

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Audited Financial Statements**  
Year Ended June 30, 2015

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**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Audited Financial Statements**  
Year Ended June 30, 2015

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## Independent Auditors' Report

To the School Board  
Merton Community School District  
Merton, 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 Merton Community School District ("District") as of and for the year ended June 30, 2015, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 previously 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, 2015, 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.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The financial information listed in the table of contents as other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedules of expenditures of state and federal awards are presented for purposes of additional analysis as required by *The Wisconsin Public School District Audit Manual* issued by the Wisconsin Department of Public Instruction, and are 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

## **Change in Accounting Principle**

As discussed in Notes 1.I and 15 to the financial statements, during the year ended June 30, 2015, the District adopted new accounting guidance, GASB Statement 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 05, 2015 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 05, 2015  
Milwaukee, Wisconsin

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Statement of Net Position**  
June 30, 2015

	<b>Governmental Activities</b>
<b>Assets:</b>	
<b>Current assets:</b>	
Cash and investments	\$ 2,720,607
Taxes receivable	997,762
Due from employee benefits trust	51,071
Due from other governments	272,251
Prepaid expense	33,951
<b>Total current assets</b>	4,075,642
<b>Noncurrent assets:</b>	
Net pension asset	865,566
<b>Capital assets:</b>	
Nondepreciable	708,822
Depreciable, net of accumulated depreciation	7,583,730
<b>Total capital assets</b>	8,292,552
<b>Total noncurrent assets</b>	9,158,118
<b>Total assets</b>	13,233,760
<b>Deferred Outflow of Resources:</b>	
Deferred outflows related to pensions	751,692
<b>Liabilities:</b>	
<b>Current liabilities:</b>	
Accounts payable	113,275
Withholdings and related fringes payable	215,920
Accrued interest	13,736
Accrued payroll	584,070
Deposits payable	1,759
Unearned revenues	25,339
Current portion of long-term debt	430,000
<b>Total current liabilities</b>	1,384,099
<b>Noncurrent liabilities:</b>	
Long-term obligations	1,997,902
Other post-employment benefits	54,036
<b>Total noncurrent liabilities</b>	2,051,938
<b>Total liabilities</b>	3,436,037
<b>Net Position:</b>	
Net investment in capital assets	6,947,552
Restricted for:	
WRS pension	1,617,258
Debt service	60,452
Capital projects	500,303
Food service	24,157
Unrestricted	1,399,693
<b>Total net position</b>	\$ 10,549,415

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

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Statement of Activities**  
Year Ended June 30, 2015

	<b>Program Revenues</b>			<b>Net</b>
<b><u>Expenses</u></b>	<b><u>Charges for</u></b>	<b><u>Operating</u></b>		<b>(Expenses)</b>
	<b><u>Services</u></b>	<b><u>Grants and</u></b>		<b>Revenues and</b>
		<b><u>Contributions</u></b>		<b>Changes in</b>
				<b><u>Net Position</u></b>
<b>Governmental activities:</b>				
Instruction:				
Regular instruction	\$ 4,784,786	\$ 879,573	\$ 109,346	\$ (3,795,867)
Special education instruction	975,820	34,305	461,360	(480,155)
Other instruction	256,507	---	---	(256,507)
Total instruction	6,017,113	913,878	570,706	(4,532,529)
Support services:				
Pupil services	222,231	---	---	(222,231)
Instructional staff services	369,234	---	30,453	(338,781)
Administration services	896,448	---	---	(896,448)
Operation and maintenance of plant	844,542	27,960	---	(816,582)
Pupil transportation	238,424	12,710	22,092	(203,622)
Central services	175,022	---	---	(175,022)
Other support services	168,598	---	---	(168,598)
Food service	262,864	252,372	18,845	8,353
Interest on long-term debt	74,344	---	---	(74,344)
Unallocated depreciation	411,709	---	---	(411,709)
Total support services	3,663,416	293,042	71,390	(3,298,984)
<b>Total school district</b>	\$ 9,680,529	\$ 1,206,920	\$ 642,096	(7,831,513)

**General revenues:**

Taxes:

Property taxes, levied for general purposes	4,021,010
Property taxes, levied for debt service	427,500
Property taxes, levied for specific purposes	200,000
Federal and state aid not restricted to specific purposes:	
General	4,488,580
Other	6,876
Interest and investment earnings	3,584
Miscellaneous	25,122
	1,341,159

Changes in net position	1,341,159
Net position - beginning of year	7,553,313
Prior period adjustment	22,841
Adjustment due to change in accounting principle	1,632,102
Net position - beginning of year as adjusted	9,208,256
Net position - end of year	\$ 10,549,415

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

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Balance Sheet**  
**Governmental Funds**  
June 30, 2015

	<u>General</u>	<u>Capital Projects</u>	<u>Non-major Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Cash and investments	\$ 2,148,892	\$ 400,303	\$ 171,412	\$ 2,720,607
Taxes receivable	997,762	---	---	997,762
Due from employee benefits trust	51,071	---	---	51,071
Due from other funds	---	100,000	---	100,000
Due from other governments	271,522	---	729	272,251
Prepaid expense	33,230	---	721	33,951
<b>Total assets</b>	<b>\$ 3,502,477</b>	<b>\$ 500,303</b>	<b>\$ 172,862</b>	<b>\$ 4,175,642</b>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 96,333	\$ ---	\$ 16,942	\$ 113,275
Withholdings and related fringes payable	215,920	---	---	215,920
Accrued payroll	584,070	---	---	584,070
Due to other funds	100,000	---	---	100,000
Deposits payable	1,759	---	---	1,759
Unearned revenues	14,532	---	10,807	25,339
<b>Total liabilities</b>	<b>1,012,614</b>	<b>---</b>	<b>27,749</b>	<b>1,040,363</b>
<b>Fund Balances:</b>				
Nonspendable	33,230	---	721	33,951
Restricted	---	500,303	144,392	644,695
Unassigned	2,456,633	---	---	2,456,633
<b>Total fund balances</b>	<b>2,489,863</b>	<b>500,303</b>	<b>145,113</b>	<b>3,135,279</b>
 <b>Total liabilities and fund balances</b>	 <b>\$ 3,502,477</b>	 <b>\$ 500,303</b>	 <b>\$ 172,862</b>	 <b>\$ 4,175,642</b>

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

**MERTON COMMUNITY SCHOOL DISTRICT**

Merton, Wisconsin

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

June 30, 2015

**Total fund balances - governmental funds** \$ 3,135,279

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	\$ 18,096,761	
Accumulated depreciation	<u>(9,804,209)</u>	8,292,552

The District made less than the required annual contribution to fund their post-employment benefit liability resulting in a liability. Its post-employment benefit liability is not currently payable and thus not reported in the governmental funds. (54,036)

The District's proportionate share of the WRS net pension asset is reported as a noncurrent asset. This is reported as an asset on the statement of net position, but is not reported in the governmental funds. 865,566

Deferred outflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds. 751,692

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:

