

MERTON COMMUNITY SCHOOL DISTRICT
Merton, Wisconsin

Audited Financial Statements
Year Ended June 30, 2023

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MERTON COMMUNITY SCHOOL DISTRICT
Merton, Wisconsin

Audited Financial Statements
Year Ended June 30, 2023

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Independent Auditors' Report

To the School Board
Merton Community School District
Merton, Wisconsin

Report on the Audit of the Financial Statements

Opinions

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, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2023, 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.

Basis of Opinions

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Merton Community School District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Merton Community School District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Merton Community School District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Merton Community School District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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.

Supplementary 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 combining nonmajor fund financial statements, schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and schedule of expenditures of state awards as required by Wisconsin State Single Audit Guidelines, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements, the schedule of expenditures of federal awards and the schedule of expenditures of state awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2023 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's 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.

Riley, Penner & Benton LLP

November 27, 2023
Milwaukee, Wisconsin

MERTON COMMUNITY SCHOOL DISTRICT
Merton, Wisconsin

Statement of Net Position
June 30, 2023

	Governmental Activities
Assets:	
Current assets:	
Cash	\$ 4,233,995
Investments	1,095,607
Taxes receivable	869,516
Due from other governments	191,149
Prepaid expenses	85,703
Total current assets	<u>6,475,970</u>
Capital assets:	
Nondepreciable	763,859
Depreciable, net of accumulated depreciation	8,631,947
Total capital assets	<u>9,395,806</u>
Total assets	15,871,776
Deferred Outflow of Resources:	
Deferred outflows related to pensions - WRS	5,557,672
Deferred outflows related to post-employment benefit	85,954
Total deferred outflows of resources	<u>5,643,626</u>
Liabilities:	
Current liabilities:	
Accounts payable	88,905
Withholdings and related fringes payable	290,819
Accrued interest	3,601
Accrued payroll	634,652
Deposits payable	9,238
Unearned revenues	13,814
Retirement liability	3,166
Current portion of long-term obligations	50,000
Total current liabilities	<u>1,094,195</u>
Noncurrent liabilities:	
Long-term obligations	247,578
Total other post-employment benefit liability	92,116
Net pension liability - WRS	1,534,302
Total noncurrent liabilities	<u>1,873,996</u>
Total liabilities	2,968,191
Deferred Inflow of Resources:	
Deferred inflows related to pensions - WRS	3,216,020
Deferred inflows related to post-employment benefit	104,760
Total deferred inflows of resources	<u>3,320,780</u>
Net Position:	
Net investment in capital assets	9,094,627
Restricted for:	
Common school library program	20,344
Debt service	59,065
Capital projects	1,294,865
Food service	120,147
Other special revenue	70,379
Unrestricted	4,567,004
Total net position	<u>\$ 15,226,431</u>

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, 2023

		Program Revenues			Net (Expenses) Revenues and Changes in Net Position
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental activities:					
Instruction:					
Regular instruction	\$ 5,808,782	\$ 1,269,107	\$ 251,740	\$ ---	\$ (4,287,935)
Special education instruction	1,190,765	39,087	501,508	---	(650,170)
Vocational instruction	144,112	---	---	---	(144,112)
Other instruction	343,640	---	---	33,000	(310,640)
Total instruction	7,487,299	1,308,194	753,248	33,000	(5,392,857)
Support services:					
Pupil services	249,901	---	61,419	---	(188,482)
Instructional staff services	738,977	---	223,246	---	(515,731)
Administration services	1,054,053	---	---	---	(1,054,053)
Operation and maintenance	693,018	35,373	---	146,133	(511,512)
Pupil transportation	357,882	16,400	13,266	---	(328,216)
Central services	29,185	---	8,000	---	(21,185)
Other support services	466,741	---	---	---	(466,741)
Food service	414,025	258,237	143,062	---	(12,726)
Interest on long-term obligations	8,973	---	---	---	(8,973)
Unallocated depreciation	667,103	---	---	---	(667,103)
Total support services	4,679,858	310,010	448,993	146,133	(3,774,722)
Total school district	\$ 12,167,157	\$ 1,618,204	\$ 1,202,241	\$ 179,133	(9,167,579)
General revenues:					
Taxes:					
Property taxes, levied for general purposes					4,045,330
Property taxes, levied for debt service					59,482
Property taxes, levied for specific purposes					100,000
Federal and state aid not restricted to specific purposes:					
General					4,026,011
Other					605,657
Interest and investment earnings					137,563
Miscellaneous					47,051
Changes in net position					(146,485)
Net position - beginning of year					15,361,071
Prior period adjustment					11,845
Net position - beginning of year as adjusted					15,372,916
Net position - end of year					\$ 15,226,431

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, 2023

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Cash	\$ 3,866,436	\$ 102,150	\$ 265,409	\$ 4,233,995
Investments	2,892	1,092,715	---	1,095,607
Taxes receivable	869,516	---	---	869,516
Due from other funds	---	100,000	---	100,000
Due from other governments	189,364	---	1,785	191,149
Prepaid expenditure	85,703	---	---	85,703
Total assets	\$ 5,013,911	\$ 1,294,865	\$ 267,194	\$ 6,575,970
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 85,116	\$ ---	\$ 3,789	\$ 88,905
Withholdings and related fringes payable	290,819	---	---	290,819
Accrued payroll	634,652	---	---	634,652
Due to other funds	100,000	---	---	100,000
Deposits payable	9,238	---	---	9,238
Unearned revenues	---	---	13,814	13,814
Total liabilities	1,119,825	---	17,603	1,137,428
Fund Balances:				
Nonspendable	85,703	---	---	85,703
Restricted	20,344	1,294,865	249,591	1,564,800
Unassigned	3,788,039	---	---	3,788,039
Total fund balances	3,894,086	1,294,865	249,591	5,438,542
Total liabilities and fund balances	\$ 5,013,911	\$ 1,294,865	\$ 267,194	\$ 6,575,970

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, 2023

Total fund balances - governmental funds	\$ 5,438,542
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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	\$ 21,817,442	
Accumulated depreciation	(12,421,636)	
Right to use assets	17,557	
Accumulated amortization	<u>(17,557)</u>	
		9,395,806

Long-term obligations are not due and payable in the current period and therefore are not reported in the governmental funds

Notes payable	(281,818)	
Compensated absences	<u>(15,760)</u>	
		(297,578)

The District's total OPEB liability is recorded as a liability on the statement of net position, but is not reported in the governmental funds.

(92,116)

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.

(1,534,302)

The District's retirement liability is recorded as a liability on the statement of net position, but is not reported in the governmental funds.

(3,166)

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

2,322,846

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.

(3,601)

Total net position - governmental activities	<u>\$ 15,226,431</u>
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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, 2023

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Local	\$ 4,413,684	\$ 138,692	\$ 387,267	\$ 4,939,643
Interdistrict payments within Wisconsin	1,089,173	---	---	1,089,173
Intermediate sources	2,060	---	---	2,060
State	5,048,503	---	3,914	5,052,417
Federal	751,179	---	139,148	890,327
Other	47,053	---	---	47,053
Total revenues	11,351,652	138,692	530,329	12,020,673
Expenditures:				
Instruction:				
Current	6,482,520	---	37,165	6,519,685
Interdistrict	643,215	---	---	643,215
Capital outlay	---	---	16,500	16,500
Support Services:				
Current	3,546,613	---	415,408	3,962,021
Capital outlay	358,563	---	---	358,563
Debt service	9,037	---	59,465	68,502
Total expenditures	11,039,948	---	528,538	11,568,486
Excess (deficiency) of revenues over expenditures	311,704	138,692	1,791	452,187
Other Financing Sources (Uses):				
Operating transfers in	---	100,000	---	100,000
Operating transfers out	(100,000)	---	---	(100,000)
Total other financing sources (uses)	(100,000)	100,000	---	---
Net change in fund balances	211,704	238,692	1,791	452,187
Fund Balances - Beginning of year	3,682,382	1,056,173	235,955	4,974,510
Adjustment due to correction of an error	---	---	11,845	11,845
Fund Balances - Beginning of year, as adjusted	3,682,382	1,056,173	247,800	4,986,355
Fund Balances - End of year	\$ 3,894,086	\$ 1,294,865	\$ 249,591	\$ 5,438,542

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, 2023

Total net change in fund balances - governmental funds	\$	452,187
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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 or amortization expenses.

Depreciation and amortization expense	\$	(667,103)	
Capital outlays		<u>375,063</u>	(292,040)

Repayment of certain long-term obligations are an expenditure in the governmental funds, but the repayment reduces long-term obligations in the statement of net position.

Notes payable		50,000	
Lease liability		<u>8,890</u>	58,890

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

District pension contributions		338,954	
Cost of benefits earned net of employee contributions		<u>(765,186)</u>	(426,232)

In the statement of activities, certain 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.

Post-employment benefits		43,445	
Retirement benefits		19,000	
Compensated absences		<u>(2,374)</u>	60,071

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.

	<u>639</u>
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Change in net position of governmental activities	\$	<u>(146,485)</u>
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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, 2023

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 requires 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. Eliminations have been made to minimize the double counting of internal transactions. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues have been classified to the function where the majority of the 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, 2023
(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. Separate statements for each fund category 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.

D. Measurement Focus and Basis of Accounting

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

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

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.

