---
Total liabilities and net position	<u>\$ 152,849</u>	<u>\$ 716,633</u>	<u>\$ 65,186</u>

Statement of Changes in Fiduciary Net Position

Year Ended June 30, 2017

	<u>Private Purpose Trusts</u>	<u>Employee Benefit Trusts</u>
Additions		
Net investment income	\$ 15,757	\$ 3,838
District contributions	---	890,348
Plan member contributions	---	11,888
Total additions	<u>15,757</u>	<u>906,074</u>
Deductions		
Trust fund disbursements	<u>8,500</u>	<u>902,235</u>
Change in net position	7,257	3,839
Net position - beginning of year	<u>145,592</u>	<u>712,794</u>
Net position - end of year	<u>\$ 152,849</u>	<u>\$ 716,633</u>

The accompanying notes to financial statements
are an integral part of these statements.

ELKHORN AREA SCHOOL DISTRICT
Elkhorn, Wisconsin

Notes to Financial Statements
June 30, 2017

1. Summary of Significant Accounting Policies

A. Introduction

The Elkhorn Area School District ("District") is organized as a common school district. The District, governed by a seven-member elected school board, is fiscally independent with taxing and borrowing powers. Services provided by the District are primary and secondary education.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies used by the District are discussed below.

B. Component Units

Accounting principles generally accepted in the United States of America require that these financial statements include the primary government and its component units. Component units are separate organizations that are included in the District's reporting entity because of the significance of their operational or financial relationships with the District. All significant activities and organizations with which the District exercises oversight responsibility have been considered for inclusion in the general purpose financial statements. The District has no component units, and it is not included in any other governmental reporting entity.

C. Basis of Presentation

District-Wide Statements

The statement of net position and the statement of activities present financial information about the District's governmental activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. Eliminations have been made to minimize the double counting of internal transactions. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues have been classified to the function where the majority of the expenses relating to it have been incurred. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

ELKHORN AREA SCHOOL DISTRICT
Elkhorn, Wisconsin

Notes to Financial Statements
June 30, 2017
(Continued)

1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Fund Financial Statements

The fund statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds; each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

General Fund – The General Fund is the operating fund of the District. It is used to account for all financial resources of the District except those required to be accounted for in other funds. It is also used to account for activities associated with providing educational programs for students with disabilities.

Capital Projects Fund – This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities or facility improvements.

The District accounts for assets held as an agent for various student and parent organizations in a fiduciary agency fund. The District accounts for fiduciary activities for scholarships to fund higher education in a private purpose trust fund. The District accounts for fiduciary activities for employee post-employment benefits in an employee benefit trust fund.

D. Measurement Focus and Basis of Accounting

The district-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Non-exchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District may fund certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Therefore, when program expenses are incurred, both restricted and unrestricted net assets may be available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

ELKHORN AREA SCHOOL DISTRICT
Elkhorn, Wisconsin

Notes to Financial Statements
June 30, 2017
(Continued)

1. Summary of Significant Accounting Policies (Continued)

E. Cash

The District's cash is considered to be cash on hand, money markets and demand deposits. Cash and equivalent balances for individual funds are pooled unless maintained in segregated accounts.

F. Investments

Investments are measured at fair value on a recurring basis. *Recurring* fair value measurements are those that GASB Statements require or permit in the statement of net position at the end of each reporting period.

As discussed in Footnote 2, the District categorizes the fair value measurements of its investments based on the hierarchy established by GAAP. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodology used for assets measured at fair value. There have been no changes in methodologies used at June 30, 2017:

Mutual Funds: Valued at the closing price reported on the active market on which the individual securities are traded.

Fixed Income Securities and Unit Trusts: Valued at the present value of future cash flows.

Money Market Funds: Valued at net asset value.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the District believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Interest income is recorded on the accrual basis. Interest income on commingled investments of district accounting funds is allocated based on average investment balances. Purchases and sales of investments are recorded on a trade-date basis. Realized gains and losses of District assets are reported in the statement of activities, statement of revenues, expenditures and changes in fund balances and in the statement of changes in fiduciary net position. Adjustments necessary to record investments at fair value are recorded in the statement of changes in fiduciary net position as unrealized gains or losses and in the statement of revenues, expenditures and changes in fund balance as local revenue.

ELKHORN AREA SCHOOL DISTRICT
Elkhorn, Wisconsin

Notes to Financial Statements
June 30, 2017
(Continued)

1. Summary of Significant Accounting Policies (Continued)

G. Receivables

Property taxes are recognized as revenues in the year for which they are budgeted. The District tax levy is certified in November of the current fiscal year for collection by the taxing municipalities based on the past October 1 full or "equalized" taxable property values. The District is paid, by the collecting municipalities, its proportionate share of tax collections received through the last day of the preceding month. Under the Wisconsin Statutes, Walworth County purchases the outstanding property taxes of the District in August of each year. This statutory guarantee assures the District full collection of all property taxes within sixty days of its year end, and hence, the availability of these funds to finance expenditures of the fiscal year for which the taxes were levied.

All accounts receivable are shown 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 such an allowance would not be material.

H. Interfund Transactions

The current portion of lending/borrowing arrangements between funds is identified as due to/from other funds. The non-current portion of outstanding balances between funds is reported as advances to/from other funds. Advances between funds are offset by a fund balance reserve account to indicate that they are not available for appropriation and are not expendable available financial resources. The District has no advances between funds.

Individual fund transfers and interfund receivables and payable activity for the year ending June 30, 2017 are as follows:

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
<u>Transfers:</u>			
Support Package Coop	Package Coop	General	\$ 258,783
Payment of debt	Debt Service	General	10,835
<u>Due to/from:</u>			
Capital Projects	General	Capital Projects	20,000

ELKHORN AREA SCHOOL DISTRICT
Elkhorn, Wisconsin

Notes to Financial Statements
June 30, 2017
(Continued)

1. Summary of Significant Accounting Policies (Continued)

I. Capital Assets

Capital assets are reported at historical cost or estimated historical cost. Maintenance and repair costs are charged to expenses as incurred and betterments are capitalized as assets. Upon disposal of land, buildings and equipment, a gain or loss is reflected in the statement of activities. Property and equipment and related depreciation expense are not reflected in the Governmental Fund Financial Statements.

Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the District-wide statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings	\$ 15,000	Straight-line	50 years
Land improvements	15,000	Straight-line	20 years
Furniture and equipment	1,000	Straight-line	5 - 20 years
Computer and related technology	1,000	Straight-line	5 - 10 years

The District reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell.

J. Net Position

The District classifies net position in the government-wide financial statements as follows:

- *Net Investment in Capital Assets* – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings attributable to the acquisition, construction or improvement of those assets.
- *Restricted Net Position* – consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- *Unrestricted Net Position* – consists of all other net position that does not meet the definition of “restricted” or “net investment in capital assets”.

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

ELKHORN AREA SCHOOL DISTRICT
Elkhorn, Wisconsin

Notes to Financial Statements
June 30, 2017
(Continued)

1. Summary of Significant Accounting Policies (Continued)

K. Fund Balances

The Government Accounting Standards Board (GASB) defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB requires the fund balance amounts to be reported within one of the following fund balance categories:

- *Non-spendable* - amounts that cannot be spent, either because they are not in spendable form and cannot be converted to cash or because they are legally or contractually required to be maintained intact.
- *Restricted* - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislations or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.
- *Committed* - amounts that can be used only for specific purposes determined by a formal action of the Board of Education. The Board of Education is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through the same type of action it employed to previously commit those amounts.
- *Assigned* - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, the Board of Education may assign amounts for specific purposes at the recommendation of the Business Manager.
- *Unassigned* - all other spendable amounts.

The minimum goal of the Board of Education is to have an end of year general fund balance amount sufficient that short-term borrowing for cash flow needs in the ensuing fiscal year could be minimized or avoided. Beyond the short-term cash flow needs, the Board of Education will also utilize the end of year fund balance to set aside sufficient assets to realize its longer-range goals and meet its unfunded financial obligations.

Use of the Fund Balance is limited to the following:

- One-time start-up expenses of new academic programs
- The one-time cost of a capital expenditure
- Other one-time expenditures advantageous to the long-range goals of the District
- Previously planned strategic uses

Except where the Board expressly directs a different order of expenditure of fund balance amounts in connection with approving a specific expense or payment, fund balance resources shall be spent in the following order when various sources are available for a particular purpose: (1) Committed fund balances; (2) Assigned fund balances; (3) Unassigned fund balances; and (4) Restricted fund balances.

ELKHORN AREA SCHOOL DISTRICT
Elkhorn, Wisconsin

Notes to Financial Statements
June 30, 2017
(Continued)

1. Summary of Significant Accounting Policies (Continued)

L. Deferred Outflows and Inflows of Resources

In accordance with GASB, the statement of financial position will sometimes report separate sections for deferred outflows and inflows of resources.

The separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The District reports deferred outflows of resources related to the pension.

The separate financial statement element, deferred inflows of resources, represents an increase in net position or fund balance that applies to a future period(s) and thus, will not be recognized as an inflow of resources (revenue) until then. The District reports deferred inflows of resources related to the pension.

