

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Audited Financial Statements**  
Year Ended June 30, 2016

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**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Audited Financial Statements**  
Year Ended June 30, 2016

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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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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, 2016, 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2016 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.

December 16, 2016  
Milwaukee, Wisconsin

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Statement of Net Position**  
June 30, 2016

	<b>Governmental Activities</b>
<b>Assets:</b>	
<b>Current assets:</b>	
Cash	\$ 2,842,416
Investments	66,286
Taxes receivable	1,057,220
Accounts receivable	18,285
Due from employee benefits trust	64,269
Due from other governments	510,930
Prepaid expense	8,662
<b>Total current assets</b>	4,568,068
 <b>Capital assets:</b>	
Nondepreciable	708,822
Depreciable, net of accumulated depreciation	7,519,278
<b>Total capital assets</b>	8,228,100
<b>Total assets</b>	12,796,168
 <b>Deferred Outflow of Resources:</b>	
Deferred outflows related to pensions	2,898,651
 <b>Liabilities:</b>	
<b>Current liabilities:</b>	
Accounts payable	90,297
Withholdings and related fringes payable	229,289
Accrued interest	9,437
Accrued payroll	555,035
Deposits payable	1,395
Unearned revenues	25,386
Current portion of long-term debt	450,000
<b>Total current liabilities</b>	1,360,839
 <b>Noncurrent liabilities:</b>	
Long-term obligations	465,000
Net pension liability	541,631
Accrued liability for retirement stipends	560,072
Accrued liability for other post-employment benefits	30,316
<b>Total noncurrent liabilities</b>	1,597,019
<b>Total liabilities</b>	2,957,858
 <b>Deferred Inflow of Resources:</b>	
Deferred inflows related to pensions	1,139,854
 <b>Net Position:</b>	
Net investment in capital assets	7,313,100
Restricted for:	
WRS pension	1,217,166
Debt service	104,296
Capital projects	872,134
Special revenue trust	36,231
Unrestricted	2,054,180
<b>Total net position</b>	\$ 11,597,107

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, 2016

		<b>Program Revenues</b>		<b>Net</b>
		<b>Charges for</b>	<b>Operating</b>	<b>(Expenses)</b>
	<b><u>Expenses</u></b>	<b><u>Services</u></b>	<b><u>Grants and</u></b>	<b><u>Revenues and</u></b>
			<b><u>Contributions</u></b>	<b><u>Changes in</u></b>
				<b><u>Net Position</u></b>
<b>Governmental activities:</b>				
Instruction:				
Regular instruction	\$ 4,861,642	\$ 876,763	\$ 109,873	\$ (3,875,006)
Special education instruction	1,078,473	73,110	366,940	(638,423)
Other instruction	284,771	---	---	(284,771)
Total instruction	6,224,886	949,873	476,813	(4,798,200)
Support services:				
Pupil services	247,842	---	---	(247,842)
Instructional staff services	461,293	---	36,102	(425,191)
Administration services	837,796	---	---	(837,796)
Operation and maintenance of plant	807,227	23,579	---	(783,648)
Pupil transportation	285,655	4,630	17,921	(263,104)
Central services	314,789	---	---	(314,789)
Other support services	30,385	---	---	(30,385)
Food service	312,235	264,379	16,984	(30,872)
Interest on long-term debt	51,007	---	---	(51,007)
Unallocated depreciation	423,460	---	---	(423,460)
Total support services	3,771,689	292,588	71,007	(3,408,094)
<b>Total school district</b>	\$ 9,996,575	\$ 1,242,461	\$ 547,820	(8,206,294)
 <b>General revenues:</b>				
Taxes:				
Property taxes, levied for general purposes				4,037,553
Property taxes, levied for debt service				529,000
Property taxes, levied for specific purposes				200,000
Federal and state aid not restricted to specific purposes:				
General				4,209,568
Other				5,517
Interest and investment earnings				3,003
Loss on disposal of assets				(167)
Adjustment for change in stipend estimate				207,708
Miscellaneous				61,804
				1,047,692
<b>Changes in net position</b>				1,047,692
<b>Net position - beginning of year</b>				10,549,415
<b>Net position - end of year</b>				\$ 11,597,107

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, 2016

	<u>General</u>	<u>Capital Projects</u>	<u>Non-major Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Cash	\$ 2,032,133	\$ 700,334	\$ 109,949	\$ 2,842,416
Investments	2,556	---	63,730	66,286
Taxes receivable	1,057,220	---	---	1,057,220
Accounts receivable	10,704	---	7,581	18,285
Due from employee benefits trust	64,269	---	---	64,269
Due from other funds	---	171,800	---	171,800
Due from other governments	508,567	---	2,363	510,930
Prepaid expense	8,662	---	---	8,662
<b>Total assets</b>	<b>\$ 3,684,111</b>	<b>\$ 872,134</b>	<b>\$ 183,623</b>	<b>\$ 4,739,868</b>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 62,201	\$ ---	\$ 28,096	\$ 90,297
Withholdings and related fringes payable	229,289	---	---	229,289
Accrued payroll	555,035	---	---	555,035
Due to other funds	171,800	---	---	171,800
Deposits payable	1,395	---	---	1,395
Unearned revenues	10,386	---	15,000	25,386
<b>Total liabilities</b>	<b>1,030,106</b>	<b>---</b>	<b>43,096</b>	<b>1,073,202</b>
<b>Fund Balances:</b>				
Nonspendable	8,662	---	---	8,662
Restricted	---	872,134	140,527	1,012,661
Assigned	128,200	---	---	128,200
Unassigned	2,517,143	---	---	2,517,143
<b>Total fund balances</b>	<b>2,654,005</b>	<b>872,134</b>	<b>140,527</b>	<b>3,666,666</b>
<b>Total liabilities and fund balances</b>	<b>\$ 3,684,111</b>	<b>\$ 872,134</b>	<b>\$ 183,623</b>	<b>\$ 4,739,868</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, 2016

**Total fund balances - governmental funds** \$ 3,666,666

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	\$ 18,330,249	
Accumulated depreciation	<u>(10,102,149)</u>	
		8,228,100

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. (30,316)

The District's proportionate share of the WRS net pension liability is reported as a noncurrent liability. This is reported as a liability on the statement of net position, but is not reported in the governmental funds. (541,631)

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds. 1,758,797

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	915,000	
Retirement stipends	<u>560,072</u>	
		(1,475,072)

