

**MUKWONAGO AREA SCHOOL DISTRICT  
MUKWONAGO, WISCONSIN**

**FINANCIAL STATEMENTS  
WITH INDEPENDENT AUDITORS' REPORT**

**JUNE 30, 2016**

**MUKWONAGO AREA SCHOOL DISTRICT**  
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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Education  
Mukwonago Area School District  
Mukwonago, WI

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mukwonago Area School District (the "District"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Mukwonago Area School District as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mukwonago Area School District's basic financial statements. The combining and individual nonmajor fund financial statements and schedule of changes in assets and liabilities - agency funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards and state financial assistance are presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and *State Single Audit Guidelines*, and are also not a required part of the basic financial statements.

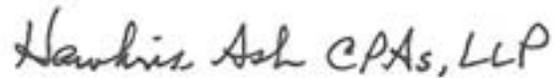
The combining and individual nonmajor fund financial statements, schedule of changes in assets and liabilities - agency funds, schedule of expenditures of federal awards, and the schedule of state financial assistance are the responsibility of management and were derived from and relate directly to the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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2017, on our consideration of the Mukwonago Area School District's internal control

over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mukwonago Area School District's internal control over financial reporting and compliance.

HAWKINS ASH CPAS, LLP

A handwritten signature in black ink that reads "Hawkins Ash CPAs, LLP". The signature is written in a cursive, flowing style.

Manitowoc, Wisconsin  
January 6, 2017

**MUKWONAGO AREA SCHOOL DISTRICT  
MUKWONAGO, WISCONSIN**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**



## Mukwonago Area School District

*Building Better Schools Together*

### Management's Discussion and Analysis

As management of the Mukwonago Area School District ("District"), we offer readers of the District's basic financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2016. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the District's basic financial statements, which follow this narrative.

#### FINANCIAL HIGHLIGHTS

Total governmental activities revenue was \$56,029,804; including \$27,238,944 of property taxes, \$21,796,124 of general state and federal aid, and \$6,818,307 of charges for services and grants. Total governmental activities expenditures were \$53,811,957; including \$31,020,204 for direct instruction.

The District's financial status, as reflected in total net position, increased by \$2,217,847.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements are comprised of 1) district-wide financial statements 2) fund financial statements, and 3) notes to the financial statements. In addition, other information supplementary to the basic financial statements is provided.

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

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

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

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

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

### Major Features of the District-Wide and Fund Financial Statements

	District - Wide Statements	Fund Financial Statements	
		Governmental	Fiduciary
Scope	Entire District (except fiduciary funds).	The activities of the District that are not proprietary or fiduciary, such as instructional, support services, debt service, capital projects, and community services.	Assets held by the District on behalf of someone else. Student and other organizations that have funds on deposit with the District are reported here.
Required financial statements	Statement of net position. Statement of activities.	Balance Sheet. Statement of revenues, expenditures and changes in fund balance.	Statement of net position. Statement of changes in net position.
Basis of accounting and measurement focus	Accrual accounting and economic resources focus.	Modified accrual accounting.  Current financial resources focus.	Accrual accounting.  Economic resources focus.
Type of asset and liability information	All assets and liabilities; both financial and capital, short-term and long-term.	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter. No capital assets or long-term liabilities included.	All assets and liabilities, both financial and capital; short-term and long-term. These funds do not currently contain any capital assets, although they can.
Type of inflow and outflow information	All revenues and expenses during the year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liabilities are due and payable.	All additions or deductions during the year, regardless of when cash is received and paid.

## DISTRICT-WIDE STATEMENTS

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

In the district-wide financial statements, the District's activities are reported as governmental activities. Most of the District's basic services are included here, such as regular and special education, transportation, support services, debt service, capital projects, food service, community programs and administration. Property taxes and state formula aid finance most of these activities.

## FUND FINANCIAL STATEMENTS

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

The District has two kinds of funds:

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

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Table 1, below, provides a summary of the District's net position for the year ended June 30, 2016 compared to 2015. The District's combined net position increased by \$2,217,847. Specific causes of the increase are discussed later in this document.

	<u>Governmental Activities</u>		<u>Total % Change</u>
	<u>2016</u>	<u>2015</u>	<u>2015 - 2016</u>
Current and other assets	\$ 25,745	\$ 31,000	-17.0%
Capital assets	<u>33,154</u>	<u>34,016</u>	-2.5%
Total assets	<u><u>58,899</u></u>	<u><u>65,016</u></u>	-9.4%
Deferred outflows of resources	<u>15,587</u>	<u>3,896</u>	300.08%
Long-term liabilities			
outstanding	13,244	14,645	-9.6%
Other liabilities	<u>1,794</u>	<u>3,190</u>	-43.8%
Total liabilities	<u><u>15,037</u></u>	<u><u>17,834</u></u>	-15.7%
Deferred inflows of resources	<u>6,153</u>	<u>-</u>	
Net position:			
Net investment in capital assets	25,304	23,476	7.8%
Restricted	17,847	10,565	68.9%
Unrestricted	<u>10,145</u>	<u>17,037</u>	-40.5%
Total net position	<u><u>\$ 53,295</u></u>	<u><u>\$ 51,078</u></u>	4.3%

Note: Totals may not add due to rounding.