MERTON COMMUNITY SCHOOL DISTRICT
Merton, Wisconsin

Notes to Financial Statements
June 30, 2023
(Continued)

1. Summary of Significant Accounting Policies (Continued)

F. Investments

The District's investments are stated at fair value, except for highly liquid market investments with maturities of one year or less at the time of purchase, which are stated at amortized cost. Market value is used for those securities for which market quotations are readily available. For securities that lack readily available market quotations, reasonable estimates of fair value are used based on the market value of similar investments. The District generally holds all investments until maturity or until market values equal or exceed cost.

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 as increases or decreases in investment income.

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

G. Receivables

Property taxes are recognized as revenues in the year for which they are budgeted. The District tax levy is certified in November of the current fiscal year for collection by the taxing municipalities based on the past October 1 full or "equalized" taxable property values. The District is paid by the collecting municipalities its proportionate share of tax collections received through the last day of the preceding month. Under the Wisconsin Statutes, 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 management determined 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 inter-fund receivables and payable activity for the year ending June 30, 2023 are as follows:

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due to/from funds:			
Fund future capital projects	Capital Projects Trust	General	\$ <u>100,000</u>
Transfers:			
Fund future capital projects	Capital Projects Trust	General	\$ <u>100,000</u>

MERTON COMMUNITY SCHOOL DISTRICT
Merton, Wisconsin

Notes to Financial Statements
June 30, 2023
(Continued)

1. Summary of Significant Accounting Policies (Continued)

I. Capital Assets

Capital assets are reported at 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:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Buildings	\$ 5,000	Straight-line	50 years
Land improvements	5,000	Straight-line	20 years
Equipment and furniture	5,000	Straight-line	5 - 20 years

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

J. Right to Use Assets

The District has recorded right to use lease assets. The right to use assets are initially measured at an amount equal to the initial measurement of the related lease liability plus any lease payments made prior to the lease term, less lease incentives, and plus ancillary charges necessary to place the lease into service. The right to use assets are amortized on a straight-line basis over the life of the related lease.

K. Net Position

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.

MERTON COMMUNITY SCHOOL DISTRICT

Merton, Wisconsin

Notes to Financial Statements

June 30, 2023

(Continued)

1. Summary of Significant Accounting Policies (Continued)

L. Fund Balances

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

- *Nonspendable* - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.
- *Restricted* - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.
- *Committed* - amounts that can be used only for specific purposes determined by a formal action of the School Board prior to year-end. The School Board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through the same type of action it employed to previously commit those amounts.
- *Assigned* - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The District has not adopted a resolution to delegate authority to assign amounts to any individual or body.
- *Unassigned* - all other spendable amounts.

Order of Fund Balance Spending Policy: The District has not established an order of fund balance spending policy. When both restricted and unrestricted funds are available for expenditure, restricted funds should be spent first unless legal requirements disallow it. When committed, assigned and unassigned funds are available for expenditure, committed funds should be spent first, assigned funds second and unassigned funds last.

Minimum Fund Balance Policy: The Board will attempt to maintain at least a 20% fund balance to proposed general fund expenditure ratio.

M. Deferred Outflows and Inflows of Resources

In addition to assets and liabilities, the financial statements will sometimes report a separate section for deferred outflows and inflows of resources. The separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred inflows of resources represent the acquisition of net assets that is applicable to a future reporting period and thus, will not be recognized as an inflow of resources (revenue) until then.

N. Accumulated Unpaid Vacation and Sick Pay

Unused accumulated vacation is paid out upon retirement or termination of employment. Generally, sick leave can be accumulated up to a maximum of 60 days (or 90 days for employees hired prior to July 1, 2011), but accumulated hours are not paid out upon termination of employment. The District has accrued that vacation leave which it deems probable of payout. The liability is reported on the government-wide financial statements. For governmental fund financial statements, the unpaid compensated absences are not expected to be paid using expendable available resources, and therefore, the liability is not reported. Compensated absences are generally liquidated by the general fund.

MERTON COMMUNITY SCHOOL DISTRICT
Merton, Wisconsin

Notes to Financial Statements
June 30, 2023
(Continued)

1. Summary of Significant Accounting Policies (Continued)

O. 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.

P. 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 30th and have not yet been earned by the recipient. Prepaid supplies are valued at cost using the first-in, first-out ("FIFO") method.

Q. Pensions

The fiduciary net position of the Wisconsin Retirement System (WRS) has been determined using the flow of economic resources measurement focus and accrual basis of accounting. This includes for purposes of measuring the following:

- Net Pension Liability (Asset),
- Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions,
- Pension Expense (Revenue).

Information about the fiduciary net position of the WRS and additions to/deductions from WRS' fiduciary net position have been determined on the same basis as they are reported by the 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. Pensions are generally liquidated by the general fund.

R. Subsequent Events

Management has evaluated subsequent events for possible recognition or disclosure through the date the financial statements were available to be distributed (November 27, 2023). Except for the lease agreement discussed in note 4, there were no subsequent events that required recognition or disclosure.

MERTON COMMUNITY SCHOOL DISTRICT
Merton, Wisconsin

Notes to Financial Statements

June 30, 2023

(Continued)

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>
Cash:			
Demand deposits	\$ 227,229	\$ 157,241	Custodial
Money market deposit account	4,076,679	4,076,679	Custodial
Petty cash	---	75	
Investment:			
Wisconsin Local Government Investment Pool	2,892	2,892	Custodial
Wisconsin Investment Series Cooperative	1,092,715	1,092,715	Custodial, Credit, and Interest Rate
Total cash and investments	<u>\$ 5,399,515</u>	<u>\$ 5,329,602</u>	

Reconciliation to Financial Statements:

Per statement of net position:

Cash	\$ 4,233,995
Investments	1,095,607
Total cash and investments	<u>\$ 5,329,602</u>

Deposits in each local and area bank are insured by the Federal Deposit Insurance Corporation ("FDIC") in the amount of \$250,000. Deposits and the State of Wisconsin Local Government Investment Pool ("LGIP") and Wisconsin Investment Series Coop ("WISC") are also insured by the State Deposit Guarantee Fund ("SDGF") in the amount of \$400,000 per financial institution. However, due to the relatively small size of the Guarantee Fund in relationship to the total deposits covered and other legal implications, recovery of material principal losses may not be significant to individual districts. Investments in the local government investment pool are covered under a surety bond issued by Financial Security Assurance, Inc. The bond 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: Is the risk that, in the event of a financial institution failure, the District's deposits may not be returned to the District. The District's carrying value for cash and investment deposits was \$5,329,602 at June 30, 2023 and the custodian's carrying value was \$5,399,515 of which \$4,306,801 was fully insured and \$1,092,714 was uninsured or uncollateralized. 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. Information regarding the exposure of the District's investments to this risk, using the segmented time distribution model is as follows:

<u>Type of Investment</u>	<u>Investment Maturities (in Years)</u>				<u>Total</u>
	<u>Less Than 1 Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	<u>Over 10 Years</u>	
WISC	\$ 1,092,715	\$ ---	\$ ---	\$ ---	<u>\$ 1,092,715</u>

The District has investments in WISC of \$1,092,715 at year end, of which \$414,745 was invested in the Cash Management Series and \$678,240 in the Investment Series Fund. The Cash Management Series has no minimum investment period, allows check writing privileges, and the average weighted maturity is ninety days or less. The Investment Series Fund are pooled funds investing in U.S. government obligations, agencies and commercial paper. The Investment Series Fund requires a 14-day minimum investment period and one business day withdrawal notice.

MERTON COMMUNITY SCHOOL DISTRICT

Merton, Wisconsin

Notes to Financial Statements

June 30, 2023

(Continued)

2. Cash and Investments (Continued)

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. This is measured by assignment of a rating by a nationally recognized rating organization. The District does not have a policy regarding credit risk. The WISC Cash Management Series and Investment Management Series have an AAAM average credit quality rating.

The LGIP does not have a credit quality rating and is also not subject to credit risk disclosure because investments are not issued in securities form. It is part of the State Investment Fund ("SIF") and is managed by the State of Wisconsin Investment Board. The LGIP is not registered with the Securities and Exchange Commission, but operates under the statutory authority of Wisconsin Chapter 25. The SIF reports the fair value of its underlying assets annually and carries investments at amortized cost for purposes of calculating income to participants.

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

A separate financial report for SIF is prepared in accordance with GASB. Copies of the report can be obtained from <http://www.doa.wi.gov/Pages/StateFinances/LGIP.aspx>.

WISC is organized by and operated exclusively for Wisconsin public schools, technical colleges, and municipal entities. WISC is not registered with the Securities and Exchange Commission, but operates under Wisconsin Intergovernmental Cooperation Statutes, Section 66.0301. WISC is governed by the Wisconsin Investment Series Cooperative Commission in accordance with the terms of the Intergovernmental Cooperation Agreement. WISC invests District funds in accordance with Wisconsin Law.

A separate financial report for WISC is prepared in accordance with GASB. Copies of the report can be obtained by contacting the Wisconsin Investment Series Cooperative.

WISC and LGIP are exempt from fair value disclosure due to investments being valued at amortized cost.

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.