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. (9,437)

**Total net position - governmental activities** \$ 11,597,107

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, 2016

	<u>General</u>	<u>Capital Projects</u>	<u>Non-major Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Local	\$ 4,246,494	\$ 200,031	\$ 875,413	\$ 5,321,938
Interdistrict payments within Wisconsin	757,540	---	---	757,540
State	4,488,336	---	---	4,488,336
Federal	190,125	---	16,984	207,109
Other	61,804	---	---	61,804
<b>Total revenues</b>	<u>9,744,299</u>	<u>200,031</u>	<u>892,397</u>	<u>10,836,727</u>
<b>Expenditures:</b>				
Instruction:				
Current	5,601,646	---	18,970	5,620,616
Interdistrict	335,901	---	---	335,901
Support Services:				
Current	3,178,781	---	325,560	3,504,341
Capital outlay	285,737	---	73,438	359,175
Debt service	---	---	485,307	485,307
<b>Total expenditures</b>	<u>9,402,065</u>	<u>---</u>	<u>903,275</u>	<u>10,305,340</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	342,234	200,031	(10,878)	531,387
<b>Other Financing Sources (Uses):</b>				
Operating transfers in	---	171,800	6,292	178,092
Operating transfers out	(178,092)	---	---	(178,092)
<b>Total other financing sources (uses)</b>	<u>(178,092)</u>	<u>171,800</u>	<u>6,292</u>	<u>---</u>
<b>Net change in fund balances</b>	164,142	371,831	(4,586)	531,387
<b>Fund Balances - Beginning of year</b>	<u>2,489,863</u>	<u>500,303</u>	<u>145,113</u>	<u>3,135,279</u>
<b>Fund Balances - End of year</b>	<u>\$ 2,654,005</u>	<u>\$ 872,134</u>	<u>\$ 140,527</u>	<u>\$ 3,666,666</u>

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, 2016

**Total net change in fund balances - governmental funds** \$ 531,387

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	\$ (423,460)	
Capital outlays	<u>359,175</u>	(64,285)

In the statement of activities, losses on the disposal of assets are shown, whereas in the governmental funds only the proceeds on the disposal (if any) are shown. (167)

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		430,000
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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. 23,720

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	305,841	
Cost of benefits earned net of employee contributions	<u>(705,933)</u>	(400,092)

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. 522,830

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. 4,299

**Change in net position of governmental activities** \$ 1,047,692

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, 2016

	<u>Employee Benefit Trusts</u>	<u>Agency Fund</u>
<b>Assets:</b>		
Cash	\$ 114,144	\$ 19,718
<b>Liabilities:</b>		
Accounts payable	---	7,142
Due to student groups	---	12,576
Due to other funds	64,269	---
<b>Total liabilities</b>	<u>64,269</u>	<u>19,718</u>
<b>Net Position:</b>		
Restricted	49,875	---
<b>Total net position</b>	<u>\$ 49,875</u>	<u>\$ ---</u>

**Statement of Changes in Fiduciary Net Position**

Year Ended June 30, 2016

	<u>Employee Benefit Trusts</u>
<b>Additions:</b>	
Net investment income	\$ 147
Contributions to employee benefit trust	10,256
Total additions	<u>10,403</u>
<b>Deductions:</b>	
Trust fund disbursements	<u>74,526</u>
<b>Change in net position</b>	(64,123)
<b>Net position - June 30, 2015</b>	<u>113,998</u>
<b>Net position - June 30, 2016</b>	<u>\$ 49,875</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, 2016

### 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 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, 2016  
(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, 2016  
(Continued)

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

**E. Cash**

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

**F. Investments**

The District has adopted GASB Statement No. 72, *Fair Value Measurement and Application*; investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that GASB Statements require or permit in the statement of net position at the end of each reporting period.

As discussed in Footnote 2, the District categorizes the fair value measurements of its investments based on the hierarchy established by GAAP. The investment's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following is a description of the valuation methodologies used for assets measured at fair value. Valuation methodologies used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the methodologies used at June 30, 2016.

*Local Government Investment Pool (LGIP):* The LGIP is part of the State of Wisconsin Investment Fund (SIF). Per the SIF, the carrying value of securities depends on asset class and maturity date. Repurchase agreements and non-negotiable certificates of deposit are carried at cost. Short-term debt investments with remaining maturities up to ninety days are carried at amortized cost. All short-term investments with remaining maturities of over ninety days are carried at market value. SIF compiles fair values from third party pricing services which use matrix pricing models to estimate a security's fair value.

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

Interest income is recorded on the accrual basis. Interest income on commingled investments of district accounting funds is allocated based on average investment balances. Adjustments necessary to record investments at fair value are recorded in the statement of activities, statements of revenues, expenditures and changes in fund balances and statement of changes in fiduciary net position as increases or decreases in investment income.

Investment balances for individual funds are pooled unless maintained in segregated accounts.

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Notes to Financial Statements**  
June 30, 2016  
(Continued)

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

**G. 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.

**H. Interfund Transactions**

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.

Individual fund transfers and interfund receivables and payable activity for the year ending June 30, 2016 are as follows:

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Transfers:			
General operations	Food Service	General	\$ 6,292
Fund capital projects trust fund	Capital Projects	General	<u>171,800</u>
			<u>\$ 178,092</u>
Due to/from:			
Retiree benefits	General	Employee Benefit Trust	\$ 64,269
Fund capital projects trust fund	Capital Projects	General	<u>171,800</u>
			<u>\$ 236,069</u>

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Notes to Financial Statements**  
June 30, 2016  
(Continued)

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

**I. Capital Assets**

Capital assets are reported at historical cost or estimated historical cost. Maintenance and repair costs are charged to expenses as incurred and betterments are capitalized as assets. Upon disposal of land, buildings and equipment, a gain or loss is reflected in the statement of activities. Property and equipment and related depreciation 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:

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

**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 for balances that do not fall into the other two categories.

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

**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.



**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Notes to Financial Statements**  
June 30, 2016  
(Continued)

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

**K. Fund Balances (Continued)**

- *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 and Inflows 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 liability. More detailed information can be found in Note 7.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District also reports deferred inflows of resources related to the net pension liability. More detailed information can be found in Note 7.