**Table 2**  
**Changes in Net Position**  
*(in thousands of dollars)*

	Governmental Activities		Total % Change
	2016	2015	2015 - 2016
<b>Revenues</b>			
Program revenues			
Charges for services	\$ 2,866	\$ 2,933	-2.3%
Operating grants and contributions	3,952	4,228	-6.5%
General revenues			
Property taxes	27,239	27,736	-1.8%
State and federal aid	21,796	22,347	-2.5%
Other	176	183	-3.8%
Total revenues	<u>56,030</u>	<u>57,426</u>	-2.4%
<b>Expenses</b>			
Instruction	31,020	28,692	8.1%
Pupil and instructional services	4,382	4,530	-3.3%
Administration and business	6,065	5,690	6.6%
Operations and maintenance	4,930	5,053	-2.4%
Transportation	2,805	2,731	2.7%
Interest on debt	190	280	-32.1%
Other	4,420	4,090	8.1%
Total expenses	<u>53,812</u>	<u>51,066</u>	5.4%
Increase in net position	<u>\$ 2,218</u>	<u>\$ 6,359</u>	-65.1%

Note: Totals may not add due to rounding.

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

The District relies primarily on state and federal aids (39%) and property taxes (49%) to fund governmental activities. These two funding sources make up 88% of the total revenues.

Table 3 presents the cost of the seven major District activities. The table reports each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost reflects the financial burden that was placed on the District's taxpayers by each of these functions.

**Table 3**  
**Net Cost of Governmental Activities**  
*(in thousands of dollars)*

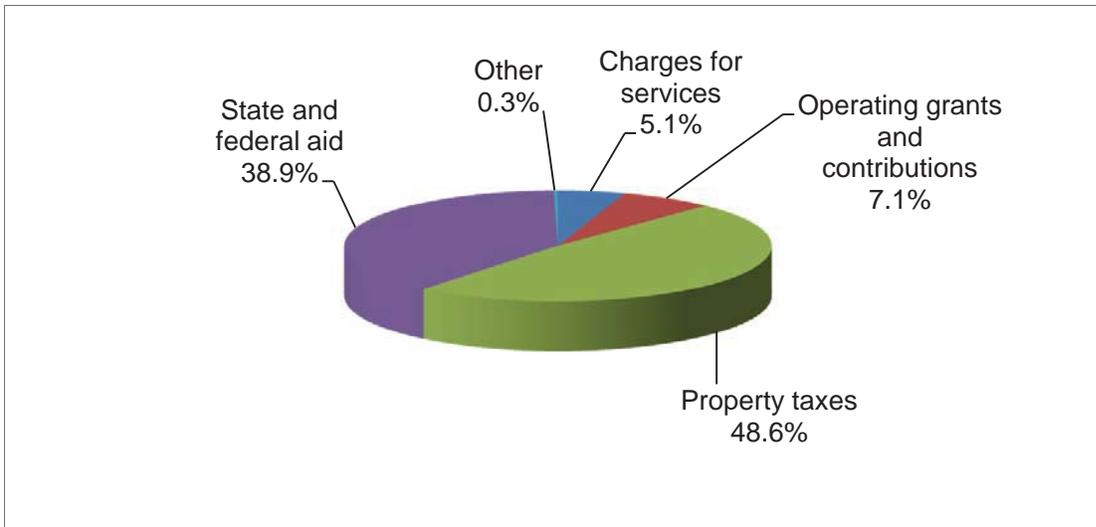
	Net Cost of Services		Total % Change
	2016	2015	2015 - 2016
Instruction	\$ 26,714	\$ 23,957	11.5%
Pupil and instructional services	4,233	4,378	-3.3%
Administration and business	3,889	3,589	8.4%
Operations and maintenance	4,930	5,053	-2.4%
Transportation	2,617	2,558	2.3%
Interest on debt	190	280	-32.1%
Other	4,420	4,090	8.1%
<b>Total</b>	<b>\$ 46,994</b>	<b>\$ 43,906</b>	<b>7.0%</b>

Note: Totals may not add due to rounding.

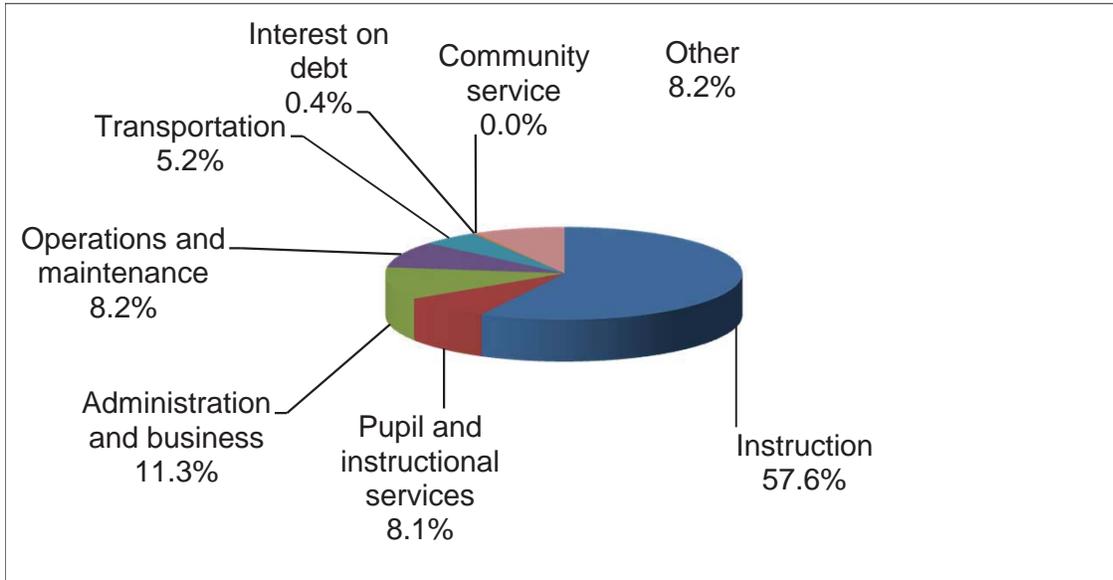
The cost of all governmental activities this year was \$53,811,957. Individuals who directly participated or benefited from a program offering paid for \$2,865,931 of the costs. Federal and state governments subsidized certain programs with grants and contributions of \$3,952,376. The net cost of governmental activities, \$46,993,650, was financed by general revenues of the District.