Notes payable	1,345,000	
Retirement stipends	<u>1,082,902</u>	(2,427,902)

Accrued interest payable on the bonds is not due and payable in the current period and therefore is not reported as a liability in the governmental funds. (13,736)

**Total net position - governmental activities** \$ 10,549,415

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

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
Year Ended June 30, 2015

	<u>General</u>	<u>Capital Projects</u>	<u>Non-major Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Local	\$ 4,240,198	\$ 200,135	\$ 749,194	\$ 5,189,527
Interdistrict payments within Wisconsin	740,007	---	---	740,007
Intermediate sources	77	---	---	77
State	4,796,406	---	---	4,796,406
Federal	251,703	---	18,845	270,548
Other	25,123	---	---	25,123
Total revenues	10,053,514	200,135	768,039	11,021,688
 <b>Expenditures:</b>				
Instruction:				
Current	5,625,861	---	23,383	5,649,244
Interdistrict	376,066	---	---	376,066
Capital outlay	25,820	---	---	25,820
Support Services:				
Current	3,023,893	---	287,720	3,311,613
Capital outlay	539,656	---	---	539,656
Debt service	---	---	733,530	733,530
Total expenditures	9,591,296	---	1,044,633	10,635,929
Excess (deficiency) of revenues over (under) expenditures	462,218	200,135	(276,594)	385,759
 <b>Other Financing Sources (uses):</b>				
Operating transfers in	---	100,100	304,613	404,713
Operating transfers out	(404,713)	---	---	(404,713)
Total other financing sources (uses)	(404,713)	100,100	304,613	---
Net change in fund balances	57,505	300,235	28,019	385,759
Fund Balances - Beginning of year	2,432,358	200,068	117,094	2,749,520
Fund Balances - End of year	\$ 2,489,863	\$ 500,303	\$ 145,113	\$ 3,135,279

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

MERTON COMMUNITY SCHOOL DISTRICT

Merton, Wisconsin

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

Year Ended June 30, 2015

**Total net change in fund balances - governmental funds** \$ 385,759

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 expenses.

Depreciation expense	\$ (411,709)	
Capital outlays	<u>565,476</u>	153,767

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.

Bonds payable	340,000	
Notes payable	<u>315,000</u>	655,000

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.

19,882

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.

District pension contributions	322,485	
Cost of benefits earned net of employee contributions	<u>(337,329)</u>	(14,844)

In the statement of activities retirement stipends 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.

135,895

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

5,700

**Change in net position of governmental activities** \$ 1,341,159

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

**MERTON COMMUNITY SCHOOL DISTRICT**

Merton, Wisconsin

**Statement of Fiduciary Net Position**

June 30, 2015

	<b><u>Employee</u></b>	<b><u>Agency</u></b>
	<b><u>Benefit Trusts</u></b>	<b><u>Fund</u></b>
<b>Assets:</b>		
Cash and investments	\$ 165,069	\$ 12,112
<b>Liabilities:</b>		
Accounts payable	---	2,501
Due to student groups	---	9,611
Due to other funds	51,071	---
<b>Total liabilities</b>	<u>51,071</u>	<u>12,112</u>
<b>Net Position:</b>		
Restricted	113,998	---
<b>Total net position</b>	<u>\$ 113,998</u>	<u>\$ ---</u>

**Statement of Changes in Fiduciary Net Position**

Year Ended June 30, 2015

	<b><u>Employee</u></b>
	<b><u>Benefit Trusts</u></b>
<b>Additions:</b>	
Net investment income	\$ 268
Contributions to employee benefit trust	<u>14,521</u>
Total additions	14,789
<b>Deductions:</b>	
Trust fund disbursements	<u>65,592</u>
Change in net position	(50,803)
Net position - June 30, 2014	<u>164,801</u>
Net position - June 30, 2015	<u>\$ 113,998</u>

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

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Notes to Financial Statements**  
June 30, 2015

**1. Summary of Significant Accounting Policies**

**A. Introduction**

The Merton Community School District ("District") is organized as a common school district. The District, governed by a five-member elected school board, is fiscally independent with taxing and borrowing powers. Services provided by the District are primary and special 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 established by GAAP and used by the District are discussed below.

**B. Component Units**

GAAP 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 nonexchange 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 expenditures relating to it have been incurred. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Notes to Financial Statements**  
June 30, 2015  
(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 accounts for the financial resources of the District to be used for capital expenditures related to buildings and sites.

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 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. Nonexchange 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 resources 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.

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Notes to Financial Statements**  
June 30, 2015  
(Continued)

**1. Summary of Significant Accounting Policies (Continued)**

**E. Deposits and Investments**

The District's cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition. Cash and investment balances for individual funds are pooled unless maintained in segregated accounts.

State statutes permit the District to invest available cash balances, other than debt services funds, in time deposits of authorized depositories, U.S. Treasury obligations, U.S. agency issues, high grade commercial paper, and the local government pooled investment fund administered by the state investment board. Available balances in the Debt Service Fund may be invested in municipal obligations, obligations of the United States, and the local government pooled-investment fund.

**F. Receivables and Payables**

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, Waukesha 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 allowance would not be material.

The current portion of lending/borrowing arrangements between funds is identified as due to/from other funds. The noncurrent 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 does not have any advances between funds.

**G. Interfund Transactions**

Individual fund transfers and interfund receivables and payable activity for the year ending June 30, 2015 are as follows:

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Transfers:			
Debt payment	Debt Service	General	\$ 304,613
Establish capital projects trust fund	Capital Projects	General	100,100
			<u>\$ 404,713</u>
Due to/from:			
Retiree benefits	General	Employee Benefit Trust	\$ 51,071
Establish capital projects trust fund	Capital Projects	General	100,000
			<u>\$ 151,071</u>

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Notes to Financial Statements**  
June 30, 2015  
(Continued)

**1. Summary of Significant Accounting Policies (Continued)**

**H. 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 expenses 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:

	<b>Capitalization Threshold</b>	<b>Depreciation Method</b>	<b>Estimated Useful Life</b>
Buildings	\$ 500	Straight-line	50 years
Land improvements	500	Straight-line	20 years
Equipment and furniture	500	Straight-line	5 - 20 years

**I. Adoption of New Accounting Guidance**

The District implemented GASB Statement 68, *Accounting and Financial Reporting for Pensions*. See Notes 8 and 15 for additional information.

**J. Net Position**

Under GASB, the District classifies net position in the government-wide financial statements as follows:

- Net Investment in Capital Assets – includes the District’s capital assets (net of accumulated depreciation) reduced by the outstanding balances of any borrowings attributable to the acquisition, construction or improvement for those assets.
- Restricted Net Position – includes balances that have limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.
- Unrestricted Net Position – the residual classification for the General Fund for balances that do not fall into the other two categories and deficit balances within other funds.