**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.

**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.

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Notes to Financial Statements**  
June 30, 2016  
(Continued)

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

**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.

The WRS adopted GASB Statement No. 82, Pension Issues, an amendment of GASB No. 67, No. 68 and No. 73 during the year ended December 31, 2015. Statement No. 82 addressed the presentation of payroll-related measures in the Required Supplementary Information, the selection of assumptions used in determining the total pension liability and related measures, and the classification of employer-paid member contributions. The adjustment to the beginning balances was not significant to the District and therefore no prior period adjustment was made.

**Q. Subsequent Events**

Management has evaluated subsequent events for possible recognition or disclosure through the date the financial statements were available to be distributed (December 16, 2016). Except for the information in Note 3 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:

	<u>Custodial Balance</u>	<u>Carrying Amount</u>	<u>Risks</u>
<b>Cash:</b>			
Demand deposits	\$ 441,571	\$ 302,088	Custodial
Money market deposit account	2,674,115	2,674,115	
Petty cash	---	75	
<b>Investment:</b>			
State of Wisconsin Local Government Investment Pool	66,332	66,286	Custodial and interest rate
<b>Total cash and investments</b>	<u>\$ 3,182,018</u>	<u>\$ 3,042,564</u>	
<b>Reconciliation to Financial Statements:</b>			
<b>Per statement of net position:</b>			
Cash		\$ 2,842,416	
Investments		66,286	
<b>Per statement of fiduciary net position:</b>			
Cash		<u>133,862</u>	
<b>Total cash and investments</b>		<u>\$ 3,042,564</u>	

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Notes to Financial Statements**  
June 30, 2016  
(Continued)

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

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000. Deposits and the State of Wisconsin Local Government Investment Pool (LGIP) 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 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.

**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, money market deposits and LGIP was \$3,042,489 at June 30, 2016 and the bank’s carrying value was \$3,182,018, all of which was fully insured. The District does not have a policy regarding custodial risk for deposits.

**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. All investments mature in less than one year.

**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.

The LGIP does not have a credit quality rating. It is part of the State Investment Fund (SIF) and is managed by the State of Wisconsin Investment Board. The District has no regulatory oversight for the LGIP. The LGIP is not registered with the Securities and Exchange Commission, but operates under the statutory authority of Wisconsin Chapter 25. The SIF is audited annually by the State of Wisconsin Legislative Audit Bureau, an independent auditor. The SIF reports the fair value of its underlying assets annually and carries investments at amortized cost for purposes of calculating income to participants. Participants in LGIP have the right to withdraw their funds in total on one day’s notice. At June 30, 2016, the fair value of the District’s share of the LGIP’s assets was substantially equal to the amount as reported in these statements.

A separate financial report for the SIF is prepared in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Copies of the report can be obtained from the State of Wisconsin Investment Board, P.O. Box 7842, Madison, WI 53707.

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

The following summarizes the classification of investments within the statement of net position by classification and method of valuation in accordance with the requirements of accounting principles generally accepted in the United States of America for the year ending June 30, 2016:

<u>Description</u>	<u>Total</u>	<u>Fair Value Measurement</u>		
		<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
LGIP	\$ 66,286	---	\$ 66,286	---

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Notes to Financial Statements**  
June 30, 2016  
(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.

The District has not adopted an investment policy.

**3. Capital Assets**

Capital asset balances and activity for the year ended June 30, 2016 were as follows:

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Transfers</u>	<u>Balance June 30, 2016</u>
Capital assets not being depreciated					
Land	\$ 708,822	\$ ---	\$ ---	\$ ---	\$ 708,822
Capital assets being depreciated					
Buildings	13,322,940	108,878	---	41,714	13,473,532
Site improvements	1,091,324	58,368	---	(58,368)	1,091,324
Equipment	2,973,675	191,929	125,687	16,654	3,056,571
Total capital assets being depreciated	<u>17,387,939</u>	<u>359,175</u>	<u>125,687</u>	<u>---</u>	<u>17,621,427</u>
Less accumulated depreciation	9,804,209	423,460	125,520	---	10,102,149
Total capital assets being depreciated, Net of accumulated depreciation	<u>7,583,730</u>	<u>(64,285)</u>	<u>167</u>	<u>---</u>	<u>7,519,278</u>
Governmental activities capital assets, Net of accumulated depreciation	<u>\$ 8,292,552</u>	<u>\$ (64,285)</u>	<u>\$ 167</u>	<u>\$ ---</u>	<u>\$ 8,228,100</u>

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

Subsequent to year-end, the District spent \$49,507 on building improvements and repairs.

**4. Line of Credit**

The District has a \$350,000 line of credit from Town Bank with a maturity date of November 1, 2016. No draws may be made on the line of credit subsequent to June 30, 2016. The line bears an interest rate of 2.5% plus 30-day 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, 2016.

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Notes to Financial Statements**  
June 30, 2016  
(Continued)

**5. 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>
Notes payable	\$ 1,345,000	\$ ---	\$ 430,000	\$ 915,000	\$ 450,000

Total interest paid and expensed (including accrual) during the year for the year ended June 30, 2016 on long-term liabilities was \$54,944 and \$50,644, 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, 2016 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	\$ 915,000

The 2015 equalized valuation of the District as certified by the Wisconsin Department of Revenue is \$770,999,945. The legal debt limit and margin of indebtedness as of June 30, 2016, in accordance with Section 67.03(1)(a) of the Wisconsin Statutes follows:

Debt limit (5% of \$770,999,945)	\$ 38,549,975
Deduct long-term debt applicable to debt margin	915,000
Margin of indebtedness	\$ 37,634,975

Aggregate cash flow requirements for the retirement of long-term principal and interest on general obligation debt as of June 30, 2016 follow:

<b>Year Ended June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ 450,000	\$ 37,744	\$ 487,744
2018	465,000	19,181	484,181
<b>Total</b>	\$ 915,000	\$ 56,925	\$ 971,925

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Notes to Financial Statements**  
June 30, 2016  
(Continued)

**6. Fund Balances**

As of June 30, 2016, fund balance components other than unassigned fund balances consist of the following:

	<u>Nonspendable</u>	<u>Restricted</u>	<u>Assigned</u>
General fund:			
Prepaid expenses	\$ 8,662	\$ ---	\$ ---
Painting Intermediate School gym	---	---	8,600
Stairwell upgrade at Intermediate School	---	---	20,000
Bleacher replacement at Intermediate School	---	---	50,300
Wall mats for Intermediate School gym	---	---	5,300
Intermediate School sound system	---	---	14,000
SAN replacement	---	---	30,000
Special revenue trust	---	36,231	---
Debt service	---	104,296	---
Capital projects	---	872,134	---
<b>Total</b>	<b>\$ 8,662</b>	<b>\$ 1,012,661</b>	<b>\$ 128,200</b>

**7. 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 1,200 hours a year (880 hours for teachers and school district educational support employees) and expected to be employed for at least one year from employee’s date of hire are eligible to participate in the WRS.