The composition of governmental revenues by type and expenditures by type are illustrated below.

**Governmental Activities Revenue by Type**  
**Chart 1**



**Governmental Activities Expenditure by Type**  
**Chart 2**



The District completed the year with a total governmental fund balance of \$24,069,544, an increase from last year's ending fund balance of \$23,465,055.

The general fund had a decrease in fund balance of \$167,221.

The debt service fund had an increase of \$655,079. The fund balance of the debt service fund will fluctuate each year.

The capital expansion fund had a fund balance increase of \$37,320.

The other capital projects fund had a fund balance decrease of \$152,058.

The other governmental funds had a fund balance decrease of \$231,369.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

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

While the District's final budget for the general fund anticipated that expenditures would exceed revenues by \$565,082 the actual results for the year show revenues exceeded expenditures by \$167,221.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of fiscal year 2016, the District had invested \$602,058 in capital assets, including land, land improvements, buildings, and equipment (See Table 4). Total accumulated depreciation on these assets is (\$32,551,858). Asset acquisitions for governmental activities totaled \$898,735. The District recognized depreciation expense of \$1,756,353 for governmental activities. (Detailed information about capital assets can be found in Note 3 to the financial statements.)

	Governmental Activities		Total % Change
	2016	2015	2015 - 2016
Land	\$ 450	\$ 450	0.0%
Land improvements	3,165	3,015	5.0%
Buildings	63,108	62,980	0.2%
Equipment	6,048	5,683	6.4%
Construction in progress	152	-	
Accumulated depreciation	<u>(39,769)</u>	<u>(38,113)</u>	4.3%
Total	<u>\$ 33,154</u>	<u>\$ 34,016</u>	-2.5%

Note: Totals may not add due to rounding.

### Long-Term Obligations

At year-end, the District had \$13,243,055 in notes payable and other long-term debt outstanding - a decrease of 9.6% from last year (see Table 5). (Detailed information about the District's long-term liabilities is presented in Note 4 to the financial statements.)

	Total		Total % Change
	2016	2015	2015 - 2016
General obligation debt	\$ 7,850	\$ 10,540	-25.5%
Other	5,393	4,104	31.4%
Total	<u>\$ 13,243</u>	<u>\$ 14,644</u>	-9.6%

Note: Totals may not add due to rounding.

Debt of the District is secured by an irrevocable tax levy adopted by the School Board at the time of issuance. Wisconsin state statutes require that the first property tax receipts be segregated for annual debt service payments.

**FACTORS BEARING ON THE DISTRICT’S FUTURE**

Currently known circumstances that will impact the District’s financial status in the future are:

The district's average daily membership (adm), as measured by the third Friday of September count date, increased for the 2016-17 school year by 8 students. The district implemented a 4K program in 2015-2016, which added additional students to the district's pupil count.

The Affordable Care Act may prove to be a significant issue related to the school district health insurance expenses. It provides a venue for individuals to obtain "coverage," but does not address the issue of controlling health care costs which has been and will continue to be the single largest issue for controlling school district personnel expenses. The uncertainty of the mandates may affect the staff and administrative decision making regarding how to handle the new law and its impact.

With continued expansion of state and federal government mandates (i.e. school choice, Wisconsin Act 20, Affordable Care Act, Federal lunch program and Common Core) the District will have to continue to monitor the impact on our operations and budget.

**CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District’s finances and to demonstrate the District’s accountability for the money it receives. If you have questions about this report or need additional financial information contact, Mr. Thomas Karthausser, Director of Business Services, 262-363-6300, Mukwonago Area School District, 385 E Veterans Way, Mukwonago, WI 53149.

**MUKWONAGO AREA SCHOOL DISTRICT  
MUKWONAGO, WISCONSIN**

**BASIC  
FINANCIAL STATEMENTS**

**MUKWONAGO AREA SCHOOL DISTRICT  
MUKWONAGO, WISCONSIN**

**DISTRICT-WIDE  
FINANCIAL STATEMENTS**

**MUKWONAGO AREA SCHOOL DISTRICT**

STATEMENT OF NET POSITION

JUNE 30, 2016

	GOVERNMENTAL ACTIVITIES
<b>ASSETS</b>	
Cash and cash investments	\$ 18,223,382
Receivables	
Accounts	142,782
Taxes	5,667,027
Due from other governments	1,711,800
Capital assets (net of accumulated depreciation)	
Capital assets not being depreciated	602,058
Capital assets being depreciated	32,551,858
<b>TOTAL ASSETS</b>	<b>58,898,907</b>
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Wisconsin Retirement System pension	15,586,525
 <b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	
	<b>74,485,432</b>
 <b>LIABILITIES</b>	
Accounts payable	153,847
Accrued liabilities	
Payroll, payroll taxes, insurance	1,464,720
Interest	118,854
Unearned revenue	56,880
Current portion of long-term obligations	4,114,487
Noncurrent portion of long-term obligations	9,128,568
<b>TOTAL LIABILITIES</b>	<b>15,037,356</b>
 <b>DEFERRED INFLOWS OF RESOURCES</b>	
Wisconsin Retirement System pension	6,152,678
 <b>NET POSITION</b>	
Net investment in capital assets	25,303,916
Restricted for	
Special revenue	829,094
Debt service	5,349,894
Capital projects	5,157,749
Other activities	6,510,241
Unrestricted	10,144,504
<b>TOTAL NET POSITION</b>	<b>53,295,398</b>
 <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	
	<b>\$ 74,485,432</b>

The accompanying notes are an integral part of these statements.