MERTON COMMUNITY SCHOOL DISTRICT
Merton, Wisconsin

Notes to Financial Statements
June 30, 2023
(Continued)

3. Capital Assets

Capital asset balances and activity for the year ended June 30, 2023 were as follows:

	Balance July 1, 2022	Additions	Reductions	Transfers	Balance June 30, 2023
Capital assets not being depreciated					
Land	\$ 708,822	\$ ---	\$ ---	\$ ---	\$ 708,822
Construction in progress	45,000	55,037	---	(45,000)	55,037
Total capital assets not being depreciated	753,822	55,037	---	(45,000)	763,859
Capital assets being depreciated					
Buildings	17,143,784	250,963	---	45,000	17,439,747
Site improvements	1,102,140	19,970	---	---	1,122,110
Equipment	2,442,633	49,093	---	---	2,491,726
Total capital assets being depreciated	20,688,557	320,026	---	45,000	21,053,583
Less accumulated depreciation	11,763,311	658,325	---	---	12,421,636
Total capital assets being depreciated, net of accumulated depreciation	8,925,246	(338,299)	---	45,000	8,631,947
Intangible right-to-use assets					
Leased equipment	17,557	---	---	---	17,557
Less accumulated amortization	8,779	8,778	---	---	17,557
Net intangible right-to-use assets	8,778	(8,778)	---	---	---
Governmental activities capital assets, net of accumulated depreciation	\$ 9,687,846	\$ (292,040)	\$ ---	\$ ---	\$ 9,395,806

Depreciation of \$658,325 and amortization of \$8,778 was expensed to unallocated depreciation and amortization on the statement of activities:

4. Long-Term Obligations

Long-term obligations of the District are as follows:

Type	Balance July 1, 2022	Additions	Reductions	Balance June 30, 2023	Amounts due within one year
G.O. Promissory Note	\$ 331,818	\$ ---	\$ 50,000	\$ 281,818	\$ 50,000
Compensated absences	13,386	4,058	1,684	15,760	---
Lease liability	8,890	---	8,890	---	---
	\$ 354,094	\$ 4,058	\$ 60,574	\$ 297,578	\$ 50,000

MERTON COMMUNITY SCHOOL DISTRICT
Merton, Wisconsin

Notes to Financial Statements

June 30, 2023

(Continued)

4. Long-Term Obligations (Continued)

Total interest paid and expensed (including accrual) during the year for the year ended June 30, 2023 on long-term obligations was \$9,612 and \$8,973, respectively.

All general obligation debt is secured by the full faith and credit and unlimited taxing powers of the District. The debt will be retired by future property tax levies and resources accumulated in the Debt Service Fund.

General obligation debt at June 30, 2023 is comprised of the following individual issues:

Description	Issue Dates	Interest Rate	Dates of Maturity	Balance June 30, 2023
\$500,000 G.O. Promissory Note	7/31/2019	3.05%	7/31/2028	\$ 281,818

The 2022 equalized valuation of the District as certified by the Wisconsin Department of Revenue is \$1,332,534,360. The legal debt limit and margin of indebtedness as of June 30, 2023, in accordance with Section 67.03(1)(a) of the Wisconsin Statutes follows:

Debt limit (5% of \$1,332,534,360)	\$ 66,626,718
Deduct long-term debt applicable to debt margin	281,818
Margin of indebtedness	<u>\$ 66,344,900</u>

Aggregate cash flow requirements for the retirement of long-term principal interest on the GO promissory note as of June 30, 2023 follow:

Year Ended June 30,	Principal	Interest	Total
2024	\$ 50,000	\$ 7,935	\$ 57,935
2025	50,000	6,409	56,409
2026	50,000	4,843	54,843
2027	50,000	3,297	53,297
2028	50,000	1,751	51,751
2029	31,818	491	32,309
Totals	<u>\$ 281,818</u>	<u>\$ 24,726</u>	<u>\$ 306,544</u>

MERTON COMMUNITY SCHOOL DISTRICT
Merton, Wisconsin

Notes to Financial Statements

June 30, 2023

(Continued)

4. Long-Term Obligations (Continued)

Subsequent to year-end the District entered into a new lease agreement that is summarized as follows:

Description	Date	Payment Terms		Monthly Payment Amount	Interest Rate
Copiers	7/5/2023	3 years	\$	1,130	6.98%

Future minimum lease payments are as follows:

Year Ended June 30,		Principal		Interest		Total
2024	\$	11,574	\$	1,983	\$	13,557
2025		12,180		1,377		13,557
2026		13,058		498		13,556
Total	\$	36,812	\$	3,858	\$	40,670

5. Fund Balances

As of June 30, 2023, fund balance components other than unassigned fund balances consist of the following:

	<u>Nonspendable</u>	<u>Restricted</u>
General fund:		
Prepaid expenditures	\$ 85,703	\$ ---
Unspent common school fund	---	20,344
Other special revenue	---	70,379
Debt service	---	59,065
Food service	---	120,147
Capital projects	---	1,294,865
Total	\$ 85,703	\$ 1,564,800

6. 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 Annual Comprehensive Financial Report (ACFR), which can be found at <https://etf.wi.gov/about-etf/reports-and-studies/financial-reports-and-statements>

Additionally, ETF issued a standalone Wisconsin Retirement System Financial Report, which can also be found using the link above.

MERTON COMMUNITY SCHOOL DISTRICT
Merton, Wisconsin

Notes to Financial Statements

June 30, 2023

(Continued)

6. Defined Benefit Pension Plan (Continued)

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 executive service retirement plan participants, if hired on or before 12/31/16) are entitled to a retirement benefit based on a formula factor, their final average earnings, and creditable service.

Final average earnings is the average of the participant's three highest annual earnings periods. Creditable service includes current service and prior service for which a participant received earnings and made contributions as required. Creditable service also includes creditable military service. The retirement benefit will be calculated as a money purchase benefit based on the employee's contributions plus matching employer's contributions, with interest, if that benefit is higher than the formula benefit.

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

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:

Year	Core Fund Adjustment	Variable Fund Adjustment
2013	(9.6)%	9.0%
2014	4.7	25.0
2015	2.9	2.0
2016	0.5	(5.0)
2017	2.0	4.0
2018	2.4	17.0
2019	0.0	(10.0)
2020	1.7	21.0
2021	5.1	13.0
2022	7.4	15.0

MERTON COMMUNITY SCHOOL DISTRICT
Merton, Wisconsin

Notes to Financial Statements
June 30, 2023
(Continued)

6. Defined Benefit Pension Plan (Continued)

Contributions

Required contributions are determined by an annual actuarial valuation in accordance with Chapter 40 of the Wisconsin Statutes. The employee required contribution is one-half of the actuarially determined contribution rate for general category employees, including teachers, and Executives and Elected Officials. Starting on January 1, 2016, the Executives and Elected Officials category was merged into the General Employee Category. Required contributions for protective employees are the same rate as for 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 2022), the WRS recognized \$338,954 in contributions from the employer.

Contribution rates as of June 30, 2023 are:

<u>Employee Category</u>	<u>Employee</u>	<u>Employer</u>
General (including teachers, executives and elected officials)	6.80%	6.80%
Protective with Social Security	6.80%	12.00%
Protective without Social Security	6.80%	16.40%

Pension Liability, Pension Expense (Revenue) and Deferred Outflows and Inflows of Resources

At June 30, 2023, the District reported a liability of \$1,534,302 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2021 rolled forward to December 31, 2022. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The District's proportion of the net pension asset was based on the District's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2022, the District's proportion was 0.0290%, which was a decrease of 0.0006% from its proportion measured as of December 31, 2021.

For the year ended June 30, 2023, the District recognized pension expense (revenue) of \$765,186.

At June 30, 2023, the District reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 2,443,666	\$ 3,210,431
Net difference between projected and actual earnings on pension plan investments	2,606,427	---
Changes in assumptions	301,707	---
Changes in proportion and differences between employer contributions and proportionate share of contributions	20,779	5,589
Employer contributions subsequent to the measurement date	185,093	---
Total	\$ 5,557,672	\$ 3,216,020

MERTON COMMUNITY SCHOOL DISTRICT
Merton, Wisconsin

Notes to Financial Statements
June 30, 2023
(Continued)

6. Defined Benefit Pension Plan (Continued)

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

The amount of \$185,093 is reported as deferred outflows related to pension, resulting from the WRS Employer's contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability (asset) in the year ended June 30, 2024. The table presented below illustrates how the other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense (revenue) in future years.

<u>Year Ended June 30,</u>	<u>Net Deferred (Inflows) Outflows of Resources</u>
2024	\$ 91,400
2025	447,451
2026	460,467
2027	1,157,241

Actuarial Assumptions

The total pension liability in the December 31, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date:	December 31, 2021
Measurement Date of Net Pension Liability (Asset)	December 31, 2022
Experience Study:	January 1, 2018 – December 31, 2020 Published November 19, 2021
Actuarial Cost Method:	Entry Age Normal
Asset Valuation Method:	Fair Value
Long-Term Expected Rate of Return:	6.8%
Discount Rate:	6.8%
Salary Increases:	
Inflation	3.0%
Seniority/Merit	0.2% - 5.6%
Mortality:	2020 WRS Experience Mortality Table
Post-retirement Adjustments*	1.7%

* No post-retirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. 1.7% 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 2021 that covered a three-year period from January 1, 2018 to December 31, 2020. The total pension liability for December 31, 2022 is based upon a roll-forward of the liability calculated from the December 31, 2021 actuarial valuation.