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

**Vesting**

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

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Notes to Financial Statements**  
June 30, 2016  
(Continued)

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

**Benefits Provided (Continued)**

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.

**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>
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
2015	2.9	2

**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 2015), the WRS recognized \$305,841 in contributions from the employer.

Contribution rates as of June 30, 2016 are:

<u>Employee Category</u>	<u>Employee</u>	<u>Employer</u>
General (including teachers)	6.6%	6.6%
Executives & Elected Officials	6.6%	6.6%
Protective with Social Security	6.6%	9.4%
Protective without Social Security	6.6%	13.2%



**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Notes to Financial Statements**  
June 30, 2016  
(Continued)

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

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

At June 30, 2016, the District reported a liability of \$541,631 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014 rolled forward to December 31, 2015. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2015, the District's proportion was 0.0333%, which was a decrease of 0.0019% from its proportion measured as of December 31, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$705,933.

At June 30, 2016, the District reported deferred outflows and inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 96,872	\$ 1,139,854
Changes in assumptions	378,949	---
Net difference between projected and actual earnings on pension plan investments	2,234,617	---
Changes in proportion and differences between employer contributions and proportionate share of contributions	38,282	---
Employer contributions subsequent to the measurement date	149,931	---
<b>Total</b>	<b>\$ 2,898,651</b>	<b>\$ 1,139,854</b>

The above amount of \$149,931 is reported as deferred outflows related to pension, resulting from the WRS Employer's contributions subsequent to the measurement date, and it will be recognized as a reduction of the net pension liability (asset) in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pension will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>		<b>Deferred Outflows of Resources</b>		<b>Deferred Inflow of Resources</b>
2017	\$	716,456	\$	275,847
2018		716,455		275,847
2019		716,455		275,847
2020		587,214		275,847
2021		12,140		36,466



**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Notes to Financial Statements**  
June 30, 2016  
(Continued)

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

**Actuarial Assumptions**

The total pension liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date:	December 31, 2014
Measurement Date of Net Pension Liability (Asset)	December 31, 2015
Actuarial Cost Method:	Entry Age
Asset Valuation Method:	Fair Market Value
Long-Term Expected Rate of Return:	7.2%
Discount Rate:	7.2%
Salary Increases:	
Inflation	3.2%
Seniority/Merit	0.2% - 5.6%
Mortality:	Wisconsin 2012 Mortality Table
Post-retirement Adjustments*	2.1%

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

Actuarial assumptions are based upon an experience study conducted in 2012 using experience from 2009 – 2011. The total pension liability for December 31, 2015 is based upon a roll-forward of the liability calculated from the December 31, 2014 actuarial valuation.

*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.

*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.

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Notes to Financial Statements**  
June 30, 2016  
(Continued)

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

**Actuarial Assumptions (Continued)**

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of December 31, 2015 are summarized in the following table:

<b>Core Fund Asset Class</b>	<b>Current Asset Allocation</b>	<b>Destination Target Asset Allocation</b>	<b>Long-Term Expected Nominal Rate of Return</b>	<b>Long-Term Expected Real Rate of Return</b>
US Equities	27.0%	23.0%	7.6%	4.7%
International Equities	24.5	22.0	8.5	5.6
Fixed Income	27.5	37.0	4.4	1.6
Inflation Sensitive Assets	10.0	20.0	4.2	1.4
Real Estate	7.0	7.0	6.5	3.6
Private Equity/Debt	7.0	7.0	9.4	6.5
Multi-Asset	4.0	4.0	6.7	3.8
Total core fund	107.0%	120%	7.4%	4.5%
<b>Variable Fund Asset Class</b>				
U.S. Equities	70.0%	70.0%	7.6%	4.7%
International Equities	30.0	30.0	8.5	5.6
Total Variable Fund	100.0%	100.0%	7.9%	5.0%

New England Pension Consultants Long Term US CPI (Inflation) Forecast 2.75% Asset Allocations are managed within established ranges, target percentages may differ from actual monthly allocations

*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) liability	\$ 3,799,013	\$ 541,631	\$ (2,002,442)

*Pension plan fiduciary net position.* Detailed information about the pension plan's fiduciary net position is available in separately issued financial statements available at <http://etf.wi.gov/publications/cafr.htm>.

Payables to the pension plan at June 30, 2016 were \$53,891. This represents contributions earned as of June 30, 2016, but for which payment was not remitted to the pension plan until subsequent to year-end.

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Notes to Financial Statements**  
June 30, 2016  
(Continued)

**8. 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) commonly referred to as implicit rate subsidy. The plan does not issue a publicly available report.

Members of the plan consisted of the following at July 1, 2015, the date of the latest actuarial valuation:

Retirees	6
Active	<u>50</u>
Number of participating employees	<u><u>56</u></u>

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.

Ten teachers that retired prior to July 1, 2015 and four active teachers are entitled to a retirement benefit (stipend) of 1% of their highest annual salary for a period of 60 months. 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.

**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, 2016, the District contributed \$-0- and retirees contributed \$11,011 into the trust. For fiscal year 2016, the District paid \$60,793 to eligible retirees. In addition, the District had an implicit rate subsidy that it "funded" for fiscal year 2016 in the amount of \$13,733.

**Stipend (Supplemental Pension)**

The District is required to provide contributions on a pay-as-you-go basis. Active plan members are not required to contribute toward these benefits. The District has not established a trust to fund these liabilities. For the year ended June 30, 2016, 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 ten years for stipend.