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

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Notes to Financial Statements**  
June 30, 2015  
(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:

- *Nonspendable* - amounts that cannot be spent either because they are in nonspendable form 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 legislation 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 School Board prior to year-end. The School Board 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. The District has not adopted a resolution to delegate authority to assign amounts to any individual or body.
- *Unassigned* - all other spendable amounts.

*Order of Fund Balance Spending Policy:* The District has not established an order of fund balance spending policy.

**L. Deferred Outflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows. This 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 net pension asset. More detailed information can be found in Note 8.

**M. Accumulated Unpaid Vacation and Sick Pay**

The District's policy does not allow accumulated vacation and sick pay benefits to vest. Unused accumulated vacation and sick pay benefits are forfeited upon retirement or termination of employment. These benefits are recorded as an expenditure in the year used. No accumulated amount is recorded as a liability in the government-wide financial statements.

**N. Estimates**

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

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Notes to Financial Statements**  
June 30, 2015  
(Continued)

**1. Summary of Significant Accounting Policies (Continued)**

**O. Other Assets**

Expendable supplies or non-capital items acquired for initial use in subsequent fiscal periods are recorded as prepaid expenses. Prepaid insurance represents payments made by the District for which benefits extend beyond June 30<sup>th</sup> and have not yet been earned by the recipient. Prepaid supplies are valued at cost using the first-in, first-out (FIFO) method.

**P. Pensions**

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

**Q. Subsequent Events**

Management has evaluated subsequent events for possible recognition or disclosure through the date the financial statements were available to be distributed (November 05, 2015). Except for the information in Notes 3 and 13 regarding building improvement projects, there were no subsequent events that required recognition or disclosure.

**2. Cash and Investments**

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

	<b>Amount</b>	<b>Risks</b>
Cash and investments		
Demand deposits	\$ 2,831,556	Custodial
Petty cash	75	
Local Government Investment Pool	66,157	Custodial
<b>Total cash and investments</b>	<b>\$ 2,897,788</b>	

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

Statement of net position:	
Cash and investments	\$ 2,720,607
Statement of fiduciary net position:	
Cash and investments:	
Employee benefit trust	165,069
Agency fund	12,112
<b>Total cash and investments</b>	<b>\$ 2,897,788</b>

Investments are stated at fair value which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income.

The District has not adopted an investment policy.

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Notes to Financial Statements**  
June 30, 2015  
(Continued)

**2. Cash and Investments (Continued)**

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.

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000. Deposits and the Wisconsin Local Government Investment Pool are also insured by the State Deposit Guarantee Fund 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 (LGIP) are covered under a surety bond issued by Financial Security Assurance, Inc. The bond insures 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.

The LGIP does not have a credit quality rating. It is part of the State of Wisconsin Investment Fund (SIF) and is managed by the State of Wisconsin Investment Board. The LGIP is not registered with the Securities and Exchange Commission, but operated under the statutory authority of Wisconsin Chapter 25. The SIF reports the fair value of its underlying assets annually. Funds invested in the LGIP are due to the District on demand. The District has relied on data provided by the LGIP for the valuation of pooled investments.

**Custodial Risk – Deposits:** 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 demand deposits and LGIP was \$2,897,713 at June 30, 2015 and the bank's carrying value was \$2,958,514, all of which was fully insured. The District does not have a policy regarding custodial risk for deposits.

**Custodial Risk – Investment:** Is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have any investments exposed to custodial risk.

**Interest Rate Risk:** As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy limits the maturity of any security to no more than seven years from the date of purchase or in accordance with state statutes. The District does not have a policy regarding interest rate risk.

**Credit Risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The District does not have a policy regarding credit risk.

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Notes to Financial Statements**  
June 30, 2015  
(Continued)

**3. Capital Assets**

Capital asset balances and activity for the year ended June 30, 2015 were as follows:

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Transfers &amp; Adjustments</u>	<u>Balance June 30, 2015</u>
Capital assets not being depreciated					
Land	\$ 708,822	\$ ---	\$ ---	\$ ---	\$ 708,822
Capital assets being depreciated					
Buildings	13,110,859	122,494	---	89,587	13,322,940
Site improvements	818,899	350,936	---	(78,511)	1,091,324
Equipment	2,871,407	92,046	---	10,222	2,973,675
Total capital assets being depreciated	16,801,165	565,476	---	21,298	17,387,939
Less accumulated depreciation	9,391,577	411,709	---	923	9,804,209
Total capital assets being depreciated, Net of accumulated depreciation	7,409,588	153,767	---	20,375	7,583,730
Governmental activities capital assets, Net of accumulated depreciation	\$ 8,118,410	\$ 153,767	\$ ---	\$ 20,375	\$ 8,292,552

The transfers and adjustments column includes \$89,587 reclassified from site improvements to buildings and a prior period adjustment of \$20,375 to capitalize equipment acquired by the District in previous years but not appearing on the appraisal report until the current year. More information on the prior period adjustment can be found in Note 15.

Depreciation expense was all charged to unallocated depreciation on the statement of activities.

Subsequent to year-end, the District spent \$99,500 on an HVAC system project.

**4. Tax and Revenue Anticipation Promissory Note**

The District issues tax and revenue anticipation promissory notes in advance of property tax collections. The fiscal year begins July 1, but tax collections from the municipalities are received beginning the following January. The District's short-term debt activity for the year ending June 30, 2015 is as follows:

<u>Description</u>	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2015</u>
Tax and Revenue Anticipation Note	\$ 895,000	\$ ---	\$ 895,000	\$ ---

The note was dated November 5, 2013, due October 30, 2014, with an interest rate of 0.52%. Interest for the year ended June 30, 2015 was \$1,514. The note is for general district operation.

**5. Line of Credit**

The District has a \$350,000 line of credit from Town Bank with a maturity date of November 1, 2015. No draws may be made on the line of credit subsequent to June 30, 2015. The line bears an interest rate of 2.5% plus one month LIBOR. There were no draws or payments associated with this line of credit during the fiscal year and no balance was outstanding at June 30, 2015.

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Notes to Financial Statements**  
June 30, 2015  
(Continued)

**6. Long-Term Obligations**

Long-term obligations of the District are as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>	<b>Amounts Due Within One Year</b>
Bonds payable	\$ 340,000	\$ ---	\$ 340,000	\$ ---	\$ ---
Notes payable	1,660,000	---	315,000	1,345,000	430,000
Retirement stipends	1,218,797	210,454	346,349	1,082,902	---
<b>Total long-term obligations</b>	<b>\$ 3,218,797</b>	<b>\$ 210,454</b>	<b>\$ 1,001,349</b>	<b>\$ 2,427,902</b>	<b>\$ 430,000</b>

Total interest paid and expensed (including accrual) during the year for the year ended June 30, 2015 on long-term liabilities was \$77,744 and \$72,045, respectively.