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

MERTON COMMUNITY SCHOOL DISTRICT
Merton, Wisconsin

Notes to Financial Statements

June 30, 2023

(Continued)

6. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions (Continued)

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Allocation Targets and Expected Returns¹
As of December 31, 2022

Core Fund Asset Class	Current Asset Allocation	Long-Term Expected Nominal Rate of Return	Long-Term Expected Real Rate of Return²
Public Equity	48.0%	7.6%	5.0%
Public Fixed Income	25.0	5.3	2.7
Inflation Sensitive	19.0	3.6	1.1
Real Estate	8.0	5.2	2.6
Private Equity/Debt	15.0	9.6	6.9
Total Core Fund ³	115.0%	7.4	4.8
Variable Fund Asset Class			
U.S. Equities	70.0%	7.2%	4.6%
International Equities	30.0	8.1	5.5
Total Variable Fund	100.0%	7.7	5.1

¹Asset Allocations are managed within established ranges, target percentages may differ from actual monthly allocations

²New England Pension Consultants Long-Term US CPI (Inflation) Forecast: 2.5%

³The investment policy used for the Core Fund involves reducing equity exposure by leveraging lower-volatility assets, such as fixed income securities. This results in an asset allocation beyond 100%. Currently, an asset allocation target of 15% policy leverage is used, subject to an allowable range of up to 20%.

Single Discount Rate. A single discount rate of 6.80% was used to measure the total pension liability for the current prior year. This single discount rate is based on the expected rate of return on pension plan investments of 6.80% and a municipal bond rate of 4.05% (Source: Fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of December 31, 2022. In describing this index, Fidelity notes that the Municipal Curves are constructed using option-adjusted analytics of a diverse population of over 10,000 tax-exempt securities). Because of the unique structure of WRS, the 6.80% expected rate of return implies that a dividend of approximately 1.70% 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 municipal bond rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

MERTON COMMUNITY SCHOOL DISTRICT
Merton, Wisconsin

Notes to Financial Statements
June 30, 2023
(Continued)

6. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions (Continued)

Sensitivity of the District's proportionate share of the net pension liability (asset) to changes in the discount rate. The following presents the District's proportionate share of the net pension liability (asset) calculated using the discount rate of 6.80 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 (5.80 percent) or 1-percentage-point higher (7.80 percent) than the current rate:

	<u>1% Decrease to Discount Rate (5.80%)</u>	<u>Current Discount Rate (6.80%)</u>	<u>1% Increase To Discount Rate (7.80%)</u>
District's proportionate share of the net pension (asset) liability	\$ 5,092,299	\$ 1,534,302	\$ (913,294)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in separately issued financial statements available at <https://etf.wi.gov/about-etf/reports-and-studies/financial-reports-and-statements>.

Payables to the pension plan

Payables to the pension plan at June 30, 2023 were \$61,044. This represents contributions earned as of June 30, 2023, but for which payment was not remitted to the pension plan until subsequent to year-end.

7. Retirement Liability

A former district administrator is receiving the following benefits from the District as of June 30, 2023:

Upon resignation or retirement, the District shall pay a monthly amount equal to 1.5% of their annual base wage (less any applicable FICA taxes and other payroll withholdings) for a period of 48 months. The total liability recorded at June 30, 2023 is \$3,166. Future payment amounts are as follows:

<u>Year Ended June 30,</u>	
2024	\$ <u>3,166</u>

Total payments to the retired administrator for the year ended June 30, 2023 was \$19,000.

MERTON COMMUNITY SCHOOL DISTRICT
Merton, Wisconsin

Notes to Financial Statements
June 30, 2023
(Continued)

8. Other Post-Employment Benefits Plan

Description of Plan and Plan Benefits

The District's Other Post-Employment Benefit Plan ("Plan") provides other post-employment benefits ("OPEB") for teachers. The Plan is a single-employer defined benefit OPEB plan administered by the District.

For teachers who 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 who 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. The District is under contractual obligation to provide these post-retirement healthcare benefits.

Employees participating in the OPEB benefit consisted of the following at June 30, 2021, the date of the latest actuarial valuation:

Retirees currently receiving benefit payments	2
Active employees fully eligible but not yet receiving benefit payments	11
Active employees not fully eligible	<u>39</u>
Number of plan participants	<u><u>52</u></u>

No assets are accumulated in a trust that meets all the criteria in GASB Statement No. 75, paragraph 4 because the District's contributions are not irrevocable. Accordingly, the District's total OPEB liability is not reduced by any assets accumulated in a trust that meets the criteria and the District must report its total OPEB liability.

The District's total OPEB liability was measured as of June 30, 2022 and was determined by an actuarial valuation as of June 30, 2021. Changes in the District's total OPEB liability were as follows:

Balance 6/30/22 - measurement date 6/30/21	\$ 55,729
Changes for the year:	
Service cost	2,854
Interest	1,120
Changes of benefit terms*	56,744
Differences between expected and actual experience	(5,964)
Changes of assumptions or other input	(3,621)
Benefit payments	<u>(14,746)</u>
Net changes	<u>36,387</u>
Balance 6/30/23 - measurement date 6/30/22	\$ <u><u>92,116</u></u>

* The change of benefit terms represents an amount owed to an employee who resigned during the year ended June 30, 2022. This liability was reflected as a termination benefit payable on the June 30, 2022 financial statements.

OPEB liabilities are generally liquidated by the general fund.

MERTON COMMUNITY SCHOOL DISTRICT
Merton, Wisconsin

Notes to Financial Statements

June 30, 2023

(Continued)

8. Other Post-Employment Benefits Plan (Continued)

Actuarial Assumptions

Actuarial assumptions used in the June 30, 2019 valuation were based on the results of an experience conducted in 2018 using Wisconsin Retirement System (WRS) experience from 2015-2017. Key assumptions, applied to all periods included in the measurement, are as follows:

Valuation date	June 30, 2021
Measurement date	June 30, 2022
Reporting date	June 30, 2023
Actuarial cost method	Entry age normal (level percent of salary)
Medical care trend	6.50% decreasing by 0.10% per year down to 5.00%, and level thereafter
Discount rate*	4.00% (based upon all years of projected payments discounted at a municipal bond rate of 4.40%)
Mortality assumptions	Wisconsin 2018 Mortality Table adjusted for future mortality improvements using the MP-2018 fully generated improvement scale (multiplied 60%)

* Implicit in this rate is an assumed rate of inflation of 2.50%

The discount rate increased from 2.25% at the prior measurement date to 4.00%

Discount Rate

The following presents the District's net OPEB liability, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	1% Decrease to Discount Rate (3.00%)	Current Discount Rate (4.00%)	1% Increase To Discount Rate (5.00%)
Total OPEB liability	\$ 94,161	\$ 92,116	\$ 90,139

Healthcare Cost Trend Rates

The following presents the District's total OPEB liability, as well as what the District's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease To Healthcare Cost Trend (5.5% Decreasing To 4.0%)	Current Healthcare Cost Trend (6.5% Decreasing To 5.0%)	1% Increase To Healthcare Cost Trend (7.5% Decreasing to 6.0%)
Net OPEB liability	\$ 89,872	\$ 92,116	\$ 94,703

MERTON COMMUNITY SCHOOL DISTRICT
Merton, Wisconsin

Notes to Financial Statements
June 30, 2023
(Continued)

8. Other Post-Employment Benefits Plan (Continued)

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

For the year ended June 30, 2023, the District recognized OPEB expense of \$54,159. At June 30, 2023, the District reported deferred outflows of resources and inflows of resources related to OPEB from the following sources.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 15,634	\$ 58,950
Changes of assumptions or other input	32,605	45,810
Net differences between projected and actual earnings on OPEB plan investments	111	---
District contributions in the current year	---	---
Benefit payments made subsequent to measurement date	37,604	---
Total	\$ 85,954	\$ 104,760

The amount of \$37,604 reported as deferred outflows related to OPEB resulting from employer benefit payments subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2024.

Amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense (revenue) as follows:

Year Ended June 30,	
2024	\$ (6,623)
2025	(6,672)
2026	(6,703)
2027	(6,703)
2028	(6,703)
Thereafter	(23,006)

9. 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, 2023 are not likely to have a material adverse impact on the District's financial position.

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

The District has entered into a construction contract with a contractor to remodel space at the primary school. The total contract is \$74,142 of which \$38,537 was expensed during the year-ended June 30, 2023.

The District has also entered into a contract to install a turf volleyball court at the intermediate school. The total contract is \$35,000 of which \$16,500 was expensed during the year-ended June 30, 2023.

MERTON COMMUNITY SCHOOL DISTRICT
Merton, Wisconsin

Notes to Financial Statements
June 30, 2023
(Continued)

9. Commitments and Contingencies (Continued)

During the year ended June 30, 2023, the District made a \$38,263 down payment for asphalt repair work started and completed in July 2023. The down payment is reflected in prepaid expense/expenditure. The commitment remaining at June 30, 2023 is \$114,848.

10. Limitation on School District Revenues

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

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

11. Risk Management

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

12. Effect of New Accounting Standards on Financial Statements

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

- GASB Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62*
- GASB Statement No. 101, *Compensated Absences*

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

13. Adjustment due to Correction of an Error

A prior year adjustment has been made to the June 30, 2022 governmental activities and food service fund. The adjustment corrects the June 30, 2022 deferred food service revenue balance. As a result, an adjustment of \$11,845 was made to increase the net position of the governmental activities and food service fund balance as of June 30, 2022.