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Notes to Financial Statements**  
June 30, 2016  
(Continued)

**8. 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)	\$ 10,311	\$ 85,148	\$ 95,459
Interest on net OPEB/stipend obligation	2,161	43,316	45,477
Adjustment to ARC	(11,448)	(229,428)	(240,876)
Annual OPEB/ stipend cost	1,024	(100,964)	(99,940)
Adjustment for change in accounting estimate (1)	---	(207,708)	(229,925)
Contributions made	(24,744)	(214,158)	(238,902)
Change in net OPEB/ stipend obligation	(23,720)	(522,830)	(568,767)
Net OPEB/stipend obligation – beginning of year	54,036	1,082,902	1,136,938
Net OPEB/stipend obligation – end of year	\$ 30,316	\$ 560,072	\$ 568,171

(1) See note 13 for explanation of change in accounting estimate

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, 2014	\$ 1,721	1,591%	\$ 73,918
June 30, 2015	6,140	423%	54,036
June 30, 2016	1,024	2,416%	30,316

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 Stipend Cost</u>	<u>Percentage of Annual Stipend Costs Contributed</u>	<u>Net Stipend Obligation</u>
June 30, 2014	\$ 68,228	314%	\$ 1,218,797
June 30, 2015	78,263	274%	1,082,902
June 30, 2016	(100,964)	212%	560,072

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Notes to Financial Statements**  
June 30, 2016  
(Continued)

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

**Funding Status and Funding Progress**

A schedule of funding progress as of the most recent actuarial valuation is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded Liability as a Percentage of Covered Payroll</u>
July 1, 2015						
OPEB	\$ 113,998	\$ 150,057	\$ 36,059	76.0%	\$ 4,641,022	0.8%
Stipend	---	560,072	560,072	0.0%	4,641,022	7.6%

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

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

**Actuarial Methods and Assumptions**

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	7/1/15
Actuarial cost method	Entry age normal – level % of salary
Amortization method	5 year open level percent
Remaining amortization period	5 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	4.00%
Level percent increases	3.00%
Medical care trend	7.5% decreasing by 0.5% per year down to 6.5%, then by 0.1% per year down to 5.0%, and level thereafter

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Notes to Financial Statements**  
June 30, 2016  
(Continued)

**9. Limitation on School District Revenues**

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

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

**10. 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.

**11. Operating Leases**

The District has leases on a number of its copiers. Payments on these leases for the year ended June 30, 2016 totaled \$14,883. Future payments on these leases are as follows:

<u>Year ended June 30,</u>	
2017	\$ <u>14,883</u>

**12. 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, 2016 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.

**13. Adjustment due to Change in Accounting Estimate**

For the year ended June 30, 2016, the number of employees eligible for the stipend benefit decreased from sixteen to four since the previous actuarial study was completed resulting in a significantly lower estimated unfunded actuarial accrued liability (UAAL). The change is being applied prospectively, beginning July 1, 2015. The effect of this change in the current period is a decrease of \$207,708 in the accrued liability for retirement stipends.

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Notes to Financial Statements**  
June 30, 2016  
(Continued)

**14. Effect of New Accounting Standards on Financial Statements**

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

- Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*
- Statement No. 74, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*
- Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*
- Statement No. 77, *Tax Abatement Disclosures*
- Statement No. 80, *Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14*
- Statement No. 81, *Irrevocable Split Interest Agreements*
- Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68 and No. 73*

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

**15. GASB Statement No. 73, *Accounting and Financial Reporting for Pensions***

The Government Accounting Standards Board has issued Statement No. 73 which will require the District to accrue their net unfunded pension (stipend) liability on their statement of net position, effective for the year ending June 30, 2017. GASB Statement No. 73 defines the liability as the actuarial present value of projected benefits. This statement will have a material effect on the District's pension (stipend) liability compared to what is disclosed under current standards. As of July 1, 2015 (the most recent actuarial study) the District's total pension (stipend) liability was \$560,072.

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

The Government Accounting Standards Board has issued Statement No. 75 which will require the District to accrue their net unfunded OPEB liability on their statement of net position, effective for the year ending June 30, 2018. GASB Statement No. 75 defines the liability as the actuarial present value of projected benefit payments that is attributable to past periods of employee service. As of July 1, 2015 (the most recent actuarial study) the District's total unfunded actuarial accrued OPEB liability, was \$36,059.

**REQUIRED SUPPLEMENTARY INFORMATION**



**MERTON COMMUNITY SCHOOL DISTRICT**

Merton, Wisconsin

**Budgetary Comparison Schedule**

**General Fund**

Year Ended June 30, 2016

	<u>Budgeted 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>				
Local	\$ 4,209,964	\$ 4,209,964	\$ 4,246,494	\$ 36,530
Interdistrict payments within Wisconsin	739,985	739,985	698,430	(41,555)
State	4,272,785	4,278,887	4,269,108	(9,779)
Federal	44,382	44,382	28,413	(15,969)
Other	36,740	36,740	61,752	25,012
<b>Total revenues</b>	<b>9,303,856</b>	<b>9,309,958</b>	<b>9,304,197</b>	<b>(5,761)</b>
<b>Expenditures:</b>				
Instruction:				
Current	4,792,931	4,739,931	4,610,709	129,222
Interdistrict	345,228	345,228	316,826	28,402
Capital outlay	19,528	19,528	---	19,528
Support Services:				
Current	3,156,814	3,212,517	2,949,191	263,326
Capital outlay	270,809	270,809	285,737	(14,928)
<b>Total expenditures</b>	<b>8,585,310</b>	<b>8,588,013</b>	<b>8,162,463</b>	<b>425,550</b>
<b>Excess of revenues over expenditures</b>	<b>718,546</b>	<b>721,945</b>	<b>1,141,734</b>	<b>419,789</b>
<b>Other Financing Sources (uses):</b>				
Operating transfers in (out)	(918,546)	(918,546)	(977,592)	(59,046)
<b>Net change in fund balances</b>	<b>(200,000)</b>	<b>(196,601)</b>	<b>164,142</b>	<b>360,743</b>
<b>Fund Balances - Beginning of year</b>	<b>2,489,863</b>	<b>2,489,863</b>	<b>2,489,863</b>	<b>---</b>
<b>Fund Balances - End of year</b>	<b>\$ 2,289,863</b>	<b>\$ 2,293,262</b>	<b>\$ 2,654,005</b>	<b>\$ 360,743</b>