M. Estimates

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

N. Other Assets

Expendable supplies or noncapital items acquired for initial use in subsequent fiscal periods are recorded as inventories and/or prepaid expenses. Prepaid insurance represents payments made by the District for which benefits extended beyond June 30th and have not yet been earned by the recipient. Inventory and prepaid supplies are valued at the lower of cost (first-in, first-out method) or market. Inventory consists of expendable supplies held for consumption. Costs are recorded as expenditures at the time individual inventory items are consumed.

O. Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the Wisconsin Retirement System (WRS) and additions to/deductions from WRS's fiduciary net position have been determined on the same basis as they are reported to 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.

P. Subsequent Events

Management has evaluated all subsequent events for possible inclusion as a disclosure in the financial statements through the date the financial statements were ready to be distributed (November 28, 2017).

- See note 3 for subsequent short-term note activity.
- See note 15 for subsequent construction commitment.

ELKHORN AREA SCHOOL DISTRICT
Elkhorn, Wisconsin

Notes to Financial Statements
June 30, 2017
(Continued)

1. Summary of Significant Accounting Policies (Continued)

Q. Adoption of New Accounting Guidance

The District implemented GASB Statement No. 74, *Financial Reporting for Post-Employment Benefits Other Than Pension Plans*. See footnote 9 for additional information.

2. Cash and Investments

Cash and equivalents and investments as shown on the District's statement of net position are subject to the following risks:

	<u>Cash</u>	<u>Investments</u>	<u>Total</u>
Custodial Risk:			
Demand deposits	\$ 66,152	\$ ---	\$ 66,152
Petty cash	1,500	---	1,500
Money market	219,497	---	219,497
Wisconsin Investment Series Cooperative (WISC):			
Savings deposit account	14,405,331	---	14,405,332
Edward Jones Investments			
Money market investment account	---	10,019	10,019
LGIP	---	716,614	716,614
Custodial and Interest Rate Risk			
Wisconsin Investment Series Cooperative (WISC):			
Certificates of deposit	---	3,459,000	3,459,000
Edward Jones Investments:			
Mutual funds	---	135,042	135,042
Custodial and Credit Risk			
Wisconsin Investment Series Cooperative (WISC):			
Cash management series	---	1,595,777	1,595,777
Custodial, Interest Rate and Credit Risk			
Edward Jones Investments			
Fixed income securities	---	2,122	2,122
Unit trusts	---	4,700	4,700
Wisconsin Investment Series Cooperative (WISC):			
Fixed income securities	---	2,804,928	2,804,928
Investment series	---	3,970,709	3,970,709
Total	<u>\$ 14,692,481</u>	<u>\$ 12,698,911</u>	<u>\$ 27,391,392</u>

ELKHORN AREA SCHOOL DISTRICT
Elkhorn, Wisconsin

Notes to Financial Statements
June 30, 2017
(Continued)

2. Cash and Investments (Continued)

The District's cash and equivalents are reported in the financial statements as follows:

Statement of net position:	
Cash	\$ 14,626,329
Investments	11,830,395
Statement of fiduciary net position:	
Cash	66,152
Investments	868,516
Total cash and equivalents	\$ <u>27,391,392</u>

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000. Deposits in local banks and the Wisconsin Local Government Investment Pool (LGIP) are also insured by the State Deposit Guarantee Fund ("SDGF") in the amount of \$400,000 per financial institution. However, due to the relatively small size of the Guarantee Fund in relationship to the total deposits covered and other legal implications, recovery of material principal losses may not be significant to individual districts. Investments in the local government investment pool are covered under a surety bond issued by Financial Security Assurance, Inc. The bond insured against losses arising from principal defaults on substantially all types of securities acquired by the pool. The bond provides unlimited coverage on principal losses, reduced by any FDIC, SDGF insurance, and income on the investment during the calendar quarter a loss occurs.

Money market investments may be withdrawn upon request.

The LGIP does not have a credit quality rating and is also not subject to credit risk disclosure because investments are not issued in securities form. It is part of the SIF and is managed by the State of Wisconsin Investment Board. The LGIP is not registered with the Securities and Exchange Commission, but operates under the statutory authority of Wisconsin Chapter 25. The SIF reports the fair value of its underlying assets annually and carries investments at amortized cost for purposes of calculating income to participants. At June 30, 2017, the fair value of the District's share of the LGIP's assets was substantially equal to the amount as reported in these statements.

In accordance with certain contractual provisions, investment income associated with LGIP is assigned to the corresponding fund in which the assets are held. Participants in LGIP have the right to withdraw their funds in total on one day's notice. The LGIP does not include any involuntary participants.

A separate financial report for SIF is prepared in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Copies of the report can be obtained from <http://www.doa.state.wi.us/Divisions/Budget-and-Financial/LGIP>.

The District has investments in WISC consisting of Cash Management Series Construction Fund (CMS), Investment Series (IS), certificates of deposit and savings deposit account. The CMS has no minimum investment period and allows check writing privileges. The WISC weighted average maturity ranges from 0 to 285 days. The IS provides a vehicle that pools funds for investment in U.S. government obligations, agencies, commercial paper and other high quality short-term instruments, individual fixed rate investments, including statute allowable certificates of deposit, government securities and municipal securities. The Investment Series also requires a 14-day minimum investment period and one business day withdrawal notice.

ELKHORN AREA SCHOOL DISTRICT
Elkhorn, Wisconsin

Notes to Financial Statements

June 30, 2017

(Continued)

2. Cash and Investments (Continued)

WISC is organized by and operated exclusively for Wisconsin public schools, technical colleges, and municipal entities. WISC is not registered with the Securities and Exchange Commission, but operates under Wisconsin Intergovernmental cooperation Statutes, Section 66.0301. WISC is governed by the Wisconsin Investment Series Cooperative Commission in accordance with the terms of the Intergovernmental Cooperation Agreement. WISC invests District funds in accordance with Wisconsin Law. WISC investments are valued at amortized cost, which approximates market value. Investment income is distributed to participants based on their relative participation during the period. Participants in WISC have the right to withdraw their funds in total on one day's notice.

In accordance with certain contractual provisions, investment income associated with WISC is assigned to the General Fund, the Debt Service Fund and the Building Project Fund. Investment income is distributed to participants based on their relative participation during the period.

A separate financial report for WISC is prepared in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Copies of the report can be obtained by contacting the Wisconsin Investment Series Cooperative.

The District has investments with Edward Jones Investment Company consisting of managed money market funds, fixed income investments consisting of asset and mortgage backed securities, unit trust funds and mutual funds. These funds are recorded in the Private Purpose Trust Fund for the purpose of providing scholarships to students. Investment income is recorded in the Private Purpose Trust Fund. The parent company, The Jones Financial Companies, L.L.P., is registered with the Securities and Exchange Commission (SEC). Financial reports for The Jones Financial Companies can be obtained from <https://www.edwardjones.com/about/financial-reports.html>.

Wisconsin Statute 66.0603 authorizes the District to invest in the following types of instruments:

- Time deposits in any credit union, bank, savings bank, trust company, or savings and loan association that is authorized to transact business in Wisconsin if the time deposit matures in not more than three years.
- Bonds or securities issued or guaranteed as to principal or interest by the federal government or by a commission, board, or other instrumentality of the federal government (U.S. Treasuries and U.S. agencies).
- Bonds or securities of any Wisconsin county, city, drainage district, technical college district, village, town, or school district.
- Bonds issued by a local exposition district, local professional baseball park district, or local professional stadium district created under subchapter III or IV of chapter 229 of the Wisconsin statutes or bonds issued by the University of Wisconsin Hospitals or Clinics Authority.
- Any security maturing in seven years or less of the acquisition date with either the highest or second highest rating category of a nationally recognized rating agency.
- Securities of open-end management investment companies or investment trusts if the portfolio is collateralized by bonds or securities, subject to various conditions and investment options.
- A local government investment pool, subject to certain conditions.

The District has adopted an investment policy which permits all investments allowed under the state statutes as described above.

ELKHORN AREA SCHOOL DISTRICT
Elkhorn, Wisconsin

Notes to Financial Statements
June 30, 2017
(Continued)

2. Cash and Investments (Continued)

Custodial Risk: Is the risk that, in the event of a financial institution failure, the District's deposits may not be returned to the District. The District's carrying value for cash and investments was \$27,391,392 at June 30, 2017 and the bank's carrying value was \$28,256,649, of which \$5,200,877 was fully insured and \$23,055,772 was uninsured and uncollateralized. The District does not have a policy on custodial 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 the means of managing its exposure to fair value losses arising from increasing interest rates. Information about the exposure of the District's investments to this risk, using the segmented time distribution model is as follows:

<u>Type of Investment</u>	<u>Fair Value</u>	<u><1 year</u>	<u>1-5 Years</u>	<u>6-10 years</u>
WISC:				
Certificates of deposit	\$ 3,459,000	\$ 3,459,000	\$ ---	\$ ---
Fixed income securities	2,804,928	2,804,928	---	---
Investment series	3,970,709	3,970,709	---	---
Edward Jones Investments				
Fixed income securities	2,122	---	---	2,122
Unit trusts	4,700	4,700	---	---
Mutual funds	135,042	135,042	---	---
	<u>\$ 10,376,501</u>	<u>\$ 10,374,379</u>	<u>\$ ---</u>	<u>\$ 2,122</u>

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized rating organization. U.S. Government Securities or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk exposure. The District's policy is that all investment transactions shall be planned to avoid loss of capital from credit risk. Presented below is the minimum rating required for each type of investment:

<u>Type of Investment</u>	<u>Amount</u>	<u>Rating as of Year End</u>		
		<u>AAA</u>	<u>Aa2</u>	<u>Baa2</u>
WISC:				
Cash management series	\$ 1,595,777	\$ 1,595,777	\$ ---	\$ ---
Investment series	3,970,709	3,970,709	---	---
Fixed income securities	2,804,928	2,804,928	---	---
Fixed income securities	2,122	---	2,122	---
Unit trusts	4,700	---	4,700	---
Total	<u>\$ 8,378,236</u>	<u>\$ 8,371,414</u>	<u>\$ 6,822</u>	<u>\$ ---</u>

The District categorizes the fair value measurements of its investments based on the hierarchy established by accounting principles generally accepted in the United States of America. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District does not have any investments that are measured using Level 3 inputs.