REQUIRED SUPPLEMENTARY INFORMATION

MERTON COMMUNITY SCHOOL DISTRICT

Merton, Wisconsin

Budgetary Comparison Schedule

General Fund

Year Ended June 30, 2023

**Variance With
Final Budget
Positive
(Negative)**

	Budgeted Amounts			
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Negative)</u>
Revenues:				
Local	\$ 4,227,830	\$ 4,227,830	\$ 4,413,684	\$ 185,854
Interdistrict payments within Wisconsin	1,172,000	1,172,000	1,089,173	(82,827)
State	4,668,447	4,668,447	4,694,040	25,593
Federal	474,921	474,921	537,761	62,840
Other	28,500	28,500	47,053	18,553
Total revenues	10,571,698	10,571,698	10,781,711	210,013
Expenditures:				
Instruction:				
Current	5,541,038	5,541,038	5,391,902	149,136
Interdistrict	585,000	585,000	637,805	(52,805)
Support Services:				
Current	3,194,730	3,194,730	3,288,328	(93,598)
Capital outlay	289,500	289,500	358,563	(69,063)
Debt service	10,000	10,000	9,037	963
Total expenditures	9,620,268	9,620,268	9,685,635	(65,367)
Excess of revenues over expenditures	951,430	951,430	1,096,076	144,646
Other Financing Sources (uses):				
Operating transfers in (out)	(940,000)	(940,000)	(884,372)	55,628
Net change in fund balances	11,430	11,430	211,704	200,274
Fund Balances - Beginning of year	3,682,382	3,682,382	3,682,382	---
Fund Balances - End of year	\$ 3,693,812	\$ 3,693,812	\$ 3,894,086	\$ 200,274

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, 2023

	Budget Amounts			Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Intermediate sources	\$ ---	\$ ---	\$ 2,060	\$ 2,060
State	277,095	277,095	354,463	77,368
Federal	212,016	212,016	213,418	1,402
Total revenues	489,111	489,111	569,941	80,830
Expenditures:				
Instruction:				
Current	1,136,040	1,136,040	1,090,618	45,422
Interdistrict	15,000	15,000	5,410	9,590
Support Services:				
Current	278,071	278,071	258,285	19,786
Total expenditures	1,429,111	1,429,111	1,354,313	74,798
Excess (deficiency) of revenues over (under) expenditures	(940,000)	(940,000)	(784,372)	155,628
Other Financing Sources (uses):				
Operating transfers in (out)	940,000	940,000	784,372	(155,628)
Net change in fund balances	---	---	---	---
Fund Balances - Beginning of year	---	---	---	---
Fund Balances - End of year	\$ ---	\$ ---	\$ ---	\$ ---

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

MERTON COMMUNITY SCHOOL DISTRICT

Merton, Wisconsin

Schedule of Proportionate Share of the Net Pension Asset (Liability)

Year Ended June 30, 2023

Wisconsin Retirement System

Last 10 Fiscal Years*

WRS Fiscal Year End Date	Proportion of the Net Pension Asset (Liability)	Proportionate Share of the Net Pension Asset (Liability)	Covered Payroll	Proportionate Share of the Net Pension Asset (Liability) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total Pension Asset (Liability)
12/31/2014	0.0352%	\$ 865,566	\$ 4,606,946	18.79%	102.74%
12/31/2015	0.0333%	(541,631)	4,496,622	12.05%	98.20%
12/31/2016	0.0320%	(263,745)	4,539,435	5.81%	99.12%
12/31/2017	0.0315%	934,908	4,653,219	20.09%	102.93%
12/31/2018	0.0314%	(1,116,928)	4,823,887	23.15%	96.45%
12/31/2019	0.0312%	1,005,719	4,922,266	20.43%	102.96%
12/31/2020	0.0305%	1,902,154	4,896,870	38.84%	105.26%
12/31/2021	0.0296%	2,386,377	4,949,364	48.22%	106.02%
12/31/2022	0.0290%	(1,534,302)	5,214,700	29.42%	95.72%

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

*GASB 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 Contributions
Year Ended June 30, 2023

Wisconsin Retirement System
Last 10 Fiscal Years*

Year-End June 30,	2023	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 356,574	\$ 334,042	\$ 332,531	\$ 326,500	\$ 324,725	\$ 321,341	\$ 302,202	\$ 302,931	\$ 320,220
Contributions in relation to the contractually required contributions	356,574	334,042	332,531	326,500	324,725	321,341	302,202	302,931	320,220
Contribution deficiency (excess)	---	---	---	---	---	---	---	---	---
District's covered payroll	\$ 5,360,105	\$ 5,044,230	\$ 4,926,377	\$ 4,909,834	\$ 4,901,862	\$ 4,760,567	\$ 4,510,032	\$ 4,521,692	\$ 4,641,022
Contributions as a percentage of covered payroll	6.65%	6.62%	6.75%	6.65%	6.62%	6.75%	6.70%	6.70%	6.90%

Notes to Schedule of Contributions:

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

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

GASB requires the presentation of the last 10 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.

Significant methods and assumptions used in calculating Wisconsin Retirement System Actuarially Determined Contributions:

Valuation Date	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014	December 31, 2013	December 31, 2012
Actuarial Cost Method	Frozen Entry Age	Frozen Entry Age	Frozen Entry Age	Frozen Entry Age	Frozen Entry Age	Frozen Entry Age	Frozen Entry Age	Frozen Entry Age	Frozen Entry Age
Amortization Method	Level % of Payroll-Closed Amortization	Level % of Payroll-Closed Amortization	Level % of Payroll-Closed Amortization	Level % of Payroll-Closed Amortization	Level % of Payroll-Closed Amortization	Level % of Payroll-Closed Amortization	Level % of Payroll-Closed Amortization	Level % of Payroll-Closed Amortization	Level % of Payroll-Closed Amortization
Amortization Period	Period	Period	Period	Period	Period	Period	Period	Period	Period
	30 Year closed from date of participation in WRS	30 Year closed from date of participation in WRS	30 Year closed from date of participation in WRS	30 Year closed from date of participation in WRS	30 Year closed from date of participation in WRS	30 Year closed from date of participation in WRS	30 Year closed from date of participation in WRS	30 Year closed from date of participation in WRS	30 Year closed from date of participation in WRS
Asset Valuation Method	Five-Year Smoothed Market (Closed)	Five-Year Smoothed Market (Closed)	Five-Year Smoothed Market (Closed)	Five-Year Smoothed Market (Closed)	Five-Year Smoothed Market (Closed)	Five-Year Smoothed Market (Closed)	Five-Year Smoothed Market (Closed)	Five-Year Smoothed Market (Closed)	Five-Year Smoothed Market (Closed)
Actuarial Assumptions Net Investment Rate of Return	5.4%	5.4%	5.4%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Weighted Based on Assumed Rate For:									
Pre-retirement	7.0%	7.0%	7.0%	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%
Post-retirement	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Salary Increases:									
Wage Inflation	3.0%	3.0%	3.0%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%
Seniority/Merit	0.1%-5.6%	0.1%-5.6%	0.1%-5.6%	0.1%-5.6%	0.1%-5.6%	0.1%-5.6%	0.1%-5.6%	0.1%-5.6%	0.1%-5.6%
Post-retirement benefit Adjustments**	1.9%	1.9%	1.9%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%
Retirement Age (Experience based table of rates that are specific to the type of eligibility condition)	Last updated for the 2018 valuation pursuant to an experience study of the period 2015-2017	Last updated for the 2018 valuation pursuant to an experience study of the period 2015-2017	Last updated for the 2018 valuation pursuant to an experience study of the period 2015-2017	Last updated for the 2015 valuation pursuant to an experience study of the period 2012-2014	Last updated for the 2015 valuation pursuant to an experience study of the period 2012-2014	Last updated for the 2015 valuation pursuant to an experience study of the period 2012-2014	Last updated for the 2012 valuation pursuant to an experience study of the period 2009-2011	Last updated for the 2012 valuation pursuant to an experience study of the period 2009-2011	Last updated for the 2012 valuation pursuant to an experience study of the period 2009-2011
Mortality:									
Table	Wisconsin 2018 Actual WRS experience	Wisconsin 2018 Actual WRS experience	Wisconsin 2018 Actual WRS experience	Wisconsin 2012 Actual WRS experience	Wisconsin 2012 Actual WRS experience	Wisconsin 2012 Actual WRS experience	Wisconsin 2012 Actual WRS experience	Wisconsin 2012 Actual WRS experience	Wisconsin 2012 Actual WRS experience
Rate	adjustment for future mortality improvements using the MP-2018 fully generational improvement scale (multiplied by 60%)	adjustment for future mortality improvements using the MP-2018 fully generational improvement scale (multiplied by 60%)	adjustment for future mortality improvements using the MP-2018 fully generational improvement scale (multiplied by 60%)	adjustment for future mortality improvements using the MP-2015 fully generational improvement scale (multiplied by 50%)	adjustment for future mortality improvements using the MP-2015 fully generational improvement scale (multiplied by 50%)	adjustment for future mortality improvements using the MP-2015 fully generational improvement scale (multiplied by 50%)	Actual WRS projected to 2017 with scale BB to all for future improvements (margin) in mortality	Actual WRS projected to 2017 with scale BB to all for future improvements (margin) in mortality	Actual WRS projected to 2017 with scale BB to all for future improvements (margin) in mortality

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

MERTON COMMUNITY SCHOOL DISTRICT
Merton, Wisconsin

Schedule of Changes in Net OPEB Liability and Related Ratios
Year Ended June 30, 2023
Last 10 Fiscal Years*