**General Obligation Debt**

All general obligation debt is secured by the full faith and credit and unlimited taxing powers of the District. 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, 2015 is comprised of the following individual issues:

<b>Description</b>	<b>Issue Dates</b>	<b>Interest Rates (%)</b>	<b>Dates of Maturity</b>	<b>Original Indebtedness</b>	<b>Balance</b>
G.O. Promissory Note	1/5/09	3.875 – 4.125%	4/1/18	3,000,000	\$ 1,345,000

The 2014 equalized valuation of the District as certified by the Wisconsin Department of Revenue is \$744,421,919. The legal debt limit and margin of indebtedness as of June 30, 2015, in accordance with Section 67.03(1)(b) of the Wisconsin Statutes follows:

Debt limit (5% of \$744,421,919)	\$ 37,221,096
Deduct long-term debt applicable to debt margin	1,345,000
Margin of indebtedness	<u>\$ 35,876,096</u>

Aggregate cash flow requirements for the retirement of long-term principal and interest on general obligation debt as of June 30, 2015 follow:

<b>Year Ended June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2016	\$ 430,000	\$ 54,944	\$ 484,944
2017	450,000	37,744	487,744
2018	465,000	19,181	484,181
<b>Total</b>	<b>\$ 1,345,000</b>	<b>\$ 111,869</b>	<b>\$ 1,456,869</b>

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Notes to Financial Statements**  
June 30, 2015  
(Continued)

**7. Fund Balances**

As of June 30, 2015, fund balance components other than unassigned fund balances consist of the following:

	<u>Nonspendable</u>	<u>Restricted</u>
General fund:		
Prepaid expenses	\$ 33,230	\$ ---
Special revenue trust	---	60,504
Debt service	---	60,452
Capital projects	---	500,303
Food service:		
Prepaid expenses	721	---
Food service program	---	23,436
<b>Total</b>	<b>\$ 33,951</b>	<b>\$ 644,695</b>

**8. Defined Benefit Pension Plan**

**Plan Description**

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

**Vesting**

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

**Benefits Provided**

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

Final average earnings is the average of the participant's three highest years' earnings. Creditable services 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 are 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.

WRS also provides death and disability benefits for employees.

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Notes to Financial Statements**  
June 30, 2015  
(Continued)

**8. Defined Benefit Pension Plan (Continued)**

**Post-Retirement Adjustments**

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

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

<u>Year</u>	<u>Core Fund Adjustment</u>	<u>Variable Fund Adjustment</u>
2005	2.6%	7%
2006	0.8	3
2007	3.0	10
2008	6.6	0
2009	(2.1)	(42)
2010	(1.3)	22
2011	(1.2)	11
2012	(7.0)	(7)
2013	(9.6)	9
2014	4.7	25

**Contributions**

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

During the reporting period (calendar year 2014), the WRS recognized \$322,485 in contributions from the employer.

Contribution rates as of June 30, 2015 are:

<u>Employee Category</u>	<u>Employee</u>	<u>Employer</u>
General (including teachers)	6.8%	6.8%
Executives & Elected Officials	7.7%	7.7%
Protective with Social Security	6.8%	9.5%
Protective without Social Security	6.8%	13.1%

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Notes to Financial Statements**  
June 30, 2015  
(Continued)

**8. Defined Benefit Pension Plan (Continued)**

**Pension Liabilities, Pension Expense and Deferred Outflows of Resources**

At June 30, 2015, the District reported an asset of \$865,566 for its proportionate share of the net pension asset. The net pension asset was measured as of December 31, 2014, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013 rolled forward to December 31, 2014. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The District's proportion of the net pension asset was based on the District's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2014, the District's proportion was 0.0352%, which was a decrease of 0.0021% from its proportion measured as of December 31, 2013.

For the year ended June 30, 2015, the District recognized pension expense of \$337,329.

At June 30, 2015, the District reported deferred outflows of resources related to pensions from the following sources:

		<b>Deferred Outflows of Resources</b>
Differences between expected and actual experience	\$	125,480
Changes in assumptions		---
Net difference between projected and actual earnings on pension plan investments		419,149
Changes in proportion and differences between employer contributions and proportionate share of contributions		48,931
Employer contributions subsequent to the measurement date		158,132
<b>Total</b>	<b>\$</b>	<b>751,692</b>

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

\$158,132 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, 2016. Other amounts reported as deferred outflows of resources related to pension will be recognized in pension expense as follows:

<b>Year Ended June 30,</b>		<b>Deferred Outflows of Resources</b>
2016	\$	116,211
2017		116,211
2018		116,211
2019		116,211
2020		116,211
Thereafter		12,505

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Notes to Financial Statements**  
June 30, 2015  
(Continued)

**8. Defined Benefit Pension Plan (Continued)**

**Actuarial Assumptions**

The total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date:	December 31, 2013
Measurement Date of Net Pension Liability (Asset)	December 31, 2014
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% - 5.8%
Mortality:	Wisconsin 2012 Mortality Table
Post-retirement Adjustments*	2.1%

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

Actuarial assumptions are based upon an experience study conducted in 2012 using experience from 2009 – 2011. The total pension liability for December 31, 2014 is based upon a roll-forward of the liability calculated from the December 31, 2013 actuarial valuation.

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

<u>Asset Class</u>	<u>Long-Term Real Rate of Return</u>	<u>Target Allocation</u>
US Equities	5.3%	21%
International Equities	5.7	23
Fixed Income	1.7	36
Inflation Sensitive Assets	2.3	20
Real Estate	4.2	7
Private Equity/Debt	6.9	7
Multi-Asset	3.9	6
Cash	0.9	(20)

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Notes to Financial Statements**  
June 30, 2015  
(Continued)

**8. 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 3.56%. 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 (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.20 percent) or 1-percentage-point higher (8.20 percent) than the current rate:

	<b>1% Decrease to Discount Rate (6.20%)</b>	<b>Current Discount Rate (7.20%)</b>	<b>1% Increase To Discount Rate (8.20%)</b>
District's proportionate share of the net pension asset	\$ 2,441,911	\$ (865,566)	\$ (3,477,677)

*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://legis.wisconsin.gov/lab/> and reference report number 15-11.

Payables to the pension plan at June 30, 2015 were \$37,877. This represents contributions earned as of June 30, 2015, but for which payment was not remitted to the pension plan until subsequent to year-end.

**9. Other Post-Employment Benefits**

**Description of Plan**

The District administers a single-employer defined benefit healthcare plan. For teachers that retired prior to July 1, 2012, the plan provides medical, dental and/or life insurance benefits or contributions to an HSA/HRA for eligible retirees and their spouses. For teachers that retire after July 1, 2012, the plan allows the retirees to continue coverage in the group medical plan provided that the retiree self-pays the full premium amount required to continue coverage in the plan under COBRA up to a maximum of 18 months. This results in an other postemployment benefit (OPEB). The plan does not issue a publicly available report.

Eligible teachers may choose to continue coverage in the District's group medical plan provided that the retiree self-pays the full premium amount required to continue coverage in the plan under COBRA up to a maximum of 18 months. This results in an other postemployment benefit (OPEB) commonly referred to as implicit rate subsidy.