ELKHORN AREA SCHOOL DISTRICT
Elkhorn, Wisconsin

Notes to Financial Statements
June 30, 2017
(Continued)

2. Cash and Investments (Continued)

The following summarizes the classification of investments within the statement of net position by classification and method of valuation in accordance with the requirements of accounting principles generally accepted in the United States of America for the year ending June 30, 2017:

	<u>Fair Value</u>			Exempt from Disclosure	Total
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>		
Fixed income securities	\$ ---	\$ 2,122	\$ ---	\$ ---	\$ 2,122
Unit trusts	---	4,700	---	---	4,700
Money market	10,019	---	---	---	10,019
Mutual funds	135,042	---	---	---	135,042
Investment Pools:					
LGIP	---	---	---	716,614	716,614
WISC	---	---	---	11,830,414	11,830,414
Total	<u>\$ 145,061</u>	<u>\$ 6,822</u>	<u>\$ ---</u>	<u>\$ 12,547,028</u>	<u>\$ 12,698,911</u>

WISC and LGIP are exempt from fair value disclosure due to investments being valued at amortized cost. Certificates of deposit are exempt from fair value disclosure due to investments being valued at cost plus accrued interest earned.

3. Short-Term Notes Payable

Short-term debt payable at June 30, 2017 is as follows:

<u>Balance</u>		<u>Balance</u>	
<u>July 01, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2017</u>
\$ ---	\$ 2,200,000	\$ (2,200,000)	\$ ---

A line of credit was dated August 8, 2016 and due August 28, 2017, with a prime variable rate of interest not to exceed 18%. Interest for the year ended June 30, 2017 was \$4,211. The line of credit is for general district operation. Subsequent to year end, the District renewed the Line of Credit in an amount not to exceed \$2,000,000 at the same stated terms.

ELKHORN AREA SCHOOL DISTRICT
Elkhorn, Wisconsin

Notes to Financial Statements
June 30, 2017
(Continued)

4. Capital Assets

Capital asset balances and activity for the year ended June 30, 2017 were as follows:

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30, 2017</u>
Capital assets not being depreciated:					
Sites	\$ 668,548	\$ 1,042,582	\$ ---	\$ ---	\$ 1,711,130
Construction in process	12,785,554	5,782,626	---	(16,911,057)	1,657,123
Total capital assets not being depreciated	<u>13,454,102</u>	<u>6,825,208</u>	<u>---</u>	<u>(16,911,057)</u>	<u>3,368,253</u>
Capital assets being depreciated:					
Land improvements	2,198,895	22,641	---	---	2,221,536
Buildings and improvements	49,928,251	668,388	---	16,911,057	67,507,696
Equipment	5,586,836	2,102,594	---	---	7,689,430
Total capital assets being depreciated	<u>57,713,982</u>	<u>2,793,623</u>	<u>---</u>	<u>16,911,057</u>	<u>77,418,662</u>
Less accumulated depreciation	<u>24,244,732</u>	<u>1,563,289</u>	<u>---</u>	<u>---</u>	<u>25,808,021</u>
Total capital assets being depreciated, net of accumulated depreciation	<u>33,469,250</u>	<u>1,230,334</u>	<u>---</u>	<u>16,911,057</u>	<u>51,610,641</u>
Governmental activities capital assets, net of accumulated depreciation	<u>\$ 46,923,352</u>	<u>\$ 8,055,542</u>	<u>\$ ---</u>	<u>\$ 16,911,057</u>	<u>\$ 54,978,894</u>

Depreciation expense was charged to governmental functions as follows:

Unallocated	\$ 1,324,361
Regular instruction	74,798
Food service	29,597
Operation and maintenance	23,802
Administration services	110,731
Total depreciation for governmental activities	<u>\$ 1,563,289</u>

5. Long-Term Liabilities

Long-term liabilities of the District are as follows:

<u>Type</u>	<u>Balance</u> <u>July 1,</u> <u>2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30,</u> <u>2017</u>	<u>Amounts</u> <u>due within</u> <u>one year</u>
G.O. Bonds	\$ 17,980,000	\$ 22,900,000	\$ 2,945,000	\$ 37,935,000	\$ 1,450,000
G.O. Promissory Notes	10,668,390	---	788,554	9,879,836	1,318,724
State Trust Fund Loan	280,000	---	70,000	210,000	70,000
Capital Lease	54,911	---	11,050	43,861	13,330
Total	<u>\$ 28,983,301</u>	<u>\$ 22,900,000</u>	<u>\$ 3,814,604</u>	<u>\$ 48,068,697</u>	<u>\$ 2,852,054</u>

Total interest paid and expensed (including accrual) during the year for the year ended June 30, 2017 on long-term liabilities was \$992,994 and \$1,167,838, respectively.

ELKHORN AREA SCHOOL DISTRICT
Elkhorn, Wisconsin

Notes to Financial Statements
June 30, 2017
(Continued)

5. Long-Term Liabilities (continued)

All general obligation debt is secured by the full faith and credit and unlimited taxing powers of the District. The capital leases are secured by equipment and improvements. The cost of assets purchased with capital lease is \$67,121. The long-term debt will be retired by future property tax levies and resources accumulated in the Debt Service Fund.

General obligation debt at June 30, 2017 is comprised of the following individual issues:

<u>Description</u>	<u>Issue Dates</u>	<u>Interest Rates (%)</u>	<u>Dates of Maturity</u>	<u>Balance June 30, 2017</u>
State Trust fund Loan	08/10/10	4.25%	03/15/20	\$ 210,000
G.O. Promissory Note	09/01/14	1.99%	04/01/24	64,836
G.O. Promissory Note	06/05/15	2.00 to 3.00%	04/01/32	9,815,000
G.O. Bond	01/04/16	2.00 to 3.00%	04/01/25	9,940,000
G.O. Refunding Bond	11/01/06	4.00%	04/01/18	4,860,000
G.O. Bond	01/05/17	2.00 to 5.00%	10/01/36	22,225,000
G.O. Refunding Bond	01/30/12	1.5 to 2.0%	04/01/18	910,000
Total				<u>\$ 48,024,836</u>

The 2016 equalized valuation of the District as certified by the Wisconsin Department of Revenue is \$1,802,432,294. The legal debt limit and margin of indebtedness as of June 30, 2017, in accordance with Section 67.03(1)(a) of the Wisconsin Statutes follows:

Debt limit (10% of \$1,802,432,294)	\$ 180,243,229
Deduct long-term debt applicable to debt margin	(48,024,836)
Margin of indebtedness	<u>\$ 132,218,393</u>

Aggregate cash flow requirements for the retirement of long-term principal and interest on general obligation debt and capital leases on June 30, 2017 follow:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Interest Subsidy</u>	<u>Total</u>
2018	\$ 2,852,054	\$ 1,508,837	\$ (8,925)	\$ 4,351,966
2019	2,937,702	1,426,114	(5,950)	4,357,866
2020	3,023,412	1,337,337	(2,983)	4,357,766
2021	3,026,644	1,251,558	---	4,278,202
2022	3,109,439	1,160,924	---	4,270,363
2023-2027	11,959,446	4,813,092	---	16,772,538
2028-2032	14,085,000	2,735,718	---	16,820,718
2033-2036	7,075,000	673,580	---	7,748,580
Totals	<u>\$ 48,068,697</u>	<u>\$ 14,907,160</u>	<u>\$ (17,858)</u>	<u>\$ 62,957,999</u>

The interest subsidy column indicates reimbursements received from the IRS in connection with the 2010 State Trust Fund loan issued as Build America Bonds.

ELKHORN AREA SCHOOL DISTRICT
Elkhorn, Wisconsin

Notes to Financial Statements
June 30, 2017
(Continued)

6. Defined Benefit Pension Plan

Summary of Significant Accounting Policies

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 1,200 hours a year (880 hours for teachers and school district educational support employees) and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS.

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

Vesting

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

Benefits Provided

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

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

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

The WRS also provides death and disability benefits for employees.

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.