	2023	2022	2021	2020	2019	2018	2017
Total OPEB Liability							
Service cost	\$ 2,854	\$ 11,855	\$ 9,956	\$ 5,115	\$ 5,288	\$ 2,992	\$ 2,992
Interest	1,120	2,960	4,152	3,483	2,345	2,487	3,769
Change of benefit terms	56,744	20,741	---	---	---	---	---
Differences between expected and actual experiences	(5,964)	(49,405)	---	(10,155)	25,409	(14,106)	---
Changes of assumptions or other input	(3,621)	(52,421)	6,991	31,462	(994)	13,926	---
Benefit payments	(14,746)	(7,271)	(10,967)	(2,177)	(9,990)	(34,725)	(64,270)
Net change in total OPEB liability	36,387	(73,541)	10,132	27,728	22,058	(29,426)	(57,509)
Total OPEB liability - beginning	55,729	129,270	119,138	91,410	69,352	98,778	156,287
Total OPEB liability - ending (a)	\$ 92,116	\$ 55,729	\$ 129,270	\$ 119,138	\$ 91,410	\$ 69,352	\$ 98,778
Fiduciary Net Position							
Contributions - employer	\$ ---	\$ ---	\$ 2,354	\$ 5,490	\$ ---	\$ ---	\$ ---
Net investment income	---	---	4	9	26	101	147
Benefit payments	---	---	(10,967)	(2,177)	(9,990)	(34,725)	(64,270)
Administrative expenses	---	---	---	---	---	---	---
Net change in fiduciary net position	---	---	(8,609)	3,322	(9,964)	(34,624)	(64,123)
Fiduciary net position - beginning	---	---	8,609	5,287	15,251	49,875	113,998
Fiduciary net position - ending (b)	\$ ---	\$ ---	\$ ---	\$ 8,609	\$ 5,287	\$ 15,251	\$ 49,875
Net OPEB liability - ending (a) - (b)	\$ 92,116	\$ 55,729	\$ 129,270	\$ 110,529	\$ 86,123	\$ 54,101	\$ 48,903
Fiduciary net position as a percentage of the total OPEB liability	0.00%	0.00%	0.00%	7.23%	5.78%	21.99%	50.49%
Covered-employee payroll	\$ 4,536,050	\$ 4,536,050	\$ 4,578,708	\$ 4,578,708	\$ 2,177,714	\$ 2,177,714	\$ 1,956,533
Net OPEB liability as a percentage of covered-employee payroll	2.03%	1.23%	2.82%	2.41%	3.95%	2.48%	2.50%
Measurement Date	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016

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

*GASB 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.

As of the June 30, 2020 measurement date all assets have been exhausted and the trust that held the assets has been closed.

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

MERTON COMMUNITY SCHOOL DISTRICT
Merton, Wisconsin

Schedule of Employer Contributions - OPEB
Year Ended June 30, 2023
Last 10 Fiscal Years*

	2023	2022	2021	2020	2019	2018	2017
Actuarially determined contributions (ADC)	\$ ---	\$ ---	\$ 14,392	\$ 5,250	\$ 5,097	\$ 10,331	\$ 10,331
Contributions in relation to the ADC	---	---	2,354	5,490	---	---	---
Contribution deficiency (excess)	\$ ---	\$ ---	\$ 12,038	\$ (240)	\$ 5,097	\$ 10,331	\$ 10,331
Covered-employee payroll	\$ 4,536,050	\$ 4,536,050	\$ 4,578,708	\$ 4,578,708	\$ 2,177,714	\$ 2,177,714	\$ 1,956,533
Contributions as a percentage of covered-employee payroll	0.00%	0.00%	0.05%	0.12%	0.00%	0.00%	0.00%
Measurement Date	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016

Key Methods and Assumption Used to Calculate ADC

	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Actuarial cost method	Market Value	Market Value	Market Value	Market Value	Market Value
Asset valuation method	N/A	N/A	30 year Level %	30 year Level %	5 year Level %
Amortization method	N/A	N/A	3.50%	3.50%	4.00%
Discount rate	N/A	N/A	3.00%	3.00%	3.00%
Amortization growth rate	N/A	N/A	2.50%	2.50%	3.00%
Inflation	N/A	N/A	June 30, 2019	June 30, 2017	June 30, 2015
Valuation Date	N/A	N/A			

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

*GASB 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.

As of the June 30, 2020 measurement date all assets have been exhausted and the trust that held the assets has been closed.

Schedule of Investment Returns - OPEB
Year Ended June 30, 2023
Last 10 Fiscal Years*

	2023	2022	2021	2020	2019	2018	2017
Annual money-weighted rate of return, net of investment expenses	N/A	N/A	0.00%	0.15%	0.09%	0.12%	0.10%

*GASB 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

Notes to Required Supplementary Information

June 30, 2023

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 GAAP. An explanation of the differences between revenues, expenditures, and other financing sources (uses) for budgetary funds on budgetary fund basis and a GAAP general fund basis is summarized below:

	<u>General Fund</u>	<u>Special Education Fund</u>
Revenues		
Actual amounts (budgetary basis)	\$ 10,781,711	\$ 569,941
Reclassification of special education	569,941	(569,941)
Total revenues (GAAP)	<u>11,351,652</u>	<u>---</u>
Expenditures		
Actual amounts (budgetary basis)	9,685,635	1,354,313
Reclassification of special education	1,354,313	(1,354,313)
Total expenditures (GAAP)	<u>11,039,948</u>	<u>---</u>
Excess of Revenues Over (Under) Expenditures		
Actual amounts (budgetary basis)	1,096,076	(784,372)
Reclassification of special education	(784,372)	784,372
Excess of revenues over (under) expenditures (GAAP)	<u>311,704</u>	<u>---</u>
Other Financing Sources (Uses)		
Actual amounts (budgetary basis)	(884,372)	784,372
Reclassification of special education	784,372	(784,372)
Total other financing sources (uses) (GAAP)	<u>(100,000)</u>	<u>---</u>
Net Change in Fund Balance		
Actual amounts (budgetary basis and GAAP)	211,704	---
Fund Balance – Beginning of year		
Actual amounts (budgetary basis and GAAP)	<u>3,682,382</u>	<u>---</u>
Fund Balance – End of year		
Actual amounts (budgetary basis and GAAP)	<u>\$ 3,894,086</u>	<u>\$ ---</u>

MERTON COMMUNITY SCHOOL DISTRICT

Merton, Wisconsin

Notes to Required Supplementary Information

June 30, 2023

(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, 2023:

General Fund:

General administration	\$ 14,929
Business administration	122,353
Central services	12,210
Purchased instructional services	125,704
Other non-program transactions	10,641

Special Education Fund:

Purchased instructional services	10,133
----------------------------------	--------

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

Note C – Wisconsin Retirement System

Changes of benefit terms: There were no changes of benefit terms for any participating employer in WRS.

Changes of assumptions:

Based on a three-year experience study conducted in 2021 covering January 1, 2018 through December 31, 2020, the ETF Board adopted assumption changes that were used to measure the total pension liability beginning with the year-end December 31, 2021, including the following:

- Lowering the long-term expected rate of return from 7.0% to 6.8%
- Lowering the discount rate from 7.0% to 6.8%
- Lowering the price inflation rate from 2.5% to 2.4%
- Lowering the post-retirement adjustments from 1.9% to 1.7%
- Mortality assumptions were changed to reflect updated trends by transitioning from the Wisconsin 2018 Mortality Table to the 2020 WRS Experience Mortality Table.

Based on a three-year experience study conducted in 2018 covering January 1, 2015 through December 31, 2017, the ETF Board adopted assumption changes that were used to measure the total pension liability beginning with the year-ended December 31, 2018, including the following:

- Lowering the long-term expected rate of return from 7.2% to 7.0%
- Lowering the discount rate from 7.2% to 7.0%•Lowering the wage inflation rate from 3.2% to 3.0%
- Lowering the price inflation rate from 2.7% to 2.5%
- Lowering the post-retirement adjustments from 2.1% to 1.9%
- Mortality assumptions were changed to reflect updated trends by transitioning from the Wisconsin 2012 Mortality Table to the Wisconsin 2018 Mortality Table.

MERTON COMMUNITY SCHOOL DISTRICT
Merton, Wisconsin

Notes to Required Supplementary Information
June 30, 2023
(Continued)

Note D – Other Post-Employment Benefit Plan Information

No assets are accumulated in a trust that meets all of the following criteria of GASBS No. 75, paragraph 4:

- Contributions from the employer and any non-employer contributing entities, and earnings thereon, must be irrevocable.
- Plan assets must be dedicated to providing pensions to plan members in accordance with the benefit terms.
- Plan assets must be legally protected from the creditors of the employer, non-employer contributing entities, the plan administrator, and plan members.

The only change in benefit terms was that the District provided one recent retiree with an individually negotiated HRA benefit for a period of three years.

The following changes in actuarial assumption have been made in the years presented:

- The discount rate changed as can be seen in the following table:

Year Ended June 30	Discount Rate	Assumed rate of inflation
2017	4.00%	3.00%
2018	4.00%	3.00%
2019	3.50%	2.50%
2020	3.50%	2.50%
2021	3.50%	2.50%
2022	2.25%	2.25%
2023	4.00%	2.50%

- Mortality assumptions for the years ended June 30, 2017 through June 30, 2020 were from the Wisconsin 2012 Mortality Table adjusted for future mortality improvements using the MP-2015 fully generated improvement scale multiplied 50%); for the years ended June 30, 2021 through June 30, 2023 this changed to the Wisconsin 2018 Mortality Table adjusted for future mortality improvements using the MP-2018 fully generated improvement scale (multiplied 60%)
- Actuarial assumptions used for the years ended June 30, 2017 through June 30, 2020 were based on an experience study conducted in 2015 using Wisconsin Retirement System (WRS) experience from 2012-14; For the years ended June 30, 2021 through June 30, 2023 this changed to being based on the results of an experience study conducted in 2018 using the Wisconsin Retirement System (WRS) experience from 2015-2017.