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Notes to Financial Statements**  
June 30, 2015  
(Continued)

**9. Other Post-Employment Benefits (Continued)**

The District also administers a single-employer defined benefit pension plan. The plan provides pension benefits through a non-contributory single employer defined pension plan covering eligible employees. The plan does not issue a publicly available report.

Eligible employees attaining at least age 55 and 12 years of service in the District are entitled to a retirement benefit (stipend) of 1% of their highest annual salary for a period of 60 months plus a one-time payout of \$6,000 (fiscal year 2013), \$4,000 (fiscal year 2014), \$2,000 (fiscal year 2015) and \$-0- thereafter. These contributions will be made to the retirees' TSA.

There is also one administrator, who upon resignation or retirement, will receive a monthly payout equal to 1.5% of their annual base wage (less any applicable FICA taxes and other payroll withholdings) for a period of 48 months.

Members of the plan consisted of the following at July 1, 2012, the date of the latest actuarial valuation:

Retirees	6
Active	<u>42</u>
Number of participating employees	<u><u>48</u></u>

**Funding Policy**

**OPEB**

The District is required to provide contributions on a pay-as-you-go basis. The Board of Education has established an irrevocable Employee Benefit Trust for funding the other post-employment benefit liability. Payments are expended in the general fund and the revenue is recorded in the Employee Benefit Trust Fund. For the year ended June 30, 2015, the District contributed \$-0- and retirees contributed \$14,521 into the trust. For fiscal year 2015, the District paid \$54,091 to eligible retirees. In addition, the District had an implicit rate subsidy that it "funded" for fiscal year 2015 in the amount of \$11,501.

**Stipend (Supplemental Pension)**

The District is required to provide contributions on a pay-as-you-go basis. Active plan members are required to contribute to the plan, the difference of their fixed benefit and the actual cost of the health insurance. For the year ended June 30, 2015, the District paid \$214,158 for the benefit of retirees.

**Annual OPEB and Stipend Costs and Recognized Obligation**

The District's annual other post-employment benefit (OPEB) and stipend costs (expenses) are 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 five years for OPEB and 10 years for Stipend.

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Notes to Financial Statements**  
June 30, 2015  
(Continued)

**9. Other Post-Employment Benefits (Continued)**

**Annual OPEB and Stipend Costs and Recognized Obligation (Continued)**

The following table shows the components of the District's OPEB and stipend costs for the year, the amount actually contributed to the plan, and changes in the District's net OPEB and stipend obligations:

	<u>OPEB</u>	<u>Stipend</u>	<u>Total</u>
Annual required contribution (ARC)	\$ 18,866	\$ 162,067	\$ 180,933
Interest on net OPEB/stipend obligation	2,935	48,386	51,321
Adjustment to ARC	(15,661)	(132,190)	(147,851)
Annual OPEB/ stipend cost	6,140	78,263	84,403
Contributions made	(26,022)	(214,158)	(240,180)
Change in net OPEB/ stipend obligation	(19,882)	(135,895)	(155,777)
Net OPEB/stipend obligation – beginning of year (1)	73,918	1,218,797	1,292,715
Net OPEB/stipend obligation – end of year	\$ 54,036	\$ 1,082,902	\$ 1,136,938

(1) An adjustment was made to the beginning of year OPEB obligation. See Note 14 for more information.

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 years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Costs Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2013	\$ (6,307)	639%	\$ 99,583
June 30, 2014	1,721	1,591%	73,918
June 30, 2015	6,140	423%	54,036

The District's annual stipend (supplement pension costs), the percentage of annual supplemental pension costs contributed to the plan, and the net supplemental pension benefits obligation for the most recent three years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual Supplemental Pension Cost</u>	<u>Percentage of Annual Supplemental Pension Costs Contributed</u>	<u>Net Supplemental Pension Obligation</u>
June 30, 2013	\$ 56,166	412%	\$ 1,364,732
June 30, 2014	68,228	314%	1,218,797
June 30, 2015	78,263	274%	1,082,902

**Funding Status and Funding Progress**

The funded status of the plan as of the most recent actuarial valuation date (July 1, 2012) and schedule of employer contributions can be found in the required supplementary information.

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Notes to Financial Statements**  
June 30, 2015  
(Continued)

**9. Other Post-Employment Benefits (Continued)**

**Actuarial Methods and Assumptions**

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.

The schedule of employer contributions in the required supplementary information presents trend information about the amounts contributed to the plan by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB.

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 to 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	7/1/12
Actuarial cost method	Unit credit
Amortization method	5 year open level percent (OPEB) 10 year open level percent (stipend)
Remaining amortization period	5 years (OPEB), 10 years (stipend)
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	3.97%
Level percent increases	3.00%
Medical care trend	10% decreasing by 1% per year down to 5%

**10. 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

**11. Risk Management**

The Merton Community School 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.

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Notes to Financial Statements**  
June 30, 2015  
(Continued)

**12. Operating Leases**

The District has leases on a number of its copiers. Payments on these leases for the year ended June 30, 2015 totaled \$14,883. Future payments on these leases are as follows:

<u>Year ended June 30,</u>		
2016	\$	14,883
2017		<u>14,883</u>
<b>Total</b>	\$	<u><b>29,766</b></u>

**13. 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, 2015 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 that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

In June 2015, the District committed to replacing roof top units in amount not to exceed \$78,333. The District has not incurred any costs related to this project subsequent to year-end.

Subsequent to year end, the District entered into several contracts to remodel the gym. Total project costs signed subsequent to year end are approximately \$285,000.

**14. Prior-Period Adjustment**

Certain adjustments have been made to the June 30, 2014 government activities net position. Accordingly, an adjustment was made during the year ended June 30, 2015 to increase the governmental activities net capital assets as of June 30, 2014. The purpose of the entry was to capitalize equipment acquired by the District in previous years but not appearing on the appraisal report until the current year. As a result, an adjustment of \$20,375 was made to increase the June 30, 2014 net position and to increase net capital assets. An adjustment of \$2,466 was also made to decrease the other post-employment benefit.