ELKHORN AREA SCHOOL DISTRICT
Elkhorn, Wisconsin

Notes to Financial Statements
June 30, 2017
(Continued)

6. Defined Benefit Pension Plan (Continued)

Post-Retirement Adjustments (Continued)

The Core and Variable annuity adjustments granted during recent years are as follows:

Year	Core Fund Adjustment	Variable Fund Adjustment
2007	3.0%	10%
2008	6.6	0
2009	(2.1)	(42)
2010	(1.3)	22
2011	(1.2)	11
2012	(7.0)	(7)
2013	(9.6)	9
2014	4.7	25
2015	2.9	2
2016	0.5	(5)

Contributions

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

During the reporting period, the WRS recognized \$1,224,847 in contributions from the employer.

Contribution rates as of June 30, 2017 are:

Employee Category	Employee	Employer
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%

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

At June 30, 2017, the District reported a liability of \$1,041,558 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015 rolled forward to December 31, 2016. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2016, the District's proportion was .1264%, which was an decrease of 0.0005% from its proportion measured as of December 31, 2015.

ELKHORN AREA SCHOOL DISTRICT
Elkhorn, Wisconsin

Notes to Financial Statements
June 30, 2017
(Continued)

6. Defined Benefit Pension Plan (Continued)

Pension Liabilities, Pension Expense and Deferred Outflows and Inflows of Resources (Continued)

For the year ended June 30, 2017, the District recognized pension expense of \$2,617,591.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 397,146	\$ 3,275,610
Changes in assumptions	1,088,989	---
Net difference between projected and actual earnings on pension plan investments	6,211,494	1,026,949
Changes in proportion and differences between employer contributions and proportionate share of contributions	27,572	23,327
Employer contributions subsequent to the measurement date	743,909	---
Total	\$ 8,469,110	\$ 4,325,886

The amount of \$743,909 reported as deferred outflows related to pension resulting from the WRS Employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pension will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources	Deferred Inflows of Resources
2018	\$ 2,690,519	\$ (1,310,923)
2019	2,690,519	(1,310,923)
2020	2,251,616	(1,308,467)
2021	90,409	(395,573)
2022	2,138	---

Actuarial Assumptions

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

Actuarial Valuation Date:	December 31, 2015
Measurement Date of Net Pension Liability	December 31, 2016
Actuarial Cost Method:	Entry Age
Asset Valuation Method:	Fair Market Value
Long-Term Expected Rate of Return:	7.2%
Discount Rate:	7.2%
Salary Increases:	
Inflation	3.2%
Seniority/Merit	0.2% - 5.6%
Mortality:	Wisconsin 2012 Mortality Table
Post-retirement Adjustments*	2.1%

ELKHORN AREA SCHOOL DISTRICT
Elkhorn, Wisconsin

Notes to Financial Statements
June 30, 2017
(Continued)

6. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions (Continued)

* No post-retirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. 2.1% is the assumed annual adjustment based on the investment return assumption and the post-retirement discount rate.

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

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 as of December 31, 2016 are summarized in the following table:

Core Fund Asset Class	Current Asset Allocation %	Destination Target Asset Allocation %	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %
Global Equities	50.0%	45.0%	8.3%	5.4%
Fixed Income	24.5	37.0	4.2	1.4
Inflation Sensitive Assets	15.5	20.0	4.3	1.5
Real Estate	8.0	7.0	6.5	3.6
Private Equity/Debt	8.0	7.0	9.4	6.5
Multi-Asset	4.0	4.0	6.6	3.7
Total Core Fund	110.0	120.0	7.4	4.5
<u>Variable Fund Asset Class</u>				
U.S. Equities	70.0%	70.0%	7.6%	4.7%
International Equities	30.0	30.0	8.5	5.6
Total Variable Fund	100.0	100.0	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

ELKHORN AREA SCHOOL DISTRICT
Elkhorn, Wisconsin

Notes to Financial Statements
June 30, 2017
(Continued)

6. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions (Continued)

Single Discount rate. A single discount rate of 7.20% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.20% and a long-term bond rate of 3.78%. Because of the unique structure of WRS, the 7.20% expected rate of return implies that a dividend of approximately 2.1% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease to Discount Rate (6.20%)	Current Discount Rate (7.20%)	1% Increase To Discount Rate (8.20%)
District's proportionate share of the net pension (asset) liability	\$13,702,362	\$ 1,041,558	\$ (8,707,835)

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://eft.wi.gov/publications/cafr.htm>.

Payables to the pension plan at June 30, 2017 were \$261,890. This represents contributions earned as of June 30, 2017, but for which payment was not remitted to the pension plan until subsequent to year-end.

ELKHORN AREA SCHOOL DISTRICT
Elkhorn, Wisconsin

Notes to Financial Statements
June 30, 2017
(Continued)

7. Fund Balances

As of June 30, 2017, fund balances are composed of the following:

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Nonspendable:				
Prepaid expenditures	\$ 95,418	\$ ---	\$ 394	\$ 95,812
Inventory	15,245	---	22,472	37,717
Restricted for:				
Debt Service	---	---	842,153	842,153
Food service	---	---	478,228	478,228
Special projects	---	---	309,799	309,799
Capital Projects	---	20,262,068	---	20,262,068
Community service	---	---	123,547	123,547
Unassigned	8,444,017	---	---	8,444,017
Total	<u>\$ 8,554,680</u>	<u>\$ 20,262,068</u>	<u>\$ 1,776,593</u>	<u>\$ 30,593,341</u>

8. Post-Employment Benefits Trust

The Elkhorn Area School District Post-Employment Benefits Trust is a trust set up by the District to accumulate funds for the payment of the District's OPEB liability relating to medical and dental insurance. The trust does not require any employee or employer contributions. Employees participating in the OPEB benefit consisted of the following at July 1, 2015, the date of the latest actuarial valuation:

Retirees	58
Active	<u>349</u>
Number of participating employees	<u><u>407</u></u>

The District's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Retiree Health Plan:

Annual required contribution	\$ 559,646
Interest on net OPEB obligation	35,865
Adjustment to annual required contribution	<u>(80,633)</u>
Annual OPEB cost	514,879
Contributions made	<u>(890,348)</u>
Decrease in net OPEB obligation	(375,469)
Net OPEB obligation – beginning of year	<u>896,634</u>
Net OPEB obligation – end of year	<u><u>\$ 521,165</u></u>

ELKHORN AREA SCHOOL DISTRICT
Elkhorn, Wisconsin

Notes to Financial Statements
June 30, 2017
(Continued)

8. Post-Employment Benefits Trust (continued)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the most recent three fiscal years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/15	\$ 422,462	217.53%	\$ 1,296,328
6/30/16	494,906	180.76	896,634
6/30/17	514,879	172.92	521,165

As of July 1, 2015, the most recent actuarial valuation date, the plan was 13.01% funded. The actuarial accrued liability for benefits was \$5,462,130, and the actuarial value of assets was \$710,852, resulting in an unfunded actuarial accrued liability (UAAL) of \$4,751,276.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

Actuarial valuation date	7/1/2015
Actuarial cost method	Entry Age Normal - Level % of Salary
Amortization method	15 year open level dollar & level percent
Remaining amortization period	15 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	4.00%
Projected payroll increases	3.00%
Medical care trend*	7.50% decreasing by .50% per year down to 6.50%, then by .10% per year down to 5.0%, and level thereafter.

* implicit in these rates is an assumed rate of inflation of 3.00%

ELKHORN AREA SCHOOL DISTRICT
Elkhorn, Wisconsin

Notes to Financial Statements
June 30, 2017
(Continued)

9. Post-Employment Benefit Plan

GASB 74 requires the following disclosures related to the District's OPEB plan:

Total OPEB liability	\$	5,092,285
Plan fiduciary net position		(712,794)
District's net OPEB liability	\$	<u>4,379,491</u>
Plan fiduciary net position as a percentage of total OPEB liability		<u>14.00%</u>

Actuarial Assumptions: The total OPEB liability was determined by an actuarial valuation as of July 1, 2015 (rolled forward to measurement date June 30, 2016), using the following actuarial assumptions, applied to all period included in the measurement:

Actuarial cost method	Entry age normal
Amortization method	15 year level \$
Asset valuation method	Market value
Actuarial assumptions:	
Discount rate	4.00%
Inflation	3.00%

Sensitivity of the District's Net OPEB Liability to Changes in the Discount Rate. The following presents the District's net OPEB liability, 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 (2.00%) or 1-percentage point higher (4.00%) than the current discount rate:

	1% Decrease to Discount Rate (2.00%)	Current Discount Rate (3.00%)	1% Increase To Discount Rate (4.00%)
Net OPEB liability	\$ 4,549,492	\$ 4,379,491	\$ 4,215,393

Sensitivity of the District's Net OPEB Liability to Changes in Healthcare Cost Trend Rates. The following presents the District's net OPEB liability, as well as what the District's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower (4.00%) or a 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease Healthcare Cost Trend (6.50% Decreasing to 4.00%)	Current Healthcare Cost Trend (7.50% Decreasing to 5.00%)	1% Increase To Healthcare Cost Trend (8.50% Decreasing to 6.00%)
Net OPEB liability	\$ 4,267,188	\$ 4,379,491	\$ 4,502,869

Rate of Return. The annual money-weighted rate of return on plan investments (demand deposits), net of plan investment expense for the OPEB account was 0.54%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the change in amounts actually invested.