**MUKWONAGO AREA SCHOOL DISTRICT**

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		NET (EXPENSES) REVENUE AND CHANGES IN NET POSITION
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	
<b>GOVERNMENTAL ACTIVITIES</b>				
Instruction				
Regular instruction	\$ 21,358,819	\$ 689,981	\$ 206,128	\$ (20,462,710)
Vocational instruction	1,626,637	-	20,781	(1,605,856)
Special instruction	5,770,824	51,574	2,677,995	(3,041,255)
Other instruction	2,263,924	465,829	193,669	(1,604,426)
Total instruction	<u>31,020,204</u>	<u>1,207,384</u>	<u>3,098,573</u>	<u>(26,714,247)</u>
Support services				
Pupil services	2,023,225	-	148,829	(1,874,396)
Instructional staff services	2,358,455	-	-	(2,358,455)
General administration services	516,162	-	-	(516,162)
Building administration services	2,832,049	73,446	-	(2,758,603)
Business services	2,716,330	1,565,149	536,920	(614,261)
Operations and maintenance	4,930,305	-	-	(4,930,305)
Pupil transportation	2,804,534	19,952	168,054	(2,616,528)
Central services	317,560	-	-	(317,560)
Insurance	349,292	-	-	(349,292)
Interest and other debt service expenses	190,290	-	-	(190,290)
Other support services	1,403,524	-	-	(1,403,524)
Total support services	<u>20,441,726</u>	<u>1,658,547</u>	<u>853,803</u>	<u>(17,929,376)</u>
Non-program transactions	2,350,027	-	-	(2,350,027)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 53,811,957</u></b>	<b><u>\$ 2,865,931</u></b>	<b><u>\$ 3,952,376</u></b>	<b><u>(46,993,650)</u></b>

**General revenues**

Taxes	
Property taxes	27,238,944
State and federal aids not restricted to specific functions	
General	21,796,124
Interest and investment earnings	73,616
Miscellaneous and loss on disposal of assets	102,813
Total general revenues	<u>49,211,497</u>

CHANGE IN NET POSITION	2,217,847
NET POSITION - BEGINNING OF YEAR	51,077,551
<b>NET POSITION - END OF YEAR</b>	<b><u>\$ 53,295,398</u></b>

The accompanying notes are an integral part of these statements.

**MUKWONAGO AREA SCHOOL DISTRICT  
MUKWONAGO, WISCONSIN**

**FUND  
FINANCIAL STATEMENTS**

**MUKWONAGO AREA SCHOOL DISTRICT**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2016

	GENERAL FUND	DEBT SERVICE FUND	CAPITAL EXPANSION FUND	OTHER CAPITAL PROJECTS FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b><u>ASSETS</u></b>						
Cash and investments	\$ 6,670,189	\$ 5,349,894	\$ 5,322,059	\$ 62,870	\$ 818,370	\$ 18,223,382
Receivables						
Accounts	14,390	-	-	-	128,392	142,782
Taxes	5,667,027	-	-	-	-	5,667,027
Due from other funds	197,800	-	-	-	-	197,800
Due from other governments	1,702,692	-	-	-	9,108	1,711,800
<b>TOTAL ASSETS</b>	<b>14,252,098</b>	<b>5,349,894</b>	<b>5,322,059</b>	<b>62,870</b>	<b>955,870</b>	<b>25,942,791</b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>						
<b>LIABILITIES</b>						
Accounts payable	67,364	-	22,286	62,870	1,327	153,847
Accrued payroll liabilities	1,451,927	-	-	-	12,793	1,464,720
Due to other funds	-	-	-	152,058	45,742	197,800
Unearned revenue	-	-	-	-	56,880	56,880
<b>TOTAL LIABILITIES</b>	<b>1,519,291</b>	<b>-</b>	<b>22,286</b>	<b>214,928</b>	<b>116,742</b>	<b>1,873,247</b>
<b>FUND BALANCES</b>						
Restricted	-	5,349,894	5,299,773	(152,058)	839,128	11,336,737
Unassigned	12,732,807	-	-	-	-	12,732,807
<b>TOTAL FUND BALANCES</b>	<b>12,732,807</b>	<b>5,349,894</b>	<b>5,299,773</b>	<b>(152,058)</b>	<b>839,128</b>	<b>24,069,544</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 14,252,098</b>	<b>\$ 5,349,894</b>	<b>\$ 5,322,059</b>	<b>\$ 62,870</b>	<b>\$ 955,870</b>	

**Total net position reported for governmental activities in the statement of net position is different from the amount reported above as total governmental funds fund balance because:**

Capital assets used in government activities are not financial resources and therefore are not reported in the fund statements. Amounts reported for governmental activities in the statement of net position are:

Governmental capital asset	\$ 72,923,241	
Governmental accumulated depreciation	<u>(39,769,325)</u>	33,153,916

Wisconsin Retirement System asset, deferred inflows of resources, and deferred outflows of resources are not current financial resources and are not reported in fund statements.

9,433,847

Long-term liabilities are not due in the current period and therefore are not reported in the fund statements. Long-term liabilities reported in the statement of net position that are not reported in the funds balance sheet are:

General obligation debt	\$ (7,850,000)	
Accrued interest	(118,854)	
Vested employee benefits	(2,469,449)	
WRS Liability	<u>(2,923,606)</u>	(13,361,909)