**15. Adjustment due to Change in Accounting Principle**

An adjustment of \$1,632,102 has been made to increase June 30, 2014 net position. The adjustment was a result of implementing GASB 68. The adjustment was to establish beginning balances for the net pension asset and deferred outflows related to pensions for the WRS multi-employer defined benefit plan. The corresponding entry was as follows:

Net pension asset	\$	1,471,208
Deferred outflows related to pensions		<u>160,894</u>
<b>Total</b>	\$	<u><b>1,632,102</b></u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**MERTON COMMUNITY SCHOOL DISTRICT**

Merton, Wisconsin

**Budgetary Comparison Schedule**

**General Fund**

Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance With Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Local	\$ 4,184,410	\$ 4,184,410	\$ 4,240,198	\$ 55,788
Interdistrict payments within Wisconsin	687,658	687,658	705,702	18,044
State	4,536,840	4,536,840	4,553,361	16,521
Federal	49,226	49,226	33,465	(15,761)
Other	12,894	12,894	25,123	12,229
Total revenues	<u>9,471,028</u>	<u>9,471,028</u>	<u>9,557,849</u>	<u>86,821</u>
<b>Expenditures:</b>				
Instruction:				
Current	4,751,200	4,751,200	4,725,068	26,132
Interdistrict	364,925	364,925	350,292	14,633
Capital outlay	58,304	58,304	25,820	32,484
Support Services:				
Current	3,066,882	3,066,882	2,813,611	253,271
Capital outlay	514,276	514,276	539,656	(25,380)
Total expenditures	<u>8,755,587</u>	<u>8,755,587</u>	<u>8,454,447</u>	<u>301,140</u>
Excess of revenues over expenditures	715,441	715,441	1,103,402	387,961
<b>Other Financing Sources (uses):</b>				
Operating transfers in (out)	(953,165)	(953,165)	(1,045,897)	(92,732)
Net change in fund balances	(237,724)	(237,724)	57,505	295,229
Fund Balances - Beginning of year	<u>2,432,358</u>	<u>2,432,358</u>	<u>2,432,358</u>	---
Fund Balances - End of year	<u>\$ 2,194,634</u>	<u>\$ 2,194,634</u>	<u>\$ 2,489,863</u>	<u>\$ 295,229</u>

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

**MERTON COMMUNITY SCHOOL DISTRICT**

Merton, Wisconsin

**Budgetary Comparison Schedule**

**Special Education Fund**

Year Ended June 30, 2015

	<u>Budget Amounts</u>			<b>Variance With</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<b>Final Budget</b>
				<b>Positive</b>
				<b>(Negative)</b>
<b>Revenues:</b>				
Interdistrict payments within Wisconsin	\$ 49,000	\$ 49,000	\$ 34,305	\$ (14,695)
Intermediate sources	---	---	77	77
State	240,000	240,000	243,045	3,045
Federal	253,000	253,000	218,238	(34,762)
Total revenues	542,000	542,000	495,665	(46,335)
<b>Expenditures:</b>				
Instruction:				
Current	874,794	874,794	900,793	(25,999)
Interdistrict	31,000	31,000	25,774	5,226
Capital outlay	6,880	6,880	---	6,880
Support Services:				
Current	176,247	176,247	210,282	(34,035)
Capital outlay	101,000	101,000	---	101,000
Total expenditures	1,189,921	1,189,921	1,136,849	53,072
Excess (deficiency) of revenues over expenditures	(647,921)	(647,921)	(641,184)	6,737
<b>Other Financing Sources (uses):</b>				
Operating transfers in (out)	647,921	647,921	641,184	(6,737)
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.

**MERTON COMMUNITY SCHOOL DISTRICT**

Merton, Wisconsin

**Schedule of Proportionate Share of the Net Pension Asset**

Year Ended June 30, 2015

Wisconsin Retirement System

Last 10 Fiscal Years\*

	<u>2015</u>	
District's proportion of the net pension asset	0.03524	%
District's proportionate share of the net pension asset	\$ 865,566	
District's covered-employee payroll	4,606,946	
Net pension asset as a percentage of covered payroll	18.79	%
Plan fiduciary net position as a percentage of total pension asset	102.74	%

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

\*GASB Pronouncements 67 and 68 require the presentation of the last 10 prior fiscal years completed under these pronouncements. The fiscal years completed prior to the enactment of these pronouncements are not required to be presented in this schedule.

**Schedule of Contributions**

Year Ended June 30, 2015

Wisconsin Retirement System

Last 10 Fiscal Years\*

	<u>2015</u>	
Contractually required contributions	\$ 322,485	
Contributions in relation to the contractually required contributions	322,485	
Contribution deficiency (excess)	---	
District's covered-employee payroll	4,606,946	
Contributions as a percentage of covered-employee payroll	7	%

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

\*GASB Pronouncements 67 and 68 require the presentation of the last 10 prior fiscal years completed under these pronouncements. The fiscal years completed prior to the enactment of these pronouncements are not required to be presented in this schedule.

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

**MERTON COMMUNITY SCHOOL DISTRICT**

Merton, Wisconsin

**Schedule of Funding Progress**

Year Ended June 30, 2015

<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>
<u>Post-employment healthcare</u>						
July 1, 2006	\$ ---	\$ 907,219	\$ 907,219	0.0%	\$ 4,586,229	19.8%
July 1, 2008	105,756	1,290,631	1,184,875	8.2%	5,146,368	23.0%
July 1, 2012	222,288	298,857	76,569	74.4%	4,438,089	1.7%
<u>Single employer defined benefit pension plan</u>						
July 1, 2005	\$ ---	\$ 1,982,896	\$ 1,982,896	0.0%	\$ 4,312,997	46.0%
July 1, 2008	---	2,636,611	2,636,611	0.0%	5,146,368	51.2%
July 1, 2012	---	1,283,861	1,283,861	0.0%	4,438,089	28.9%

1. The data presented in this schedule was taken from the calculation prepared by the report issued by the actuary, except the covered payroll data which was supplied by the District.

**Schedule of Employer Contributions**

Year Ended June 30, 2015

<u>Actuarial Valuation Date</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percent Contributed</u>
<u>Post-employment healthcare</u>			
July 1, 2006	\$ 143,444	\$ 117,624	82.0%
July 1, 2008	172,057	17,206	10.0%
July 1, 2012	18,866	40,326	213.7%
<u>Year Ended June 30,</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percent Contributed</u>
<u>Single employer defined benefit pension plan</u>			
2010	\$ 307,619	\$ 141,505	46.0%
2011	299,008	131,564	44.0%
2012	299,008	227,246	76.0%
2013	162,067	231,588	142.9%
2014	162,067	214,163	132.1%
2015	162,067	214,158	132.1%

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

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Notes to Required Supplemental Information**  
June 30, 2015

**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 generally accepted accounting principles. 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>
<b>Revenues</b>		
Actual amounts (budgetary basis)	\$ 9,557,849	\$ 495,665
Reclassification of special education	495,665	(495,665)
Total revenues (GAAP)	10,053,514	---
<b>Expenditures</b>		
Actual amounts (budgetary basis)	8,454,447	1,136,849
Reclassification of special education	1,136,849	(1,136,849)
Total expenditures (GAAP)	9,591,296	---
<b>Excess of Revenues Over (Under) Expenditures</b>		
Actual amounts (budgetary basis)	1,103,402	(641,184)
Reclassification of special education	(641,184)	641,184
Excess of revenues over (under) expenditures (GAAP)	462,218	---
<b>Other Financing Sources (Uses)</b>		
Actual amounts (budgetary basis)	(1,045,897)	641,184
Reclassification of special education	641,184	(641,184)
Total other financing sources (uses) (GAAP)	(404,713)	---
<b>Net Change in Fund Balance</b>		
Actual amounts (budgetary basis and GAAP)	57,505	---
<b>Fund Balance – Beginning of year</b>		
Actual amounts (budgetary basis and GAAP)	2,432,358	---
<b>Fund Balance – End of year</b>		
Actual amounts (budgetary basis and GAAP)	\$ 2,489,863	\$ ---

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Notes to Required Supplemental Information**  
June 30, 2015

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

The following general fund functions had an excess of actual expenditures over budget for the year ended June 30, 2015:

General Fund:

Undifferentiated curriculum	\$ 92,486
Other special needs	140
Pupil services	103
School building administration	2,420
Other support services	4,334
Transfers to another fund	92,732
Other non-program transactions	566

Special Education Fund:

Pupil services	8,489
General administration	648
Central services	1,211
Purchased instructional services	11,947
Other non-program transactions	4,921

The excess expenditures were covered by available current year revenues.