ELKHORN AREA SCHOOL DISTRICT
Elkhorn, Wisconsin

Notes to Financial Statements
June 30, 2017
(Continued)

9. Limitation on School District Revenues

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

- A resolution of the school board or by referendum prior to August 12, 1993
- A referendum on or after August 12, 1993
- In November 2016, a referendum passed authorizing the District to exceed the revenue limit for the 2018-2019 school year and thereafter by \$300,000 for recurring purposes consisting of operational, maintenance, staffing and equipment costs for District facilities.

10. Risk Management

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

11. Commitments and Contingencies

From time to time, the District is involved in legal actions, most of which normally occur in governmental operations. Legal actions are generally defended by the District's various insurance carriers, since most claims brought against the District are covered by insurance policies. In the opinion of District management, any legal actions and any other proceedings known to exist at June 30, 2017 are not likely to have a material adverse impact on the District's financial position.

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

The District has a transportation contract for standard school-year transportation, exceptional education needs transportation, extra-curricular transportation and summer school transportation which runs through the 2021/22 school year. Regular daily service fees range from \$246 to \$289 per run. Summer school transportation ranges from \$241 to \$277 per run. Extra-curricular transportation range from \$97 to \$111 per run and exceptional education needs transportation ranges from \$236 to \$294 per run.

12. Related-Party Transactions

The spouse of a District school board member is a partner with a law firm which provides various legal services to the District; the sum of \$9,946 was paid to this law firm during the year ended June 30, 2017. Based upon the recommendation of other legal counsel, the District has implemented procedures to avoid potential conflict of interest issues.

ELKHORN AREA SCHOOL DISTRICT
Elkhorn, Wisconsin

Notes to Financial Statements
June 30, 2017
(Continued)

13. Self-Funded Insurance Program

The District has a self-funded dental benefit plan for its employees. The Plan administrators, Delta Dental, Inc. (administrator), are responsible for the approval, processing, and payment of claims, after which it bills the District for reimbursement. The District is also responsible for a monthly administrative fee. The plan reports on a fiscal year ending June 30, 2017.

Accounting and budgeting requirements for the Plan are established by the Wisconsin Department of Public Instruction. Currently, the Plan is accounted for in the General Fund of the District.

The District has no stop-loss coverage for dental care coverage of the Plan.

At June 30, 2017, the District has reported a liability of \$76,582, which represents reported and unreported dental claims which were incurred on or before June 30, 2017 but were not paid by the District as of that date. This amount consists of \$29,766 of claims which were not yet reported to either the plan administrator or the District. The amounts not reported to the District were determined by the plan administrator. Changes in the claims liability for the year ended June 30, 2017 are as follows:

	Year Ended June 30, 2016
Estimated claims outstanding July 1	\$ 76,066
Current year claims and changes in estimates	417,303
Claim payments	<u>(416,787)</u>
Estimated claims outstanding June 30	<u>\$ 76,582</u>

14. Risks and Uncertainties

The District has investments in various investment securities which are exposed to various risks of loss including, but not limited to, interest rates, credit and overall market volatility risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in the values of securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of net position in future periods.

15. Construction Commitment

The District entered into contracts in the amount of \$18,301,364 (some of which were approved subsequent to year end) related to the \$22,900,000 referendum for the purpose of acquisition of land for site improvements and the creation of and improvements to outdoor athletic facilities for school and community use; related site improvements at the high school and middle school including construction of new agricultural greenhouse facilities, remodeling and renovation of the auditorium, academic and gymnasium spaces and construction of a new multi-use athletic center; renovation of unfinished areas of the 1887 building; and acquisition of furnishings, fixtures and equipment. At June 30, 2017, a total of \$2,699,705 was completed on the project.

ELKHORN AREA SCHOOL DISTRICT
Elkhorn, Wisconsin

Notes to Financial Statements
June 30, 2017
(Continued)

16. Effect of New Accounting Standards on Financial Statements

The Government Accounting Standards Board (GASB) has approved the following:

- GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions*
- GASB Statement No. 81, *Irrevocable Split Interest Agreements*
- GASB Statement No. 82, *Pension Issues – an Amendment of GASB Statement No. 67, No. 68 and No. 73*
- GASB Statement No. 83, *Certain Asset Retirement Issues*
- GASB Statement No. 84, *Fiduciary Activities*
- GASB Statement No. 85, *Omnibus 2017*
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*
- GASB Statement No. 87, *Leases*

When they become effective, application of these standards may restate portions of these financial statements.

17. GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than pensions*

The Government Accounting Standards Board has issued Statement No. 75 which will require the District to accrue its net OPEB liability on its statement of net position, effective for the year ending June 30, 2018. GASB Statement No. 75 defines the liability as the actuarial value of projected future benefit payments that is attributable to past periods of employee service. As of July 1, 2016 (the most recent measurement date) the District's unfunded OPEB liability was \$4,379,491.

REQUIRED SUPPLEMENTARY INFORMATION

ELKHORN AREA SCHOOL DISTRICT

Elkhorn, Wisconsin

Budgetary Comparison Schedule

General Fund

Year Ended June 30, 2017

	Fund 10 Budget			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Local	\$ 14,210,934	\$ 14,210,934	\$ 14,254,717	\$ 43,783
Interdistrict payments	2,855,235	2,855,235	2,879,352	24,117
State	16,537,805	16,537,805	16,532,689	(5,116)
Federal	492,195	492,195	477,423	(14,772)
Other	36,000	36,000	322,439	286,439
Total revenues	34,132,169	34,132,169	34,466,620	334,451
Expenditures:				
Instruction:				
Current	18,956,400	18,956,400	18,941,014	15,386
Interdistrict	880,382	880,382	962,721	(82,339)
Capital outlay	135,043	135,043	299,348	(164,305)
Support Services:				
Current	10,815,976	10,815,976	10,820,908	(4,932)
Capital outlay	43,708	43,708	24,705	19,003
Debt service	37,500	37,500	17,042	20,458
Total expenditures	30,869,009	30,869,009	31,065,738	(196,729)
Excess of revenues over expenditures	3,263,160	3,263,160	3,400,882	137,722
Other Financing Sources (uses):				
Operating transfers	(3,263,160)	(3,263,160)	(3,067,752)	195,408
Net change in fund balances	---	---	333,130	333,130
Fund Balances - Beginning of year	8,221,551	8,221,551	8,221,550	---
Fund Balances - End of year	\$ 8,221,551	\$ 8,221,551	\$ 8,554,680	\$ 333,129

See Independent Auditors' Report and Accompanying
Notes to Required Supplementary Information

ELKHORN AREA SCHOOL DISTRICT

Elkhorn, Wisconsin

Budgetary Comparison Schedule

Special Education Fund

Year Ended June 30, 2017

	Fund 27 Budget			Variance with
	Original	Final	Actual	Final Budget
				Positive
				(Negative)
Revenues:				
Intermediate sources	\$ 20,000	\$ 20,000	\$ 43,961	\$ 23,961
State	800,000	800,000	817,011	17,011
Federal	759,632	759,632	694,204	(65,428)
Total revenues	1,579,632	1,579,632	1,555,176	(24,456)
Expenditures:				
Instruction:				
Current	2,863,314	2,863,314	2,798,910	64,404
Capital outlay	7,500	7,500	---	7,500
Support Services:				
Current	1,681,648	1,681,648	1,554,400	127,248
Total expenditures	4,552,462	4,552,462	4,353,310	199,152
Deficiency of revenues under expenditures	(2,972,830)	(2,972,830)	(2,798,134)	174,696
Other Financing Sources:				
Operating transfers	2,972,830	2,972,830	2,798,134	(174,696)
Total other financing sources	2,972,830	2,972,830	2,798,134	(174,696)
Net change in fund balances	---	---	---	---
Fund Balances - Beginning of year	---	---	---	---
Fund Balances - End of year	\$ ---	\$ ---	\$ ---	\$ ---

See Independent Auditors' Report and Accompanying
Notes to Required Supplementary Information

ELKHORN AREA SCHOOL DISTRICT
Elkhorn, Wisconsin

Schedule of Proportionate Share of the Net Pension Asset (Liability)
Year Ended June 30, 2017

Wisconsin Retirement System
Last 10 Fiscal Years*

	District's proportion of the net pension asset (liability)	District's proportionate share of the net pension asset (liability)	District's covered- employee payroll	Net pension asset (liability) as a percentage of employee payroll	Plan fiduciary net position as a percentage of total pension asset (liability)
2017	0.1264%	\$ (1,041,558)	\$ 18,558,256	5.61%	99.12%
2016	0.1269%	(2,061,641)	18,092,031	11.40%	98.20%
2015	0.1262%	3,100,944	17,276,953	17.95%	102.74%

*The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year

GASB Pronouncement 68 requires the presentation of the last ten prior fiscal years completed under this pronouncement. The fiscal years completed prior to the enactment of this pronouncement are not required to be presented in this schedule.