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, 2016

	<u>Budget Amounts</u>		<u>Actual</u>	<b>Variance With</b>
	<u>Original</u>	<u>Final</u>		<b>Final Budget</b>
				<b>Positive</b>
				<b>(Negative)</b>
<b>Revenues:</b>				
Interdistrict payments within Wisconsin State	\$ 38,000	\$ 38,000	\$ 59,110	\$ 21,110
Federal	225,000	225,000	219,228	(5,772)
Other	161,305	161,305	161,712	407
	---	---	52	52
<b>Total revenues</b>	<b>424,305</b>	<b>424,305</b>	<b>440,102</b>	<b>15,797</b>
<b>Expenditures:</b>				
Instruction:				
Current	1,124,256	1,124,256	990,937	133,319
Interdistrict	20,000	20,000	19,075	925
Support Services:				
Current	198,595	198,595	229,590	(30,995)
<b>Total expenditures</b>	<b>1,342,851</b>	<b>1,342,851</b>	<b>1,239,602</b>	<b>103,249</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(918,546)</b>	<b>(918,546)</b>	<b>(799,500)</b>	<b>119,046</b>
<b>Other Financing Sources (uses):</b>				
Operating transfers in (out)	918,546	918,546	799,500	(119,046)
<b>Net change in fund balances</b>	<b>---</b>	<b>---</b>	<b>---</b>	<b>---</b>
<b>Fund Balances - Beginning of year</b>	<b>---</b>	<b>---</b>	<b>---</b>	<b>---</b>
<b>Fund Balances - End of year</b>	<b>\$ ---</b>	<b>\$ ---</b>	<b>\$ ---</b>	<b>\$ ---</b>

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 (Liability)**

Year Ended June 30, 2016

Wisconsin Retirement System

Last 10 Fiscal Years\*

	<b>District's proportion of the net pension asset (liability)</b>	<b>District's proportionate share of the net pension asset (liability)</b>	<b>District's covered employee payroll</b>	<b>Net pension asset (liability) as a percentage of employee payroll</b>	<b>Plan fiduciary net position as a percentage of total pension asset (liability)</b>
2016	0.0333%	\$ (541,631)	\$ 4,496,622	12.05%	98.20%
2015	0.0352%	865,566	4,606,946	18.79%	102.74%

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

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

**Schedule of Contributions**

Year Ended June 30, 2016

Wisconsin Retirement System

Last 10 Fiscal Years\*

	<b>Contractually required contributions</b>	<b>Contributions in relation to the contractually required contributions</b>	<b>Contribution deficiency (excess)</b>	<b>District's covered employee payroll</b>	<b>Contributions as a percentage of covered- employee payroll</b>
2016	\$ 305,841	\$ 305,841	\$ ---	\$ 4,496,622	6.80%
2015	322,485	323,485	---	4,606,946	7.00%

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

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

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

**MERTON COMMUNITY SCHOOL DISTRICT**

Merton, Wisconsin

**Schedule of Funding Progress**

Year Ended June 30, 2016

<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, 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%
July 1, 2015	113,998	150,057	36,059	76.0%	4,641,022	0.8%
<u>Single employer defined benefit pension plan</u>						
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%
July 1, 2015	---	560,072	560,072	0.0%	4,641,022	12.1%

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, 2016

<u>Year Ended June 30,</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percent Contributed</u>
<u>Post-employment healthcare</u>			
2012	\$ 174,589	\$ 35,561	20.4%
2013	18,866	40,326	213.7%
2014	18,866	27,386	145.2%
2015	18,866	26,022	137.9%
2016	10,311	24,744	240.0%
<u>Single employer defined benefit pension plan</u>			
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%
2016	129,362	214,158	165.5%

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

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Notes to Required Supplementary Information**  
June 30, 2016

**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>	
Revenues			
Actual amounts (budgetary basis)	\$ 9,304,197	\$ 440,102	
Reclassification of special education	440,102	(440,102)	
Total revenues (GAAP)	9,744,299	---	
Expenditures			
Actual amounts (budgetary basis)	8,162,463	1,239,602	
Reclassification of special education	1,239,602	(1,239,602)	
Total expenditures (GAAP)	9,402,065	---	
Excess of Revenues Over (Under) Expenditures			
Actual amounts (budgetary basis)	1,141,734	(799,500)	
Reclassification of special education	(799,500)	799,500	
Excess of revenues over (under) expenditures (GAAP)	342,234	---	
Other Financing Sources (Uses)			
Actual amounts (budgetary basis)	(977,592)	799,500	
Reclassification of special education	799,500	(799,500)	
Total other financing sources (uses) (GAAP)	(178,092)	---	
Net Change in Fund Balance			
Actual amounts (budgetary basis and GAAP)	164,142	---	
Fund Balance – Beginning of year			
Actual amounts (budgetary basis and GAAP)	2,489,863	---	
Fund Balance – End of year			
Actual amounts (budgetary basis and GAAP)	\$ 2,654,005	\$ ---	

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Notes to Required Supplementary Information**  
June 30, 2016  
(Continued)

**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, 2016:

General Fund:

Undifferentiated curriculum	\$ 141,329
Physical curriculum	7,571
Pupil services	21,503
Central services	79,940
Transfers to another fund	59,046
Other non-program transactions	4,370

Special Education Fund:

Instructional staff services	\$ 13,572
General administration	15,493
Business administration	42,419
Other non-program transactions	5,700

The excess expenditures were covered by available current year revenues and under expenditures in other areas.

**Note C – Wisconsin Retirement System**

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

**Note D – Change in Actuarial Assumptions**

The July 1, 2015 actuarial valuation for other post-employment benefits differs from the July 1, 2012 actuarial valuation due to the following factors:

- The actuarial cost method changed from unit credit to entry age normal – level % of salary.
- Medical care trend started at 7.5% in the July 1, 2015 study compared to 10% in the July 1, 2012 study

The July 1, 2015 actuarial valuation for pension benefits differs from the July 1, 2012 actuarial valuation due to the following factors:

- The actuarial cost method changed from unit credit to entry age normal – level % of salary.
- The remaining amortization period decreased to five years in the July 1, 2015 student compared to ten years in the July 1, 2012 study.