**Note C – Wisconsin Retirement System**

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

**OTHER SUPPLEMENTARY INFORMATION**

MERTON COMMUNITY SCHOOL DISTRICT

Merton, Wisconsin

**Combining Balance Sheet  
Nonmajor Governmental Funds**

June 30, 2015

	<b>Special Revenue <u>Trust</u></b>	<b>Food <u>Service</u></b>	<b>Debt <u>Service</u></b>	<b><u>Total</u></b>
<b>Assets:</b>				
Cash and investments	\$ 60,936	\$ 50,024	\$ 60,452	\$ 171,412
Due from other governments	---	729	---	729
Prepaid expense	---	721	---	721
<b>Total assets</b>	<b>\$ 60,936</b>	<b>\$ 51,474</b>	<b>\$ 60,452</b>	<b>\$ 172,862</b>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 432	\$ 16,510	\$ ---	\$ 16,942
Unearned revenues	---	10,807	---	10,807
<b>Total liabilities</b>	<b>432</b>	<b>27,317</b>	<b>---</b>	<b>27,749</b>
<b>Fund Balances:</b>				
Nonspendable	---	721	---	721
Restricted	60,504	23,436	60,452	144,392
<b>Total fund balances</b>	<b>60,504</b>	<b>24,157</b>	<b>60,452</b>	<b>145,113</b>
 <b>Total liabilities and fund balances</b>	 <b>\$ 60,936</b>	 <b>\$ 51,474</b>	 <b>\$ 60,452</b>	 <b>\$ 172,862</b>

See Independent Auditors' Report.

**MERTON COMMUNITY SCHOOL DISTRICT**

Merton, Wisconsin

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

**Nonmajor Governmental Funds**

Year Ended June 30, 2015

	<b>Special Revenue <u>Trust</u></b>	<b>Food <u>Service</u></b>	<b>Debt <u>Service</u></b>	<b><u>Total</u></b>
<b>Revenues:</b>				
Local	\$ 69,191	\$ 252,437	\$ 427,566	\$ 749,194
Federal	---	18,845	---	18,845
Total revenues	<u>69,191</u>	<u>271,282</u>	<u>427,566</u>	<u>768,039</u>
<b>Expenditures:</b>				
Instruction:				
Current	23,383	---	---	23,383
Support Services:				
Current	24,856	262,864	---	287,720
Debt service	---	---	733,530	733,530
Total expenditures	<u>48,239</u>	<u>262,864</u>	<u>733,530</u>	<u>1,044,633</u>
Excess (deficiency) of revenues over (under) expenditures	20,952	8,418	(305,964)	(276,594)
<b>Other Financing Sources:</b>				
Operating transfers in	---	---	304,613	304,613
Total other financing sources	---	---	304,613	304,613
Net change in fund balances	20,952	8,418	(1,351)	28,019
Fund Balances - Beginning of year	<u>39,552</u>	<u>15,739</u>	<u>61,803</u>	<u>117,094</u>
Fund Balances - End of year	<u><u>\$ 60,504</u></u>	<u><u>\$ 24,157</u></u>	<u><u>\$ 60,452</u></u>	<u><u>\$ 145,113</u></u>

See Independent Auditors' Report.

**MERTON COMMUNITY SCHOOL DISTRICT**

Merton, Wisconsin

**Agency Fund - Schedule of Changes in Assets and Liabilities**

June 30, 2015

	<b>Balance</b>		<b>Balance</b>
	<b><u>7/1/14</u></b>	<b><u>Additions</u></b>	<b><u>6/30/15</u></b>
<b>Assets:</b>			
Cash and investments	\$ 11,967	\$ 16,817	\$ 12,112
<b>Liabilities:</b>			
Accounts payable	\$ 14	\$ 2,501	\$ 2,501
Due to student groups:			
Merton Intermediate School	11,953	14,316	9,611
<b>Total liabilities</b>	<b>\$ 11,967</b>	<b>\$ 16,817</b>	<b>\$ 12,112</b>

See Independent Auditors' Report.

**MERTON COMMUNITY SCHOOL DISTRICT**

Merton, Wisconsin

**Schedule of Expenditures of State Awards**

Year Ended June 30, 2015

Awarding Agency	State	Accrued or		State	Accrued or
Pass-Through Agency	I.D.	(Unearned)		Disbursements/	(Unearned)
Award Description	<u>Number</u>	Revenue at	<u>Receipts</u>	<u>Expenditures</u>	Revenue at
		<u>7/1/14</u>			<u>6/30/15</u>
<b>WI Dept. of Public Instruction</b>					
Special education and school-age parents**	255.101	\$ ---	\$ 243,045	\$ 243,045	\$ ---
Common school fund library aid	255.103	---	30,453	30,453	---
Pupil transportation	255.107	---	22,092	22,092	---
Equalization aids	255.201	78,635	4,602,393	4,600,249	76,491
Educator effective evaluation system	255.940	---	5,360	5,360	---
Per pupil adjustment aid	255.945	---	131,175	131,175	---
Passed through School District of Cudahy					
Educator effective evaluation system	255.940	---	1,330	1,330	---
Passed through CESA 1:					
Special education and school-age parents	255.101	---	77	77	---
Total WI Dept. of Public Instruction		<u>78,635</u>	<u>5,035,925</u>	<u>5,033,781</u>	<u>76,491</u>
<b>Total state assistance</b>		<u>\$ 78,635</u>	<u>\$ 5,035,925</u>	<u>\$ 5,033,781</u>	<u>\$ 76,491</u>

\*\* Total DPI aidable expenditures for the year ended June 30, 2015 were \$867,991.

See Independent Auditors' Report.