Schedule of Employer Contributions
Year Ended June 30, 2017

Wisconsin Retirement System
Last 10 Fiscal Years*

	Contractually required contributions	Contributions in relation to the contractually required contributions	Contribution deficiency (excess)	District's covered- employee payroll	Contributions as a percentage of covered-employee payroll
2017	\$ 1,224,847	\$ 1,224,847	\$ ---	\$ 18,558,256	6.60%
2016	1,230,251	1,230,251	---	18,092,031	6.80%
2015	1,209,393	1,209,393	---	17,276,953	7.00%

*The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year

GASB Pronouncement 68 requires the presentation of the last ten prior fiscal years completed under this pronouncement. The fiscal years completed prior to the enactment of this pronouncement are not required to be presented in this schedule.

See Independent Auditors' Report and Accompanying
Notes to Required Supplementary Information

ELKHORN AREA SCHOOL DISTRICT

Elkhorn, Wisconsin

Schedule of Funding Progress

Year Ended June 30, 2017

<u>Actuarial Valuation Date</u>	<u>Actuarial Valuation of Plan Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
July 1, 2011	\$ 508,169	\$ 10,382,512	\$ 9,874,343	4.89%	\$ 15,896,000	62.12%
July 1, 2013	709,800	5,810,800	5,101,000	12.22%	16,239,000	31.41%
July 1, 2015	710,854	5,462,130	4,751,276	13.01%	17,260,060	27.53%

The data presented in this schedule was taken from the report issued by the actuary, except for covered payroll which was provided by the District.

Schedule of Employer Contributions

Year Ended June 30, 2017

<u>Year Ended June 30,</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percent Contributed</u>
2010	\$ 1,971,619	\$ 982,284	49.82%
2011	1,971,619	1,006,441	51.05%
2012	996,140	1,295,080	130.01%
2013	996,140	1,318,223	132.33%
2014	520,504	1,010,289	194.10%
2015	520,504	918,982	176.56%
2016	559,646	894,600	159.85%
2017	559,646	890,348	159.09%

See Independent Auditors' Report and Accompanying
Notes to Required Supplementary Information

ELKHORN AREA SCHOOL DISTRICT

Elkhorn, Wisconsin

Schedule of Changes in Net OPEB Liability and Related Ratios

Year Ended June 30, 2017

Last 10 Fiscal Years*

	<u>2017</u>
Total OPEB Liability	
Service cost	\$ 150,399
Interest	159,157
Benefit payments	<u>(894,600)</u>
Net change in total OPEB liability	<u>(585,044)</u>
Total OPEB liability - beginning	<u>5,677,329</u>
Total OPEB liability - ending (a)	<u><u>\$ 5,092,285</u></u>
Fiduciary Net Position	
Contributions - employer	\$ 894,600
Net investment income	1,940
Benefit payments	<u>(894,600)</u>
Net change in fiduciary net position	<u>1,940</u>
Fiduciary net position - beginning	<u>710,854</u>
Fiduciary net position - ending (b)	<u><u>\$ 712,794</u></u>
Net OPEB liability - ending (a) - (b)	<u><u>\$ 4,379,491</u></u>
Fiduciary net position as a percentage of covered-employee payroll	14.00%
Covered-employee payroll	14,450,301
Net OPEB liability as a percentage of covered-employee payroll	30.31%

*The amounts presented for each fiscal year were determined as of the measurement date of June 30, 2016.

*GASB Pronouncement 74 requires the presentation of the last ten prior fiscal years completed under this pronouncement. The fiscal years completed prior to the enactment of this pronouncement are not required to be presented in this schedule.

Schedule of Investment Returns

Year Ended June 30, 2017

Last 10 Fiscal Years*

Annual money-weighted rate of return on demand deposits, net of investment expense: 0.54%

*GASB Pronouncement 74 requires the presentation of the last ten prior fiscal years completed under this pronouncement. The fiscal years completed prior to the enactment of this pronouncement are not required to be presented in this schedule.

See Independent Auditors' Report and Accompanying Notes to Required Supplementary Information.

ELKHORN AREA SCHOOL DISTRICT

Elkhorn, Wisconsin

Notes to Required Supplementary Information

June 30, 2017

Note A - Budgetary Information

Budgetary information is derived from the annual operating budget and is presented using the same basis of accounting for each fund as described in Note 1.D to the financial statements; however, the District adopts a budget for the special education fund which is reported with the general fund in accordance with accounting principles generally accepted in the United States of America ("GAAP"). 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 Fund</u>	<u>Special Education Fund</u>
Revenues		
Actual amounts (budgetary basis)	\$ 34,466,620	\$ 1,555,176
Reclassification of special education	1,555,176	(1,555,176)
Total revenues (GAAP)	<u>36,021,796</u>	<u>---</u>
Expenditures		
Actual amounts (budgetary basis)	31,065,738	4,353,310
Reclassification of special education	4,353,310	(4,353,310)
Total Expenditures (GAAP)	<u>35,419,048</u>	<u>---</u>
Excess of Revenues Over (Under) Expenditures		
Actual amounts (budgetary basis)	3,400,882	(2,798,134)
Reclassification of special education	(2,798,134)	2,798,134
Excess of Revenues Over (Under) Expenditures (GAAP)	<u>602,748</u>	<u>---</u>
Other Financing Sources (Uses)		
Actual amounts (budgetary basis)	(3,067,752)	2,798,134
Reclassification of special education	2,798,134	(2,798,134)
Total Other Financing Sources (Uses) (GAAP)	<u>(269,618)</u>	<u>---</u>
Net Change in Fund Balance		
Actual amounts (budgetary basis and GAAP)	333,130	---
Fund Balance - Beginning of Year		
Actual amounts (budgetary basis and GAAP)	<u>8,221,550</u>	<u>---</u>
Fund Balance - End of Year		
Actual amounts (budgetary basis and GAAP)	<u>\$ 8,554,680</u>	<u>\$ ---</u>

ELKHORN AREA SCHOOL DISTRICT
Elkhorn, Wisconsin

Notes to Required Supplementary Information
June 30, 2017
(Continued)

Note B - Excess of Actual Expenditures Over Budget in Individual Funds

The following major fund functions had an excess of actual expenditures over budget for the year ended June 30, 2017:

General Fund:

Fund 10:

Regular curriculum	\$	305,721
Vocational curriculum		106,282
Physical curriculum		95,221
Co-curricular activities		5,739
Instructional staff services		88,238
Other retiree payments		88,933
Purchased instructional services		100,982
Other non-program transactions		5,121

Fund 27:

Other retiree payments		24,086
------------------------	--	--------

The excess expenditures were funded by current year revenues and other functions that had expended less than was budgeted.

Note C – WRS Information

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

Note D – Other Post-Employment Benefit Plan Information

There were no changes to other post-employment benefit plan that significantly affect trends in amounts reported.

Methods and assumptions used in calculating net OPEB liability include:

Actuarial Valuation Date:	July 1, 2015
Measurement Date:	June 30, 2016
Actuarial Cost Method:	Entry Age Normal
Medical care trend	7.50% decreasing by 0.5% per year down to 6.50%, then by 0.10% per year down to 5.0%, and level thereafter
Discount Rate:	4.00%

OTHER SUPPLEMENTARY INFORMATION

ELKHORN AREA SCHOOL DISTRICT

Elkhorn, Wisconsin

**Combining Balance Sheet
Nonmajor Governmental Funds**

June 30, 2017

	<u>Special Revenue Funds</u>					<u>Debt Service</u>	<u>Total</u>
	<u>Special Revenue</u>	<u>Food Service</u>	<u>Package- Cooperative</u>	<u>Community Service</u>			
Assets							
Investments	\$ 290,200	\$ 503,945	\$ 16,876	\$ 129,452	\$ 842,153	\$ 1,782,626	
Accounts receivable	25,334	160	---	---	---	25,494	
Due from other governments	---	16,728	31,776	---	---	48,504	
Inventory	---	22,472	---	---	---	22,472	
Prepaid expense	---	394	3,731	---	---	4,125	
Total assets	\$ 315,534	\$ 543,699	\$ 52,383	\$ 129,452	\$ 842,153	\$ 1,883,221	
Liabilities and fund balances							
Liabilities:							
Accounts payable	\$ 5,735	\$ 4,225	\$ 41,203	\$ 2,150	\$ ---	\$ 53,313	
Withholdings and related payable	---	14,090	6,884	3,755	---	24,729	
Accrued payroll	---	1,544	434	---	---	1,978	
Deposits payable	---	22,746	3,862	---	---	26,608	
Total liabilities	5,735	42,605	52,383	5,905	---	106,628	
Fund Balances:							
Nonspendable	---	22,866	---	---	---	22,866	
Restricted	309,799	478,228	---	123,547	842,153	1,753,727	
Total fund balances	309,799	501,094	---	123,547	842,153	1,776,593	
Total liabilities and fund balances	\$ 315,534	\$ 543,699	\$ 52,383	\$ 129,452	\$ 842,153	\$ 1,883,221	

See Independent Auditors' Report.