OTHER SUPPLEMENTARY INFORMATION

MERTON COMMUNITY SCHOOL DISTRICT

Merton, Wisconsin

**Combining Balance Sheet
Nonmajor Governmental Funds**

June 30, 2023

	Special Revenue Funds			
	Other Special Revenue	Food Service	Debt Service	Total
Assets:				
Cash	\$ 70,379	\$ 135,965	\$ 59,065	\$ 265,409
Due from other governments	---	1,785	---	1,785
Total assets	\$ 70,379	\$ 137,750	\$ 59,065	\$ 267,194
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ ---	\$ 3,789	\$ ---	\$ 3,789
Unearned revenues	---	13,814	---	13,814
Total liabilities	---	17,603	---	17,603
Fund Balances:				
Restricted	70,379	120,147	59,065	249,591
Total fund balances	70,379	120,147	59,065	249,591
Total liabilities and fund balances	\$ 70,379	\$ 137,750	\$ 59,065	\$ 267,194

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, 2023

	Special Revenue Funds			
	Other Special Revenue	Food Service	Debt Service	Total
Revenues:				
Local	\$ 69,548	\$ 258,237	\$ 59,482	\$ 387,267
State	---	3,914	---	3,914
Federal	---	139,148	---	139,148
Total revenues	69,548	401,299	59,482	530,329
Expenditures:				
Instruction:				
Current	37,165	---	---	37,165
Capital outlay	16,500	---	---	16,500
Support Services:				
Current	2,434	412,974	---	415,408
Debt service	---	---	59,465	59,465
Total expenditures	56,099	412,974	59,465	528,538
Excess (deficiency) of revenues over expenditures	13,449	(11,675)	17	1,791
Net change in fund balances	13,449	(11,675)	17	1,791
Fund Balances - Beginning of year	56,930	119,977	59,048	235,955
Adjustment due to correction of an error	---	11,845	---	11,845
Fund Balances - Beginning of year, as adjusted	56,930	131,822	59,048	247,800
Fund Balances - End of year	\$ 70,379	\$ 120,147	\$ 59,065	\$ 249,591

See Independent Auditors' Report.

MERTON COMMUNITY SCHOOL DISTRICT
Merton, Wisconsin

Schedule of Expenditures of State Awards
Year Ended June 30, 2023

Awarding Agency	State	Pass-Through	Accrued or		State	Accrued or	
Pass-Through Agency	I.D.	Entity Identifying	(Unearned)		Disbursements/	(Unearned)	Subrecipient
<u>Award Description</u>	<u>Number</u>	<u>Number</u>	<u>Revenue at</u>	<u>7/1/22</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Awards</u>
Wisconsin Department of Public Instruction							
Special education and school-age parents**	255.101	673528-100	\$ ---	\$ 348,150	\$ 348,150	\$ ---	\$ ---
Passed through CESA 1:							
Special education and school-age parents	255.101	749901-100	---	2,060	2,060	---	---
Total special education and school-age parents			---	350,210	350,210	---	---
State school lunch aid	255.102	673528-107	---	3,914	3,914	---	---
Common school fund library aid	255.103	673528-104	(19,799)	41,745	41,200	(20,344)	---
Pupil transportation	255.107	673528-102	---	13,266	13,266	---	---
Equalization aids	255.201	673528-116	---	4,238,140	4,238,140	---	---
High cost special education aid	255.210	673528-119	---	6,313	6,313	---	---
Educator effective evaluation system	255.940	673528-154	---	5,280	5,280	---	---
Per pupil aid	255.945	673528-113	---	595,084	595,084	---	---
Assessments of reading readiness	255.956	673528-166	---	2,080	2,080	---	---
Total Wisconsin Department of Public Instruction			(19,799)	5,256,032	5,255,487	(20,344)	---
Total state assistance			\$ (19,799)	\$ 5,256,032	\$ 5,255,487	\$ (20,344)	\$ ---

** Total DPI aidable expenditures for the year ended June 30, 2023 were \$1,157,639

MERTON COMMUNITY SCHOOL DISTRICT
Merton, Wisconsin

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

KATIE UPDATED FOR SA DETERMINATION ON 8.23.2023

Awarding Agency Pass-Through Agency <u>Award Description</u>	Assistance Listing <u>Number</u>	Pass-Through Entity Identifying <u>Number</u>	Accrued or (Unearned) Revenue at <u>7/1/22</u>	<u>Receipts</u>	Federal Disbursements/ <u>Expenditures</u>	Accrued or (Unearned) Revenue at <u>6/30/23</u>	Subrecipient <u>Awards</u>
U.S. Department of Agriculture							
Passed through Wisconsin Department of Public Instruction:							
Child Nutrition Cluster:							
National School Lunch Program:							
Donated Commodities - noncash	10.555	Not applicable	\$ ---	\$ 26,909	\$ 26,909	\$ ---	\$ ---
COVID-19 - Food Service Aid - Lunch	10.555	2022-673528-DPI-NSL-547	10,138	10,138	---	---	---
Food Service Aid - Lunch	10.555	2023-673528-DPI-NSL-547	---	108,951	110,736	1,785	---
Total National School Lunch Program			10,138	145,998	137,645	1,785	---
Food Service Aid - Milk	10.556	2023-673528-DPI-SMP-548	---	1,503	1,503	---	---
Total Child Nutrition Cluster			10,138	147,501	139,148	1,785	---
Total U.S. Department of Agriculture			10,138	147,501	139,148	1,785	---
U.S. Department of Education							
Passed through Wisconsin Department of Public Instruction:							
Title IA Basic	84.010A	2023-673528-DPI-TI-A-141	12,183	12,183	3,857	3,857	---
<i>Special Education Cluster:</i>							
Special Education - Grants to State:							
IDEA Flow Through	84.027A	2023-673528-DPI-FLOW-341	34,014	96,623	133,566	70,957	---
Special Education - Preschool Grants:							
IDEA Preschool Entitlement	84.173A	2023-673528-DPI-PRESCH-347	3,700	8,336	5,648	1,012	---
COVID-19 - IDEA Preschool Entitlement	84.173A	2022-673528-DPI-PRESCH-346	590	590	---	---	---
Total Special Education - Preschool Grants			4,290	8,926	5,648	1,012	---
Total Special Education Cluster			38,304	105,549	139,214	71,969	---
Title II-A Teacher Principal Training	84.367A	2023-673528-DPI-TIIA-365	250	2,678	11,514	9,086	---
Title IV-A Student Support and Academic Enrichment	84.424A	2023-673528-DPI-TIVA-381	1,200	5,152	18,925	14,973	---
<i>Education Stabilization Funds:</i>							
COVID-19 - Elementary and Secondary School Emergency Relief II	84.425D	2022-673528-DPI-ESSERFII-163	65,166	242,009	191,424	14,581	---
COVID-19 - LETRS ESSER III	84.425U	2023-673528-DPI-LETRS-165	---	4,000	4,000	---	---
COVID-19 - Elementary and Secondary School Emergency Relief III	84.425U	2022-673528-DPI-ESSERFIII-165	17,123	192,940	247,506	71,689	---
Total Education Stabilization Funds			82,289	438,949	442,930	86,270	---
Total U.S. Department of Education			134,226	564,511	616,440	186,155	---
U.S. Department of Health and Human Services							
Passed Through Wisconsin Department of Health Services:							
Medicaid Cluster:							
Medical Assistance Program	93.778	44209300	956	43,904	42,948	---	---
Total U.S. Department of Health and Human Services			956	43,904	42,948	---	---
Total			\$ 145,320	\$ 755,916	\$ 798,536	\$ 187,940	\$ ---

MERTON COMMUNITY SCHOOL DISTRICT

Merton, Wisconsin

Notes to Schedules of Expenditures of State and Federal Awards

June 30, 2023

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, 2023. The information in this schedule is presented in accordance with the requirements of the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the *Wisconsin State Single Audit Guidelines*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements. Because the schedules present only a selected portion of the operations of the District, it is not intended to and does not present the net financial position, changes in fund balances or cash flows for the District. All federal and state awards received directly from federal and state agencies as well as federal and state financial awards passed through other government agencies are included on the schedule.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedules are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, the cost principles contained in the Uniform Guidance and *Wisconsin State Single Audit Guidelines*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Accrued revenue at year-end consists of federal and state program expenditures scheduled for reimbursement to the District in the succeeding year while unearned revenue represents advances for federal and state programs that exceed recorded District expenditures.

3. Indirect Cost Rate

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

4. Noncash Awards

The federal donated commodities in the Child Nutrition Cluster is administered by the U.S. Department of Agriculture and passed through the Wisconsin Department of Instruction and transactions relating to this program are included in the District's basic financial statements. Commodities received during the year are included in the federal expenditures presented in the Schedule. There are no balances outstanding as of June 30, 2023.



**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, 2023, and the related notes to the financial statements which collectively comprise the District's basic financial statements and have issued our report thereon dated November 27, 2023.