**Total net position - governmental activities**

**\$ 53,295,398**

**MUKWONAGO AREA SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2016**

	GENERAL FUND	DEBT SERVICE FUND	CAPITAL EXPANSION FUND	OTHER CAPITAL PROJECTS FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES</b>						
Property taxes	\$ 22,925,978	\$3,158,037	\$ 950,000	\$ -	\$ 204,929	\$ 27,238,944
Other local sources	935,680	20,779	21,150	-	1,910,364	2,887,973
Interdistrict sources	3,097,565	-	-	-	-	3,097,565
Intermediate sources	17,752	-	-	-	-	17,752
State sources	20,658,887	-	-	-	22,255	20,681,142
Federal sources	1,490,909	-	-	-	514,665	2,005,574
Other sources	100,854	-	-	-	-	100,854
<b>TOTAL REVENUES</b>	<b>49,227,625</b>	<b>3,178,816</b>	<b>971,150</b>	<b>-</b>	<b>2,652,213</b>	<b>56,029,804</b>
<b>EXPENDITURES</b>						
<b>Current</b>						
<b>Instruction</b>						
Regular instruction	20,352,074	-	-	-	83,486	20,435,560
Vocational instruction	1,423,751	-	-	-	500	1,424,251
Special instruction	5,656,221	-	-	-	-	5,656,221
Other instruction	2,176,060	-	-	-	5,682	2,181,742
<b>Total instruction</b>	<b>29,608,106</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>89,668</b>	<b>29,697,774</b>
<b>Support services</b>						
Pupil services	1,923,256	-	-	-	-	1,923,256
Instructional staff services	2,633,244	-	-	-	999	2,634,243
General administration services	420,367	-	-	-	59	420,426
Building administration services	2,622,811	-	-	-	31,234	2,654,045
Business services	669,731	-	-	-	2,123,430	2,793,161
Operations and maintenance	3,419,836	-	925,830	152,058	145,720	4,643,444
Pupil transportation	2,804,534	-	-	-	-	2,804,534
Central services	165,269	-	-	-	-	165,269
Insurance	349,292	-	-	-	-	349,292
Other support services	1,460,161	-	-	-	-	1,460,161
<b>Total support services</b>	<b>16,468,501</b>	<b>-</b>	<b>925,830</b>	<b>152,058</b>	<b>2,301,442</b>	<b>19,847,831</b>
Non-program transactions	2,342,027	-	8,000	-	-	2,350,027
<b>Debt Service</b>						
Principal	-	2,690,000	-	-	-	2,690,000
Interest	-	218,907	-	-	-	218,907
<b>Total debt services</b>	<b>-</b>	<b>2,908,907</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,908,907</b>
Capital outlay	591,042	-	-	-	29,734	620,776
<b>TOTAL EXPENDITURES</b>	<b>49,009,676</b>	<b>2,908,907</b>	<b>933,830</b>	<b>152,058</b>	<b>2,420,844</b>	<b>55,425,315</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>217,949</b>	<b>269,909</b>	<b>37,320</b>	<b>(152,058)</b>	<b>231,369</b>	<b>604,489</b>
<b>OTHER FINANCING (USES) SOURCES</b>						
Net transfer (to) from other funds	(385,170)	385,170	-	-	-	-
<b>TOTAL OTHER FINANCING (USES) SOURCES</b>	<b>(385,170)</b>	<b>385,170</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(167,221)</b>	<b>655,079</b>	<b>37,320</b>	<b>(152,058)</b>	<b>231,369</b>	<b>604,489</b>
FUND BALANCE - BEGINNING OF YEAR	12,900,028	4,694,815	5,262,453	-	607,759	23,465,055
<b>FUND BALANCE - END OF YEAR</b>	<b>\$ 12,732,807</b>	<b>\$5,349,894</b>	<b>\$5,299,773</b>	<b>\$ (152,058)</b>	<b>\$ 839,128</b>	<b>\$ 24,069,544</b>

The accompanying notes are an integral part of these statements.

**MUKWONAGO AREA SCHOOL DISTRICT**  
**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2016**

Net change in fund balances - total governmental funds \$ 604,489

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

The acquisition of capital assets are reported in the governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities.

Capital outlay reported in fund statements	\$	620,776	
Capital outlay reported as other expenses in fund statements		277,959	
Depreciation expense reported in the statement of activities		(1,756,353)	
Net book value of capital assets disposed		<u>(4,334)</u>	
Amount by which capital outlays are less than depreciation in the current period			(861,952)

Certain employee benefits are reported in the governmental funds when amounts are paid. The statement of activities reports the value of benefits earned during the year.

This year the accrual of these benefits decreased by: 1,634,492

Wisconsin Retirement System asset, deferred inflows of resources, and deferred outflows of resources changes: (1,877,799)

Repayment of principal on long-term debt is reported in the governmental funds as an expenditure, but is reported as a reduction in long-term debt in the statement of net position and does not affect the statement of activities.

Amount of long-term debt principal payments in the current year is: 2,690,000

In governmental funds interest payments and other debt costs on outstanding debt are reported as an expenditure when paid. In the statement of activities interest is reported as it accrues.

Amount of interest and other debt costs paid during the current period is:	\$	218,907	
Amount of interest and other debt costs accrued during the current period is:		<u>(190,290)</u>	
Interest paid is greater than interest accrued by:			<u>28,617</u>

**Change in net position - governmental activities \$ 2,217,847**

The accompanying notes are an integral part of these statements.

**MUKWONAGO AREA SCHOOL DISTRICT**

STATEMENT OF NET POSITION

FIDUCIARY FUNDS

JUNE 30, 2016

	<u>AGENCY FUNDS</u>	<u>TRUST FUNDS</u>	
	<u>STUDENT ACTIVITY</u>	<u>EMPLOYEE BENEFIT</u>	<u>PRIVATE BENEFIT</u>
 <b><u>ASSETS</u></b>			
Cash and cash equivalents	\$ 516,219	\$ 9,168,157	\$ 167,531
<b>TOTAL ASSETS</b>	<b><u>516,219</u></b>	<b><u>9,168,157</u></b>	<b><u>167,531</u></b>
 <b><u>LIABILITIES</u></b>			
Due to student organizations	516,219	-	-
<b>TOTAL LIABILITIES</b>	<b><u>516,219</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
 <b><u>NET POSITION</u></b>			
Held in trust for employee benefits	-	9,168,157	-
Held in trust for scholarships	-	-	167,531
<b>TOTAL NET POSITION</b>	<b><u>-</u></b>	<b><u>9,168,157</u></b>	<b><u>167,531</u></b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b><u>\$ 516,219</u></b>	<b><u>\$ 9,168,157</u></b>	<b><u>\$ 167,531</u></b>

The accompanying notes are an integral part of these statements.