**OTHER SUPPLEMENTARY INFORMATION**

MERTON COMMUNITY SCHOOL DISTRICT

Merton, Wisconsin

**Combining Balance Sheet  
Nonmajor Governmental Funds**

June 30, 2016

	<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	\$ 33,198	\$ 33,036	\$ 43,715	\$ 109,949
Investments	---	3,149	60,581	63,730
Accounts receivable	3,168	4,413	---	7,581
Due from other governments	---	2,363	---	2,363
<b>Total assets</b>	<b>\$ 36,366</b>	<b>\$ 42,961</b>	<b>\$ 104,296</b>	<b>\$ 183,623</b>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 135	\$ 27,961	\$ ---	\$ 28,096
Unearned revenues	---	15,000	---	15,000
<b>Total liabilities</b>	<b>135</b>	<b>42,961</b>	<b>---</b>	<b>43,096</b>
<b>Fund Balances:</b>				
Restricted	36,231	---	104,296	140,527
<b>Total fund balances</b>	<b>36,231</b>	<b>---</b>	<b>104,296</b>	<b>140,527</b>
<b>Total liabilities and fund balances</b>	<b>\$ 36,366</b>	<b>\$ 42,961</b>	<b>\$ 104,296</b>	<b>\$ 183,623</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, 2016

	<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	\$ 81,460	\$ 264,802	\$ 529,151	\$ 875,413
Federal	---	16,984	---	16,984
<b>Total revenues</b>	<hr/> 81,460	<hr/> 281,786	<hr/> 529,151	<hr/> 892,397
<b>Expenditures:</b>				
Instruction:				
Current	18,970	---	---	18,970
Support Services:				
Current	13,325	312,235	---	325,560
Capital outlay	73,438	---	---	73,438
Debt service	---	---	485,307	485,307
<b>Total expenditures</b>	<hr/> 105,733	<hr/> 312,235	<hr/> 485,307	<hr/> 903,275
<b>Excess (deficiency) of revenues over (under) expenditures</b>	(24,273)	(30,449)	43,844	(10,878)
<b>Other Financing Sources:</b>				
Operating transfers in	---	6,292	---	6,292
<b>Net change in fund balances</b>	<hr/> (24,273)	<hr/> (24,157)	<hr/> 43,844	<hr/> (4,586)
<b>Fund Balances - Beginning of year</b>	<hr/> 60,504	<hr/> 24,157	<hr/> 60,452	<hr/> 145,113
<b>Fund Balances - End of year</b>	<hr/> <hr/> \$ 36,231	<hr/> <hr/> \$ ---	<hr/> <hr/> \$ 104,296	<hr/> <hr/> \$ 140,527

See Independent Auditors' Report.

MERTON COMMUNITY SCHOOL DISTRICT

Merton, Wisconsin

Agency Fund - Schedule of Changes in Assets and Liabilities

June 30, 2016

	<u>Balance</u> <u>7/1/15</u>		<u>Additions</u>		<u>Deductions</u>		<u>Balance</u> <u>6/30/16</u>
<b>Assets:</b>							
Cash	\$ 12,112	\$	44,841	\$	37,235	\$	19,718
<b>Liabilities:</b>							
Accounts payable	\$ 2,501	\$	7,156	\$	2,515	\$	7,142
Due to student groups:							
Merton Intermediate School	9,611		37,685		34,720		12,576
<b>Total liabilities</b>	<u>\$ 12,112</u>	<u>\$</u>	<u>44,841</u>	<u>\$</u>	<u>37,235</u>	<u>\$</u>	<u>19,718</u>

See Independent Auditors' Report.

MERTON COMMUNITY SCHOOL DISTRICT

Merton, Wisconsin

Schedule of Expenditures of State Awards

Year Ended June 30, 2016

Awarding Agency Pass-Through Agency <u>Award Description</u>	State I.D. <u>Number</u>	Pass-Through Entity Identifying <u>Number</u>	Accrued or (Unearned) Revenue at <u>7/1/15</u>	<u>Receipts</u>	State Disbursements/ <u>Expenditures</u>	Accrued or (Unearned) Revenue at <u>6/30/16</u>
<b>WI Dept. of Public Instruction</b>						
Special education and school-age parents**	255.101	673528-100	\$ ---	\$ 219,228	\$ 219,228	\$ ---
Common school fund library aid	255.103	673528-104	---	36,102	36,102	---
Pupil transportation	255.107	673528-102	---	17,921	17,921	---
Equalization aids	255.201	673528-116	76,491	4,385,027	4,380,334	71,798
Per pupil adjustment aid	255.945	673528-113	---	---	128,100	128,100
Passed through Arrowhead Union High School District						
Special education and school-age parents	255.101	672450-100	---	124	124	---
<b>Total WI Dept. of Public Instruction</b>			<u>76,491</u>	<u>4,658,402</u>	<u>4,781,809</u>	<u>199,898</u>
<b>Total state assistance</b>			<u>\$ 76,491</u>	<u>\$ 4,658,402</u>	<u>\$ 4,781,809</u>	<u>\$ 199,898</u>

\*\* Total DPI aidable expenditures for the year ended June 30, 2016 were \$1,044,339.

MERTON COMMUNITY SCHOOL DISTRICT

Merton, Wisconsin

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2016

<b>Awarding Agency</b> <b>Pass-Through Agency</b> <b>Award Description</b>	<b>Federal</b> <b>Catalog</b> <b>Number</b>	<b>Pass-Through</b> <b>Entity Identifying</b> <b>Number</b>	<b>Accrued or</b> <b>(Unearned)</b> <b>Revenue at</b> <b>7/1/15</b>	<b>Receipts</b>	<b>Federal</b> <b>Disbursements/</b> <b>Expenditures</b>	<b>Accrued or</b> <b>(Unearned)</b> <b>Revenue at</b> <b>6/30/16</b>
<b>U.S. Department of Agriculture</b>						
Passed through Wisconsin Department of Public Instruction:						
Nutrition Cluster:						
Food Service Aid - Milk	10.556	A548-00000-673528	\$ 729	\$ 15,350	\$ 16,984	\$ 2,363
<b>U.S. Department of Education</b>						
Passed through Wisconsin Department of Public Instruction:						
Title I Cluster:						
Title IA Basic	84.010	A141-00000-673528	33,465	33,465	28,413	28,413
Special Education Cluster:						
IDEA Flow Through	84.027	A341-00000-673528	152,726	152,726	144,025	144,025
IDEA Preschool Entitlement	84.173	A347-00000-673528	5,405	5,405	3,687	3,687
Total Special Education Cluster			158,131	158,131	147,712	147,712
<b>U.S. Department of Health and Human Services</b>						
Passed Through Wisconsin Department of Health Services:						
Medical Assistance program	93.778	44209300	---	6,442	14,000	7,558
<b>Total U.S. Department of Education</b>			191,596	191,596	176,125	176,125
<b>Total</b>			\$ 192,325	\$ 213,388	\$ 207,109	\$ 186,046

See Independent Auditors' Report and accompanying notes to schedules of expenditures of state and federal awards.