Report on 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) as a basis for designing 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 a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2023-001 that we consider to be a significant deficiency.

Report on 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 financial statements. 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 Finding

Government Auditing Standards requires the auditor to perform limited procedures on the District's responses to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. 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 the responses.

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.

Reilly, Penner & Benton LLP

November 27, 2023
Milwaukee, Wisconsin



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

To the School Board
Merton Community School District
Merton, Wisconsin

Report on Compliance for Each Major Federal and State Program

Opinion on Each Major Federal and State Program

We have audited Merton Community School District's (the "District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and Wisconsin State Single Audit Guidelines that could have a direct material effect on each of the District's major federal and state programs for the year ended June 30, 2023. The District's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state aid programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal and State Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and Wisconsin State Single Audit Guidelines. Our responsibilities under those standards, Uniform Guidance and Wisconsin State Single Audit Guidelines are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal and state program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, state statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the District's federal and state programs.

Auditors' Responsibilities for the Audit Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, the Uniform Guidance and the Wisconsin State Single Audit Guidelines will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal and state program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, the Uniform Guidance and the Wisconsin State Single Audit Guidelines, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance and the Wisconsin State Single Audit Guidelines, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2023-003. Our opinion on each major federal and state program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

Report on Internal Control Over Compliance (Continued)

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 federal or state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2023-002 and 2023-003 to be significant deficiencies. Those significant deficiencies in internal control over compliance related to the following programs and compliance requirements:

Finding	Assistance Listing #	Cluster Name	Compliance Requirement
2023-002	84.425D	Education Stabilization Fund	Special Tests
2023-003	84.425D	Education Stabilization Fund	Equipment

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Reilly, Penner & Benton LLP

November 27, 2023
Milwaukee, Wisconsin

MERTON COMMUNITY SCHOOL DISTRICT

Merton, Wisconsin

Schedule of Prior Audit Findings

Year Ended June 30, 2023

Reference Number: 2022-001

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 could be misstated and required footnote disclosures could be missing.

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

Update: This condition has not changed as of June 30, 2023. See Finding 2023-001.

MERTON COMMUNITY SCHOOL DISTRICT
Merton, Wisconsin

Schedule of Findings and Questioned Costs
Year Ended June 30, 2023

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? | No |
| B. Significant deficiency(ies) identified? | Yes |
| 3. Noncompliance material to financial statements? | No |

State Awards

- | | |
|-------------------------------------------------------------------------------------------------------------------------------------|---------------|
| 4. Internal control over compliance: | |
| A. Material weakness(es) identified: | No |
| B. Significant deficiency(ies) identified? | None reported |
| 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 Wisconsin Public State Single Audit Guidelines? | No |
| 7. Identification of major programs: | |

State ID Number
255.201

Name of State Program
Equalization Aid

- | | |
|----------------------------------------------------------------------------|-----------|
| 8. Dollar threshold used to distinguish between type A and type B programs | \$250,000 |
|----------------------------------------------------------------------------|-----------|

MERTON COMMUNITY SCHOOL DISTRICT
Merton, Wisconsin

Schedule of Findings and Questioned Costs
Year Ended June 30, 2023

A. Summary of Auditor's Results

Federal Awards

9. Internal control over major programs:

A. Material weakness(es) identified: No

B. Significant deficiency(ies) identified? Yes

10. Type of auditor's report issued on compliance for major programs: Unmodified

11. Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? Yes

12. Identification of major programs:

Assistance Listing
Number(s)

Name of Federal Program or Cluster

Education Stabilization Funds:

84.425D	COVID-19 – Elementary and Secondary School Emergency Relief II
84.425U	COVID-19 – LETRS ESSER III
84.425U	COVID-19 – Elementary and Secondary School Emergency Relief III

13. Dollar threshold used to distinguish between type A and type B programs \$750,000

14. Auditee qualified as low-risk auditee? No

MERTON COMMUNITY SCHOOL DISTRICT
Merton, Wisconsin

Schedule of Findings and Questioned Costs
Year Ended June 30, 2023
(Continued)

B. Financial Statement Findings

Reference Number: 2023-001
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 could be misstated and required footnote disclosures could be missing.

Identification of a Repeat Finding: This is a repeat finding from previous audits, see 2022-001.

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

Views of Responsible Officials and Corrective Action Plan: See attachment for District's corrective action plan.

MERTON COMMUNITY SCHOOL DISTRICT
Merton, Wisconsin

Schedule of Findings and Questioned Costs
Year Ended June 30, 2023
(Continued)

C. State and Federal Award Findings and Questioned Costs

**Finding 2023-002 Federal #85.425D - Elementary and Secondary School Emergency Relief
Inadequate Controls for Verifying Compliance with Davis-Bacon Act Requirements**

Criteria: The Davis-Bacon Act requires contractors and subcontractors on federal contracts to pay laborers and mechanics employed under the contract at rates not less than the prevailing wages and fringe benefits determined by the Secretary of Labor. To comply with federal regulations, it is essential for the auditee to establish internal controls ensuring accurate verification and documentation of these payments.

Condition: The District did not have internal controls in place to validate and confirm that contractors working on federally funded HVAC projects with ESSER money were paying the mandated prevailing wages and fringe benefits to their employees. The absence of such controls resulted in increased risk of non-compliance.

Cause: The absence of adequate controls stemmed from a lack of comprehensive policies, procedures, and training programs related to the Davis-Bacon Act. Additionally, there was a failure to assign responsibility for monitoring and ensuring compliance, leading to gaps in oversight.

Effect: The District could have charged contract costs to ESSER that were not allowable.

Questioned Costs: \$-0-

Auditors' Recommendation: The District should implement controls that verify compliance with Davis-Bacon for all construction contracts using ESSER funds and retain supporting documentation. This should include the development of clear policies and procedures outlining the steps for verifying prevailing wage rates and fringe benefits, as well as adequate training for staff involved in contract administration. Furthermore, the District should designate responsible individuals or teams to oversee compliance monitoring and regularly audit contractor and subcontractor records to confirm adherence to federal regulations.

View of Responsible Officials and Corrective Action Plan: See attachment for District's corrective action plan.

MERTON COMMUNITY SCHOOL DISTRICT
Merton, Wisconsin

Schedule of Findings and Questioned Costs
Year Ended June 30, 2023
(Continued)

C. State and Federal Award Findings and Questioned Costs (Continued)

**Finding 2023-003 Federal #85.425D - Elementary and Secondary School Emergency Relief
Inadequate Tracking of Equipment Purchased with Federal Funds**

Criteria: Federal regulations, specifically outlined in the Uniform Guidance (2 CFR 200), require grantees and subgrantees to maintain accurate and complete records that adequately identify the use of federal funds. This includes maintaining separate records for equipment purchased with federal funds to facilitate proper tracking, reporting, and compliance monitoring.

Condition: The District lacks a systematic approach to differentiate equipment acquired through federal funding sources from other assets. The absence of a dedicated tracking system and failure to maintain distinct records for federally funded equipment makes it challenging to identify, monitor, and report on the utilization, maintenance, and disposal of equipment purchased with federal dollars.

Cause: The absence of a comprehensive tracking system and designated procedures for segregating federally funded equipment resulted from a lack of awareness of federal requirements and internal control weaknesses within the organization's asset management practices.

Effect: The inability to track equipment purchased with federal funds separately compromises the District's ability to meet federal reporting requirements and demonstrate proper stewardship of public resources. Additionally, it increases the risk of misallocation, misuse, or loss of valuable assets, leading to potential financial losses and non-compliance with federal regulations.

Questioned Costs: \$-0-

Auditors' Recommendation: We recommend that the District establishes an equipment tracking system that clearly distinguishes assets acquired through federal funding sources. This system should include unique identifiers for federally funded equipment, detailed records of acquisition, usage, maintenance, and disposal, and regular reconciliations to ensure accuracy. Additionally, the District should provide training to staff responsible for asset management to enhance awareness of federal regulations and internal policies related to equipment tracking.

View of Responsible Officials and Corrective Action Plan: See attachment for District's corrective action plan.

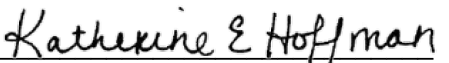
MERTON COMMUNITY SCHOOL DISTRICT
Merton, Wisconsin

Schedule of Findings and Questioned Costs
Year Ended June 30, 2023
(Continued)

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 Wisconsin State Single Audit Guidelines? | 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


Katherine E Hoffman

5. Date of Report

November 27, 2023



Corrective Action Plan

Reference Number: 2023-001

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: 2023-002

Federal CAN: #85.425D

Description: Elementary and Secondary School Emergency Relief Inadequate Controls for Verifying Compliance with Davis-Bacon Act Requirements

Corrective Action Plan: The District will promptly establish policies and procedures related to the Davis-Bacon Act, conduct training sessions for relevant staff, and assign dedicated personnel to monitor compliance on an ongoing basis. A corrective action plan will be implemented to ensure full compliance with federal regulations.

Anticipated Corrective Action Plan Completion Date: February 1, 2023

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



Reference Number: 2023-003

Federal CAN: #85.425D

Description: Elementary and Secondary School Emergency Relief Inadequate Tracking of Equipment Purchased with Federal Funds

Corrective Action Plan: The District will initiate the development of an equipment tracking system that adheres to federal requirements. Training sessions will be conducted for relevant staff to ensure proper understanding and compliance with the new tracking procedures.

Anticipated Corrective Action Plan Completion Date: February 1, 2023

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