ELKHORN AREA SCHOOL DISTRICT

Elkhorn, Wisconsin

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Governmental Funds

Year Ended June 30, 2017

	<u>Special Revenue Funds</u>					<u>Total</u>
	<u>Special Revenue</u>	<u>Food Service</u>	<u>Package-Cooperative</u>	<u>Community Service</u>	<u>Debt Service</u>	
Revenues:						
Local	\$ 524,559	\$ 598,336	\$ 1,636	\$ 135,000	\$ 4,644,650	\$ 5,904,181
Interdistrict payments within Wisconsin	---	---	386,013	---	---	386,013
State	---	24,883	---	---	---	24,883
Federal	---	705,881	34,238	---	---	740,119
Other	---	---	---	---	16,815	16,815
Total revenues	<u>524,559</u>	<u>1,329,100</u>	<u>421,887</u>	<u>135,000</u>	<u>4,661,465</u>	<u>7,072,011</u>
Expenditures:						
Instruction:						
Current	428,202	---	449,371	---	---	877,573
Capital outlay	22,641	---	---	---	---	22,641
Support Services:						
Current	14,652	1,289,066	231,299	116,712	---	1,651,729
Capital outlay	---	110,955	---	---	---	110,955
Debt service	---	---	---	---	4,795,103	4,795,103
Total expenditures	<u>465,495</u>	<u>1,400,021</u>	<u>680,670</u>	<u>116,712</u>	<u>4,795,103</u>	<u>7,458,001</u>
Excess (deficiency) of revenues over (under) expenditures	59,064	(70,921)	(258,783)	18,288	(133,638)	(385,990)
Other Financing Sources :						
Operating transfers in	---	---	258,783	---	10,835	269,618
Premium on issuance of bonds	---	---	---	---	487,923	487,923
Total other financing sources	<u>---</u>	<u>---</u>	<u>258,783</u>	<u>---</u>	<u>498,758</u>	<u>757,541</u>
Net change in fund balances	59,064	(70,921)	---	18,288	365,120	371,551
Fund Balances - Beginning of year	<u>250,735</u>	<u>572,015</u>	<u>---</u>	<u>105,259</u>	<u>477,033</u>	<u>1,405,042</u>
Fund Balances - End of year	<u>\$ 309,799</u>	<u>\$ 501,094</u>	<u>\$ ---</u>	<u>\$ 123,547</u>	<u>\$ 842,153</u>	<u>\$ 1,776,593</u>

See Independent Auditors' Report.

ELKHORN AREA SCHOOL DISTRICT

Elkhorn, Wisconsin

Schedule of Charter School Authorizer Operating Costs

Year Ended June 30, 2017

	<u>WUFAR Object Code</u>		
Operating Activity:			
Employee Salaries	100	\$	780
Employee Benefits	200		-
Purchased Services	300		-
Non-Capital Objects	400		-
Capital Objects	500		-
Total		<u>\$</u>	<u>780</u>

See Independent Auditors' Report.

ELKHORN AREA SCHOOL DISTRICT

Elkhorn, Wisconsin

Agency Funds - Schedule of Changes in Assets and Liabilities

Year Ended June 30, 2017

	<u>Balance</u> <u>7/1/16</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/17</u>
ASSETS				
Cash	\$ 53,061	\$ 333,272	\$ 321,147	\$ 65,186
LIABILITIES AND NET ASSETS				
Due to student groups:				
Elkhorn High School	\$ 41,717	\$ 318,878	\$ 307,901	\$ 52,694
Jackson Elementary	4,805	3,317	1,489	6,633
Middle School	3,479	6,109	5,553	4,035
Tibbets Elementary	2,207	4,832	4,503	2,536
West Side Elementary	394	111	1,518	(1,013)
Due to student groups - unallocated interest	459	25	183	301
Total liabilities	<u>\$ 53,061</u>	<u>\$ 333,272</u>	<u>\$ 321,147</u>	<u>\$ 65,186</u>

See Independent Auditors' Report.

ELKHORN AREA SCHOOL DISTRICT

Elkhorn, Wisconsin

Schedule of Expenditures of State Awards

Year Ended June 30, 2017

Awarding Agency	Identifying	State	Accrued or		State	Accrued or		
Pass-Through Agency	Number of	I.D.	(Unearned)		Disbursements/	(Unearned)	Subrecipient	
Award Description	Entity	Number	Revenue at	Receipts	Expenditures	Revenue at	Awards	
			July 1, 2016			June 30, 2017		
WI Dept. of Public Instruction								
Special education and school-age parents**	641638-100	255.101	\$ ---	\$ 817,011	\$ 817,011	\$ ---	\$ ---	
State school lunch	641638-107	255.102	---	14,492	14,492	---	---	
Common school fund library aid	641638-104	255.103	---	99,109	99,109	---	---	
Bilingual/bicultural aid	641638-111	255.106	---	26,832	26,832	---	---	
Pupil transportation	641638-102	255.107	---	61,743	61,743	---	---	
School day milk program	641638-115	255.109	---	1,264	1,264	---	---	
Equalization aids	641638-116	255.201	258,302	17,370,863	17,376,527	263,966	---	
School breakfast program	641638-108	255.344	---	9,128	9,128	---	---	
Tuition payments by State (LEA) Fund 10	641638-157	255.401	---	4,208	4,208	---	---	
Educator Effective Eval Sys Grant Public	641638-154	255.940	9,440	28,560	19,120	---	---	
Career and Technical Education Incentive Grants	641638-151	255.950	---	17,300	17,300	---	---	
Per pupil adjustment aid	641638-113	255.945	454,950	1,214,700	759,750	---	---	
Assessments of reading readiness	641638-166	255.956	---	5,697	5,697	---	---	
Robotics league participation grants	641638-167	255.959	---	---	2,671	2,671	---	
Total WI Dept. of Public Instruction			722,692	19,670,907	19,214,852	266,637	---	
Total			\$ 722,692	\$ 19,670,907	\$ 19,214,852	\$ 266,637	\$ ---	

** Total DPI aidable expenditures for the year ended June 30, 2017 were \$3,324,783

ELKHORN AREA SCHOOL DISTRICT
Elkhorn, Wisconsin

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

Awarding Agency Pass-Through Agency Award Description	Identifying Number of Pass-through Entity	Federal Catalog Number	Accrued or (Unearned) Revenue at July 1, 2016	Receipts	Federal Disbursements/ Expenditures	Accrued or (Unearned) Revenue at June 30, 2017	Subrecipient Awards
U.S. Department of Agriculture							
<i>Child Nutrition Cluster</i>							
Passed through Wisconsin Department of Public Instruction:							
Food Service Aid - Breakfast	2017-641638-SB-546	10.553	\$ 6,939	\$ 147,433	\$ 140,494	\$ ---	\$ ---
Donated Commodities - noncash	N/A	10.555	---	94,313	94,313	---	---
Food Service Aid - Lunch	2017-641638-NSL-547	10.555	20,945	475,290	471,073	16,728	---
Total U.S. Department of Agriculture - Child Nutrition Cluster			27,884	717,036	705,880	16,728	---
U.S. Department of Education							
Passed through Wisconsin Department of Public Instruction:							
ESEA Title I-A Basic	17-641638-Title I-141	84.010	14,207	302,606	328,079	39,680	---
<i>Special Education Cluster (IDEA)</i>							
IDEA Flow Through	2017-641638-IDEA-341	84.027	77,531	440,599	540,388	177,320	---
Autism Evidence Based Practice Grant	2017-641638-IDEA-342	84.027A	2,854	2,854	---	---	---
IDEA Pre-school Entitlement	17-641638-Pre-S-347	84.173	---	3,255	3,761	506	---
Passed through CESA #2:							
IDEA Flow Through	2017-749902-IDEA-342	84.027	---	1,604	1,604	---	---
Passed through CESA #11:							
IDEA Flow Through	2017-749911-IDEA-342	84.027	---	500	500	---	---
Total Special Education Cluster (IDEA)			80,385	448,812	546,253	177,826	---
ESEA Title III-A English Language	17-641638-Title III A-391	84.365	3,736	18,288	26,483	11,931	---
ESEA Title II-A Teacher Principal Training	17-641638-Title II-365	84.367	11,847	63,632	57,696	5,911	---
Passed through Lake Geneva School District:							
Carl Perkins	2017-642884-CP-CTE-400	84.048	---	2,594	2,594	---	---
Total U.S. Department of Education			110,175	835,932	961,105	235,348	---
U.S. Department of Health and Human Services							
Passed through Wisconsin Department of Public Instruction:							
inSPIRE Teen Parents Dropout Prevention	17-641638-InSPIRE-591	93.500	24,049	33,714	41,441	31,776	---
Passed through Wisconsin Department of Health Services							
<i>Medicaid Cluster</i>							
Medical Assistance Program	44222200	93.778	---	206,754	208,045	1,291	---
Total U.S. Department of Health and Human Services			24,049	240,468	249,486	31,776	---
Total			\$ 162,108	\$ 1,793,436	\$ 1,916,471	\$ 283,852	\$ ---

See Independent Auditors' Report and Accompanying Notes to Schedules of Expenditures of State and Federal Awards.