**MUKWONAGO AREA SCHOOL DISTRICT**  
**SCHEDULE OF CHANGES IN NET POSITION**  
**FIDUCIARY FUNDS**  
**YEAR ENDED JUNE 30, 2016**

	TRUST FUNDS	
	EMPLOYEE BENEFIT	PRIVATE BENEFIT
<b>ADDITIONS</b>		
Investment income	\$ 32,444	\$ 1,483
Contributions	2,973,101	7,500
<b>TOTAL ADDITIONS</b>	<b>3,005,545</b>	<b>8,983</b>
 <b>DEDUCTIONS</b>		
Disbursements	2,066,118	15,150
<b>TOTAL DEDUCTIONS</b>	<b>2,066,118</b>	<b>15,150</b>
 <b>CHANGE IN NET POSITION</b>	 939,427	 (6,167)
<b>NET POSITION - BEGINNING OF THE YEAR</b>	<b>8,228,730</b>	<b>173,698</b>
<b>NET POSITION - END OF THE YEAR</b>	<b>\$ 9,168,157</b>	<b>\$ 167,531</b>

The accompanying notes are an integral part of these statements.

**MUKWONAGO AREA SCHOOL DISTRICT  
MUKWONAGO, WISCONSIN**

**NOTES TO THE BASIC  
FINANCIAL STATEMENTS**

**MUKWONAGO AREA SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 - Summary of Significant Accounting Policies**

The financial statements of Mukwonago Area School District (the "District") have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the District are described below.

**Reporting Entity** - The Mukwonago Area School District is organized as a common school district. The District, governed by a nine member elected school board, operates grades K through 12 and is comprised of all or parts of twelve taxing districts.

The District's basic financial statements do not include any components units, as defined in GASB 14 and amended by GASB 39 and GASB 61, as there are no organizations which meet the criterion. The criterion for including a legally separate organization as a component unit is the degree of financial accountability the District has with the organization. A financial benefit or burden relationship needs to be present between the primary government and that organization for it to be included in the reporting entity as a component unit.

The following circumstances set forth the District's financial accountability for a legally separate organization: the District is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the District. The District may be financially accountable if an organization is fiscally dependent on the District regardless of whether the organization has (1) a separately-elected governing body, (2) a governing body appointed by a higher level of government, or (3) a jointly-appointed governing body. In addition, the primary government may determine, through exercise of management's professional judgment, that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading.

**Basis Of Presentation**

**District-Wide Statements**

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

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

**MUKWONAGO AREA SCHOOL DISTRICT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued  
JUNE 30, 2016

**NOTE 1 - Summary of Significant Accounting Policies - Continued**

Fund Financial Statements

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

The District reports the following major governmental funds:

General Fund - This is the District's primary operating fund. It accounts for all financial activity that is not required to be accounted for in another fund.

Debt Service Fund - This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental activities.

Capital Expansion Fund - This fund is used to account for financial resources to be used for the acquisition or construction of equipment and/or major capital facilities.

The District has three fiduciary funds which account for assets held as an agent for various student organizations, an employee benefit trust and a private purpose trust.

**Measurement Focus and Basis of Accounting**

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

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

**MUKWONAGO AREA SCHOOL DISTRICT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued  
JUNE 30, 2016

**NOTE 1 - Summary of Significant Accounting Policies - Continued**

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

**Cash and Investments** - The District's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition. All funds share common (pooled) checking and investment accounts unless regulations require separate investment accounts, such as the debt service fund.

Investments are stated at fair value, if applicable, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Investment income on commingled investments of municipal accounting funds is allocated based on average investment balances.

**Property Tax Levy** - Under Wisconsin law, personal property taxes and first and second installments of real estate taxes are collected by city and village treasurers who then make proportional settlement with the school district and county treasurer for those taxes collected on their behalf. Third installment real estate taxes and delinquent taxes are collected by the county treasurer who then makes settlement with the city, town, village, and school districts before retaining any for county purposes. Taxes collected by the township are made in two installments, the first by the town, and the second by the county treasurer.

The District's property taxes are levied on or before November 1 on the equalized property valuation certified by the Department of Revenue. As permitted by a collecting municipality's ordinance, taxes may be paid in full or two or more installments with the first installment payable the subsequent January 31<sup>st</sup>, and a final payment no later than the following July 31<sup>st</sup>. The District is paid by the collecting municipality its proportionate share of tax collections received through the last day of the preceding month on or before January 15<sup>th</sup>, and by the 20<sup>th</sup> of each subsequent month thereafter. On or before August 20<sup>th</sup>, the County Treasurer makes full settlement to the District for any remaining balance. The County assumes all responsibility for delinquent real property taxes.

Property taxes are recognized as revenue in the period for which the taxes are levied. The 2015 tax levy is used to finance operations of the District's fiscal year ended June 30, 2016. All property taxes are considered due on January 1<sup>st</sup>, when an enforceable lien is assessed against the property and the taxpayer is liable for the taxes. All taxes are collected within 60 days of June 30<sup>th</sup> and are available to pay current liabilities.

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

**Due To/From Other Funds** - During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are

**MUKWONAGO AREA SCHOOL DISTRICT**  
 NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued  
 JUNE 30, 2016

**NOTE 1 - Summary of Significant Accounting Policies - Continued**

reported as due to and from other funds. The amounts reported on the statement of net position for receivable/payable from external parties represents amount due between different fund types (governmental activities and fiduciary funds). Eliminations have been made for amounts due to and due from within the same fund type.