**MERTON COMMUNITY SCHOOL DISTRICT**

Merton, Wisconsin

**Schedule of Expenditures of Federal Awards**

Year Ended June 30, 2015

Awarding Agency Pass-Through Agency Award Description	<u>Federal Catalog Number</u>	<u>Accrued or (Unearned) Revenue at 7/1/14</u>	<u>Receipts</u>	<u>Federal Disbursements/ Expenditures</u>	<u>Accrued or (Unearned) Revenue at 6/30/15</u>
<b>U.S. Department of Agriculture</b>					
Passed through Wisconsin Department of Public Instruction:					
Nutrition Cluster:					
Food Service Aid - Milk	10.556	\$ 901	\$ 19,017	\$ 18,845	\$ 729
<b>Total U.S. Department of Agriculture</b>		901	19,017	18,845	729
<b>U.S. Department of Education</b>					
Passed through Wisconsin Department of Public Instruction:					
Title I Cluster:					
ESEA Title IA Basic	84.010	39,370	39,370	33,465	33,465
Special Education Cluster:					
IDEA Flow Through	84.027	(56,409)	3,698	212,833	152,726
IDEA Discretionary	84.027	(448)	(448)	---	---
Improved Access for Students with Disabilities Through Portable Touchscreen Devices	84.027	11,440	11,440	---	---
IDEA Preschool Entitlement	84.173	3,606	3,606	5,405	5,405
Total Special Education Cluster		(41,811)	18,296	218,238	158,131
ESEA Title II-A Teacher Principal Training	84.367	2,475	2,475	---	---
<b>Total U.S. Department of Education</b>		34	60,141	251,703	191,596
<b>Total</b>		\$ 935	\$ 79,158	\$ 270,548	\$ 192,325

See Independent Auditors' Report.

**MERTON COMMUNITY SCHOOL DISTRICT**

Merton, Wisconsin

**Notes to Schedules of Expenditures of State and Federal Awards**

June 30, 2015

**1. General**

The accompanying schedules of expenditures of state and federal awards represent the activity of all federal and state financial awards programs of the District. 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. Basis of Accounting**

The accompanying schedules of expenditures of state and federal awards are presented using the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recorded as liabilities when incurred. The District applies all GASB pronouncements in accounting and reporting.

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

To the School Board  
Merton Community School District  
Merton, 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 Merton Community School District (the "District") as of and for the year ended June 30, 2015, 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 05, 2015.

**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 financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section as 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 deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting (2015-001).

## **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 responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

November 05, 2015  
Milwaukee, Wisconsin

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
FOR EACH MAJOR STATE PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE WISCONSIN DEPARTMENT OF PUBLIC INSTRUCTION**

To the School Board  
Merton Community School District  
Merton, Wisconsin

**Report on Compliance for Each Major State Program**

We have audited Merton Community School District's (the "District") compliance with the types of compliance requirements described in the *Wisconsin Public School District Audit Manual*, issued by the Wisconsin Department of Public Instruction, that could have a direct material effect on each of the District's designated state major aid programs for the year ended June 30, 2015. The District's designated state major aid programs are identified in the accompanying schedule of findings and responses.

**Management's Responsibility**

Compliance with the requirements of laws, regulations, contracts, and grants applicable to its designated major state aid programs is the responsibility of the District's management.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the District's major 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 compliance requirements of the Wisconsin Department of Public Instruction in the *Wisconsin Public School District Audit Manual*. Those standards and compliance requirements 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 the designated state major aid programs 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 designated major state program. However, our audit does not provide a legal determination on the District's compliance.

**Opinion on Each Major State Program**

In our opinion, the District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its designated major state aid programs for the year ended June 30, 2015.

## Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which are described in the accompanying schedule of findings and responses as item 2015-002. Our opinion on each major state program is not modified with respect to these matters.

The District's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and responses. 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.

## Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to the designated state major aid programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on the designated state major aid programs to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the *Wisconsin Public School District Audit Manual*, 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 designated state major aid 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 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 designated 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The 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 *Wisconsin Public School District Audit Manual*. Accordingly, this report is not suitable for any other purpose.

November 05, 2015  
Milwaukee, Wisconsin

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Schedule of Prior Audit Findings**  
Year Ended June 30, 2015

None

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Schedule of Findings and Responses**  
Year Ended June 30, 2015

**A. Summary of Auditor's Results**

**Financial Statements**

- |  |            |
|--|------------|
| 1. Type of auditor's report issued:  | Unmodified |
| 2. Internal control over financial reporting:  |            |
| A. Material weakness(es) identified?   | No         |
| B. Significant deficiency(ies) identified that are not considered to be material weakness? | Yes        |
| 3. Noncompliance material to financial statements?   | No         |

**State Awards**

- |  |            |
|--|------------|
| 4. Internal control over compliance:   |            |
| A. Material weakness(es) identified:   | No         |
| B. Significant deficiency(ies) identified that are not considered to be material weakness?                         | 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 State Single Audit Guidelines? | Yes        |
| 7. Identification of major programs:   |            |

<u>State ID Number</u>	<u>Name of State Program</u>
255.101	Special Education and School-Age Parents
255.201	Equalization Aid
255.945	Per Pupil Adjustment Aid

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Schedule of Findings and Responses**  
Year Ended June 30, 2015  
(Continued)

**B. Financial Statement Findings**

**Reference Number:** 2015-001  
**Description:** Financial Statement Preparation

*Criteria:* Statements on Auditing Standards AU §325.29 states it is a deficiency in the design of controls to have inadequate controls over the preparation of the financial statements being audited.

*Condition:* The financial statements of the District should be prepared in accordance with Generally Accepted Accounting Principles (GAAP). Preparation of the District's financial statements and footnote disclosures in accordance with GAAP requires a very high level of technical experience and expertise.

*Cause:* The District's staff does not have the necessary resources to properly apply GAAP in the preparation of these documents. The District has decided to rely on the technical experience and expertise of its auditors and have requested us to prepare the financial statements and footnote disclosures in accordance with GAAP.

*Effect:* The District's financial statements would be materially misstated and required footnote disclosures would be missing.

*Recommendation:* We recommend the District assign a staff member to review the financial statements prepared by its auditors.

*District Response:* The District will continue to rely on the expertise of an accounting firm to prepare the financial statements, as the cost of training is not feasible to the District. The District Business Manager, in conjunction with the District's finance committee, will review the financial statements in their entirety. To ensure the accuracy of the financial statements, the District will obtain the trial balance used by the auditors and compare that trial balance to Skyward and the values submitted to the Department of Public Instruction via the annual report.

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Schedule of Findings and Responses**  
Year Ended June 30, 2015  
(Continued)

**C. State Award Findings and Questioned Costs**

**Finding 2015-002 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 a special education aide to project 011 that was not properly licensed per DPI's special education licensing requirements.

*Effect:* The District charged disallowed costs to project 011.

*Questioned Costs:* \$17,567 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.

*District's Response:* The District started a new process where the business assistant will be checking to make sure all aides are appropriately licensed and help them through the licensing process. Starting in fiscal year 2017, the District will be creating an internal checklist for new hires that will include licensing. A timeframe will also be implemented, where aids will need to complete the licensing process within an allotted timeframe. If additional information related to this response is needed, one may contact Sarah Viera, Business Manager at 262-538-2227.

**D. Other Issues**

- |  |     |
|--|-----|
| 1. Does the auditor's report or the notes to the financial statements include disclosure with regard to substantial doubt as to the auditee's ability to continue as a going concern?  | No  |
| 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>State Single Audit Guidelines</i> :<br><br>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	_____ Brian J. Mechenich
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5. Date of Report	November 05, 2015
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