ELKHORN AREA SCHOOL DISTRICT
Elkhorn, Wisconsin

Notes to Schedules of Expenditures of State and Federal Awards
Year Ended June 30, 2017

1. Basis of Presentation

The accompanying schedules of expenditures of state and federal awards (the "Schedules") includes the federal and state award activity of the District under programs of the federal and state government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the *Wisconsin State Single Audit Guidelines*. Therefore some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements. All federal and state awards received directly from federal and state agencies as well as federal and state financial awards passed through other government agencies are included on the schedule.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedules are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, the cost principles contained in the Uniform Guidance and *Wisconsin State Single Audit Guidelines*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

3. Indirect Cost Rate

The District has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

4. Noncash awards

The federal donated commodities in the Child Nutrition Cluster is administered by the U.S. Department of Agriculture and passed through the Wisconsin Department of Public Instruction and transactions relating to this program are included in the District's basic financial statements. Commodities received during the year are included in the expenditures presented in the Schedule. There are no balances outstanding as of June 30, 2017.

David A. Grotkin
Joel A. Joyce
Brian J. Mechenich
Carrie A. Gindt



Patrick G. Hoffert
Jason J. Wrasse
Joshua T. Bierbach

**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**

Board of Education
Elkhorn Area School District
Elkhorn, Wisconsin

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Elkhorn Area School District (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 28, 2017.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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 as 2017-001 in the accompanying schedule of findings and questioned costs 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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

November 28, 2017
Milwaukee, Wisconsin

David A. Grotkin
Joel A. Joyce
Brian J. Mechenich
Carrie A. Gindt



Patrick G. Hoffert
Jason J. Wrasse
Joshua T. Bierbach

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

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

Report on Compliance for Each Major Program

We have audited the Elkhorn Area School District's (the "District") compliance with the types of compliance requirements described in OMB Compliance Supplement and the *Wisconsin State Single Audit Guidelines* 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, 2017. 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 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; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform guidance) and the *Wisconsin State Single Audit Guidelines*. Those standards and *Uniform Guidance* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal 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 on the District's compliance.

Opinion on Each Major 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, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the *Uniform Guidance* and the *Wisconsin State Single Audit Guidelines* and which are described in the accompanying schedule of findings and questioned costs as item 2017-002. Our opinion on each major federal and state program is not modified with respect to this matter.

The District's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 *Wisconsin 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. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2017-001 that we consider to be a significant deficiency.

The District's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

ELKHORN AREA SCHOOL DISTRICT
Elkhorn, Wisconsin

Schedule of Prior Audit Findings
Year Ended June 30, 2017

Reference Number: 2016-001
Description: Audit Adjustments

Criteria: Statements on Auditing Standards AU §314.41 states it is the responsibility of management to implement proper internal controls to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting.

Condition: One or more audit adjustments were required to prevent the District's financial statements from being misstated.

Effect: Without the audit adjustment(s), the financial statements of the District would have been misstated.

Cause: Changes in staff combined with capital projects including related debt issuance led to one or more year-end adjustments for infrequent activities. Adequate controls over infrequent activities were not in place to ensure the proper recording of all the District's financial transactions in accordance with accounting principles generally accepted in the United States of America.

Auditors' Recommendation: We recommend management review the nature of these entries in order to determine if these types of adjustments could be made during the year as part of the ordinary financial reporting process. This would reduce the likelihood of this comment in the future and also increase the accuracy of interim financial statements.

Status: Repeat finding, see 2017-001

Reference Number: 2016-002
Description: Special Education and School-Age Parents

Condition and Criteria: The District recorded salary and benefits of one paraprofessional to project 011 that were not properly licensed per DPI's special education licensing requirements.

Effect: The District charged disallowed costs to project 011.

Questioned Costs: \$23,407 in salaries and benefits

Cause: This occurred because the District did not follow DPI's instructions regarding special education licensing requirements and allowable costs.

Recommendation: The District should review DPI's report: *Valid Reporting and License Codes for Special Education Staff*. The District should also review personnel files regularly, to ensure that employees are properly licensed.

Status: Repeat finding, see 2017-002

ELKHORN AREA SCHOOL DISTRICT
Elkhorn, Wisconsin

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

Section 1 - Summary of Auditors' Results

Financial Statements

- | | |
|---|------------|
| 1. Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP: | Unmodified |
| 2. Internal control over financial reporting: | |
| A. Material weakness(es) identified? | No |
| B. Significant deficiencies identified not considered to be material weakness(es)? | Yes |
| 3. Noncompliance material to financial statements? | No |

Federal Awards

- | | |
|---|------------|
| 4. Internal control over major programs: | |
| A. Material weakness(es) identified? | No |
| B. Significant deficiencies identified not considered to be material weakness(es)? | No |
| 5. Type of auditor's report issued on compliance for major programs: | Unmodified |
| 6. Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance? | No |

7. Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027	<u>Special Education Cluster</u>
84.173	IDEA Flow-through IDEA Preschool Entitlement

- | | |
|--|-----------|
| 8. Dollar threshold used to distinguish between type A and type B programs | \$750,000 |
| 9. Auditee qualified as low-risk auditee? | Yes |

ELKHORN AREA SCHOOL DISTRICT
Elkhorn, Wisconsin

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

A. Summary of Auditors Results (continued)

State Awards

10. Internal control over financial reporting:	
A. Material weakness(es) identified?	No
B. Significant deficiencies identified not considered to be material weakness(es)?	Yes
11. Type of auditors' report issued on compliance for major programs:	Unmodified
12. Any audit findings disclosed that are required to be reported in accordance with Wisconsin State Single Audit Guidelines?	Yes
13. Dollar threshold used to distinguish Type A and Type B programs	\$250,000
14. Identification of major state programs:	
<u>State ID</u>	<u>Name of State Program or Cluster</u>
255.201	Equalization Aid

Section II - Financial Statement Findings

Reference Number: 2017-001
Description: Audit Adjustments

Criteria: Statements on Auditing Standards AU §314.41 states it is the responsibility of management to implement proper internal controls to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting.

Condition: One or more audit adjustments were required to prevent the District's financial statements from being misstated.

Cause: Changes in staff led to year-end adjustments. Adequate controls over year-end closing activities were not in place to ensure the proper recording of all of the District's financial transactions in accordance with accounting principles generally accepted in the United States of America.

Effect: Without the audit adjustment(s), the financial statements of the District would have been misstated.

Auditors' Recommendation: We recommend management review the nature of these entries in order to determine if these types of adjustments could be made during the year as part of the ordinary financial reporting process. This would reduce the likelihood of this comment in the future and also increase the accuracy of interim financial statements.

View of responsible officials: See attached corrective action plan.

ELKHORN AREA SCHOOL DISTRICT
Elkhorn, Wisconsin

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

Section III - Federal and State Award Findings and Questioned Costs

Finding 2017-002 Special Education and School-Age Parents

Department: Wisconsin Department of Public Instruction
Program Name: Special Education and School-Age Parents
State ID Number: 255.101

Condition and Criteria: The District recorded salary and benefits of one paraprofessional to project 011 that were not properly licensed per DPI's special education licensing requirements.

Effect: The District charged disallowed costs to project 011.

Questioned Costs: \$25,826 in salaries and benefits

Cause: This occurred because the District did not follow DPI's instructions regarding special education licensing requirements and allowable costs.

Recommendation: The District should review DPI's report: *Valid Reporting and License Codes for Special Education Staff*. The District should also review personnel files regularly, to ensure that employees are properly licensed.

View of responsible officials: See attached corrective action plan.

Section IV – Other Issues

- | | |
|---|-----------------------|
| 1. Does the auditors' report or the notes to the financial statements include disclosures with regard to 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 noncompliance, nonmaterial noncompliance, questioned costs, material weakness, significant deficiency, management letter comment, excess revenue or excess reserve) related to grants/contracts with funding agencies that require audits to be in accordance with the <i>Wisconsin State Single Audit Guidelines</i> :

Department of Public Instruction | Yes |
| 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 | <hr/> Carrie A. Gindt |
| 5. Date of Report | November 28, 2017 |



JASON K. TADLOCK
District Administrator

WILLIAM TREWYN
District Business Manager

RITA GEILFUSS
Director of Pupil Services

AMY GEE
K-5 Director of Instruction & Gate

SARAH BOSCH
6-12 Director of Instruction

TRISHA SPENDE
Director of Online & Blended
Learning

Corrective Action Plan

Reference Number: 2017-001

Description: Section II Financial Statement Findings (Audit Adjustments)

Corrective Action Plan: The District has implemented a system of reconciliation and review to reduce the need for audit entries.

Anticipated Corrective Action Plan Completion Date: Ongoing.

Contact Information: For additional information regarding this finding please contact Mr. Trewyn District Business Manager at 262/723-3160.

Sincerely,

William Trewyn

Business Manager



JASON K. TADLOCK
District Administrator
WILLIAM TREWYN
District Business Manager
RITA GEILFUSS
Director of Pupil Services
AMY GEE
K-5 Director of Instruction & Gate
SARAH BOSCH
6-12 Director of Instruction
TRISHA SPENDE
Director of Online & Blended Learning

Corrective Action Plan

Reference Number: 2017-002

Description: Section II Federal and State Award Findings and questionable Costs

Corrective Action Plan: The District will implement procedures to ensure that all Special Education Paraprofessionals have current DPI licenses on file

Anticipated Corrective Action Plan Completion Date: Ongoing.

Contact Information: For additional information regarding this finding please contact Mr. Trewyn District Business Manager at 262/723-3160.

Sincerely,

William Trewyn

Business Manager