**Interfund Transactions** - Non-exchange transactions which are not borrowing/lending (will not be repaid) are recorded as operating transfers, and exchange transactions are recorded as revenues and expenses. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers.

**Capital Assets** - Capital assets are reported at actual cost or estimated historical costs, based on appraisals conducted by an independent third-party professional appraisal firm. Donated assets are reported at estimated fair market value at the time received.

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

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

**Debt Premiums and Discounts** - In the government-wide financial statements, debt premiums and discounts are amortized over the life of the debt. Long-term debt is reported net of the applicable debt premium or discount.

In the fund financial statements, premiums and discounts are recognized during the current period. The face amount of debt issued is reported as other financing sources. Premiums on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses.

**Compensated Absences** - The District's policy permits employees to accumulate earned, but unused vacation, which is eligible for payment upon separation from government service. The liability for such leave is reported as incurred in the government-wide statements. A liability for those amounts is recorded in the government funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary related benefits where applicable.

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

**MUKWONAGO AREA SCHOOL DISTRICT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued  
JUNE 30, 2016

**NOTE 1 - Summary of Significant Accounting Policies - Continued**

contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Deferred Outflows and Inflows of Resources** - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expenditure) until then. The District has two items that qualify for reporting in this category. They are the deferred charge on refunding and Wisconsin Retirement System pension reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The Wisconsin Retirement System pension results from changes in the pension plan.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position which applies to future periods and so will not be recognized as an inflow of resources (revenue) until then. The District has one type of item, Wisconsin Retirement System pension, which qualifies for reporting in this category. The Wisconsin Retirement System pension results from changes in the pension plan.

**Estimates** - The preparation of the financial statements in conformity with generally accepted accounting principles 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.

**Net Position Classifications** - Net position represents the difference between the total assets and deferred outflows of resources and the total liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement for those assets. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**Fund Balance Classifications** - The District classifies its fund equity as follows: 1) nonspendable fund balance consists of equity not in a spendable form or is legally or contractually required to be maintained intact, 2) restricted fund balance consists of equity constrained to specific purposes by their providers, externally imposed by creditors, constitutional provisions or by enabling legislation 3) committed fund balance consists of equity constrained to specific purposes by the District itself, using its highest level of decision making authority – Board of Education policies, 4) assigned fund balance consists of equity the governing body intends to use for a specific purpose, intent can be expressed by the governing body. The Board of Education has authorized the Business Manager to assign fund balances through its financial management policy and 5) unassigned fund balance consists of equity available for any purpose.

**MUKWONAGO AREA SCHOOL DISTRICT**  
 NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued  
 JUNE 30, 2016

**NOTE 1 - Summary of Significant Accounting Policies - Continued**

When net losses occur, it is the District's policy to record the net loss against unassigned fund balance, then assigned fund balance, then committed fund balance and lastly to restricted fund balance. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

**NOTE 2 - Cash and Investments**

State statutes permit the District to invest available cash balances, other than debt service funds, in time deposits of authorized depositories, state obligations, U.S. Treasury obligations, U.S. agency issues, repurchase agreements and other investments secured by federal securities, high grade commercial paper, and the local government investment pool administered by the state investment board. Available balances in the Debt Service Fund may be invested in municipal obligations, obligations of the United States and the local government pooled investment fund. No significant violations of these restrictions occurred during the year.

As of June 30, 2016, the District had the following investment:

<u>Investment</u>	<u>Weighted Average Maturities</u>	<u>Fair Value</u>
State of Wisconsin Investment Pool	Less than one year	\$ 164,322
BMO – CESA 6 Wisconsin OPEB	Less than one year	1,094,436
Total		<u>\$ 1,258,758</u>

**Investment Pool Information** - Participation in the State of Wisconsin Local Government Investment Pool is voluntary. The Pool's regulatory oversight is provided by state statutes and its investment board. The fair value of the District's position in the Pool is the same as the value of the Pool shares. At June 30, 2016, the Pool's fair value was 100 percent of book value.

**Determining Fair Value** - The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets; level 2 inputs are significant other observable inputs; level 3 inputs are significant unobservable inputs. The District has the following recurring fair value measurement:

- 1) State of Wisconsin Local Government Investment Pool fair value is determined monthly by the Pool's investment board based on published market quotations (level 2 inputs).
- 2) Wisconsin Investment Trust is determined based on published market quotations (level 2 inputs).

**Income Allocation** - Interest income is generally allocated to the fund that owns the certificate of deposit, money market account, savings account, and investment. Interest income from the food service fund is reported in the general fund.

**Interest Rate Risk** - State statutes limit investments in commercial paper, corporate bonds, and mutual bond funds to mature or may be tendered for purchase at the option of the holder within not more than 7 years of the date acquired. The District's formal investment policy is consistent with state statutes, but does not further limit investment maturities as a means of further managing its exposure to fair value losses arising from increasing interest rates.

**MUKWONAGO AREA SCHOOL DISTRICT**  
 NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued  
 JUNE 30, 2016

**NOTE 2 - Cash and Investments - Continued**

**Credit Risk** - State statutes limit investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The District has no investment policy that would further limit its investment choices. The State of Wisconsin Investment Pool is not rated.

**Custodial Credit Risk** - Custodial credit is the risk that, in the event of a financial institution failure, the District's deposits may not be returned. The District does not have a policy in place for custodial credit risk. The State of Wisconsin's Public Deposit Guarantee Fund created under Chapter 34 of the Wisconsin Statutes protects the municipality's designated public depositories against any losses of public funds up to \$400,000 subject to the total amount of the Guarantee Fund available. As of June 30, 2016, \$27,616,367 of the District's bank balance of \$28,516,367 was exposed to custodial credit risk as uninsured, pledged collateral, collateralized by U.S. Government securities held by the bank in the bank's name. There were no bank balances that were uninsured and uncollateralized.