## MERTON COMMUNITY SCHOOL DISTRICT

Merton, Wisconsin

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

June 30, 2016

#### 1. Basis of Presentation

The accompanying schedules of expenditures of federal and state awards (the Schedules) includes the federal and state award activity of the District under programs of the federal and state government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of the *Wisconsin Public School District Audit Manual*, issued by the Wisconsin Department of Instruction. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements. All federal and state awards received directly from federal and state agencies as well as federal and state financial awards passed through other government agencies are included on the schedule.

#### 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedules are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, the cost principles contained in the *Wisconsin Public School District Audit Manual*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

#### 3. Indirect Cost Rate

The District did not use the 10% de minimis indirect cost rate.

Thomas G. Wieland  
David A. Grotkin  
Joel A. Joyce  
Brian J. Mechenich



Carrie A. Gindt  
Patrick G. Hoffert  
Jason J. Wrasse  
Joshua T. Bierbach

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

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, 2016, and the related notes to the financial statements which collectively comprise the District's basic financial statements and have issued our report thereon dated December 16, 2016.

**Internal Control Over Financial Reporting**

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

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying summary of auditor's results that we consider to be significant deficiencies. These findings are noted as 2016-001 and 2016-002.

## **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.

December 16, 2016  
Milwaukee, Wisconsin

Thomas G. Wieland  
David A. Grotkin  
Joel A. Joyce  
Brian J. Mechenich



Carrie A. Gindt  
Patrick G. Hoffert  
Jason J. Wrasse  
Joshua T. Bierbach

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
FOR EACH MAJOR 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 major state programs for the year ended June 30, 2016. The District's major state programs are identified in the accompanying schedule of findings and responses.

**Management's Responsibility**

Management is responsible for compliance with state statutes, regulations, and the terms and conditions of its state awards applicable to its state programs.

**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 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 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 each of its major state aid programs for the year ended June 30, 2016.

**Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the *Wisconsin Public School District Audit Manual* and which is described in the accompanying summary of auditor results as item 2016-003. Our opinion on each major state program is not modified with respect to these matters.



## **Report on Internal Control Over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program 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 major state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a 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 state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and responses as item 2016-002 that we consider to be a significant deficiency.

### **District's Response to Findings**

The District's responses to the noncompliance findings identified in our audit are described in the accompanying summary of auditor's results. The District's responses were not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Purpose of this Report**

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 testing based on requirements of the *Wisconsin Public School District Audit Manual*. Accordingly, this report is not suitable for any other purpose.

December 16, 2016  
Milwaukee, Wisconsin

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Schedule of Prior Audit Findings**  
Year Ended June 30, 2016

**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 Accounting Principles Generally Accepted in the United States of America (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 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.

*Update:* See Finding 2016-001.

**Reference Number: 2015-002**  
**Description: 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.

*Update:* For the year end June 30, 2016; all aides whose salaries and benefits were recorded to project 011 were properly licensed.

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Schedule of Findings and Responses**  
Year Ended June 30, 2016

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

**Financial Statements**

- |   |            |
|---|------------|
| 1. Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP: | Unmodified |
| 2. Internal control over financial reporting:   |            |
| A. Material weakness(es) identified?  | None Noted |
| 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:   | None Noted |
| B. Significant deficiency(ies) identified that are not considered to be material weakness?   | Yes        |
| 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 <i>Wisconsin Public School District Audit Manual</i> ? | 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

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Schedule of Findings and Responses**  
Year Ended June 30, 2016  
(Continued)

**B. Financial Statement Findings**

**Reference Number:** 2016-001  
**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 Accounting Principles Generally Accepted in the United States of America (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 misstated and required footnote disclosures would be missing.

*Identification of a Repeat Finding:* This is a repeat finding from previous audits, see 2015-001.

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

*Corrective Action Plan:* See attachment for District's corrective action plan.

**Reference Number:** 2016-002  
**Description:** Adjusting Journal Entries

*Criteria and Condition:* Audit adjustments were required to prevent the District's financial statements from being misstated.

*Cause:* Inadequate controls in place to ensure the proper recording of all of the District's financial transactions in accordance with accounting principles generally accepted in the United States of America.

*Effect:* If the condition were uncorrected, the District's financial statements could be misstated.

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

*Corrective Action Plan:* See attachment for District's corrective action plan.

**MERTON COMMUNITY SCHOOL DISTRICT**  
Merton, Wisconsin

**Schedule of Findings and Responses**  
Year Ended June 30, 2016  
(Continued)

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

See Finding 2016-002

**Reference Number: 2016-003**

**Description: 255.201 Certification Pages**

*Criteria:* Per Wisconsin State Statute 120.18, "The school district clerk of a common or union high school district shall file a verified annual school district report with the department on forms supplied by the department".

*Condition:* The District could not locate all the signed certification pages; therefore verification was not completed.

*Cause:* The business manager position suffered turnover during the current year.

*Effect:* The District is not in compliance with the state statute.

*Auditors' Recommendation:* We recommend the District electronically store copies of the certification pages.

*Corrective Action Plan:* See attachment for District's corrective action plan.

**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>Wisconsin Public School District Audit Manual</i> ? | 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

5. Date of Report

December 16, 2016



## Corrective Action Plan

**Reference Number: 2016-001**

**Description: Financial Statement Preparation**

*Corrective Action Plan:* 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 will continue to review a draft of the financial statements and ask questions prior to giving approval to finalize the financial statements.

*Anticipated Corrective Action Plan Completion Date:* Ongoing.

*Contact Information:* For additional information regarding this finding please contact Ron Russ, District Administrator, at 262-538-2828.

**Reference Number: 2016-002**

**Description: Significant Audit Adjusting Journal Entries**

*Corrective Action Plan:* The District implemented a monthly and year end check list so the person preparing journal entries knows what needs to be completed.

*Anticipated Corrective Action Plan Completion Date:* Completed

*Contact Information:* For additional information regarding this finding please contact Lindsay Johnson, Business Assistant, at 262-538-2802.

**Reference Number: 2016-003**

**Description: 255.201 Certification Pages**

*Corrective Action Plan:* The District has since cleaned up its filing system. The Business Manager will have a new certification page signed and printed.

*Anticipated Corrective Action Plan Completion Date:* 12/8/2016

*Contact Information:* For additional information regarding this finding please contact Ron Russ, District Administrator, at 262-538-2828.