**NOTE 3 - Capital Assets**

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 450,000	\$ -	\$ -	\$ 450,000
Construction in progress	-	152,058	-	152,058
Total capital assets not being depreciated	<u>450,000</u>	<u>152,058</u>	<u>-</u>	<u>602,058</u>
Capital assets being depreciated:				
Land improvements	3,015,208	150,000	-	3,165,208
Buildings and improvements	62,980,379	128,000	-	63,108,379
Equipment	5,683,120	468,677	(104,201)	6,047,596
Total capital assets being depreciated	<u>71,678,707</u>	<u>746,677</u>	<u>(104,201)</u>	<u>72,321,183</u>
Less accumulated depreciation for:				
Land improvements	(2,135,037)	(89,577)	-	(2,224,614)
Buildings and improvements	(32,254,903)	(1,189,403)	-	(33,444,306)
Equipment	(3,722,899)	(477,373)	99,867	(4,100,405)
Total accumulated depreciation	<u>(38,112,839)</u>	<u>(1,756,353)</u>	<u>99,867</u>	<u>(39,769,325)</u>
Total capital assets being depreciated, net of accumulated depreciation	<u>33,565,868</u>	<u>(1,009,676)</u>	<u>(4,334)</u>	<u>32,551,858</u>
Capital assets, net of accumulated depreciation	<u>\$ 34,015,868</u>	<u>\$ (857,618)</u>	<u>\$ (4,334)</u>	<u>\$ 33,153,916</u>

Depreciation expense was charged to governmental functions as follows:

Regular instruction	\$ 867,397
Vocational instruction	292,154
Special education instruction	55,647
Other instruction	97,386

**MUKWONAGO AREA SCHOOL DISTRICT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued  
JUNE 30, 2016

**NOTE 3 - Capital Assets - Continued**

Pupil services	86,951
Instructional staff services	86,951
General administration services	96,833
Building administration services	86,951
Business services	86,083
Total	<b>\$ 1,756,353</b>

The District does not capitalize interest on general fixed asset projects.

**NOTE 4 - Long-Term Obligations**

Long-term obligations of the District are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Bonds payable	\$ 3,160,000	\$ -	\$ (785,000)	\$ 2,375,000	\$ 305,000
Notes payable	7,380,000	-	(1,905,000)	5,475,000	1,705,000
Vested vacation pay	60,334	49,219	(60,334)	49,219	49,219
Wisconsin Retirement System					
Net Pension Liability	-	2,923,606	-	2,923,606	-
Supplemental pension	116,807	460,824	(298,125)	279,506	279,506
Net OPEB obligation	3,926,800	892,458	(2,678,534)	2,140,724	1,775,762
Total	\$ 14,643,941	\$ 4,326,107	\$ (5,726,993)	\$ 13,243,055	\$ 4,114,487

In prior years, the general and food service funds liquidated vested employee benefits. Interest cost incurred during the year totaled \$190,290 and total interest paid during the year aggregated \$218,907.

**General Obligation Debt** - All general obligation debt is secured by the full faith and credit and unlimited taxing powers of the District. The general obligation debt is expected to be repaid with general property taxes. General obligation debt at June 30, 2016 is comprised of the following individual issues:

<u>Issue Description</u>	<u>Issue Dates</u>	<u>Interest Rates (%)</u>	<u>Dates of Maturity</u>	<u>Balance</u>
Refunding bonds	6/30/11	1.73 - 4.15%	4/01/23	\$ 2,375,000
Notes payable	10/19/09	0%	9/15/19	3,350,000
Notes payable	4/1/09	2.75 - 4%	4/01/19	1,455,000
Notes payable	3/29/12	2.75%	4/01/20	670,000
Total				<b>\$ 7,850,000</b>

**MUKWONAGO AREA SCHOOL DISTRICT**  
 NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued  
 JUNE 30, 2016

**NOTE 4 - Long-Term Obligations - Continued**

The \$4,305,000 bond issued in 2009 is a Qualified School Construction bond which is part of a federal program under which the federal government pays the interest either directly to the bond holders or through a rebate to the District for the total interest paid.

There is no interest cost to the District resulting in a 0% interest rate on these bonds. Generally Accepted Accounting Principles requires non-interest bearing bonds to have interest imputed on the outstanding principal balance. \$228,300 of interest on this bond has been imputed based on an equivalent rate the District would pay for interest bearing bonds and will be paid/refunded by the federal government. The aggregate cash flow requirement below includes this imputed interest.

**General Obligation Debt Limit Calculation** - The 2015 equalized valuation of the District as certified by the Wisconsin Department of Revenue is \$3,106,733,242. The legal debt limit and margin of indebtedness as of June 30, 2016, in accordance with Section 67.03(1)(b) of the Wisconsin Statutes, follows:

Debt limit (10 percent of \$3,106,733,242)	\$ 310,673,324
Amount available in debt service fund	5,349,894
Deduct long-term debt	
applicable to debt margin	<u>(7,850,000)</u>
Margin of indebtedness	<u>\$ 308,173,218</u>

**Maturities of Long-Term Obligations** - Aggregate cash flow requirements for the retirement of long-term debt principal and interest are as follows:

	2017	\$ 2,010,000	\$ 249,193	\$ 2,259,193
	2018	1,485,000	187,698	1,672,698
	2019	1,875,000	134,035	2,009,035
	2020	1,385,000	71,648	1,456,648
	2021	350,000	43,670	393,670
	2022-2023	<u>745,000</u>	<u>46,140</u>	<u>791,140</u>
		<u>\$ 7,850,000</u>	<u>\$ 732,384</u>	<u>\$ 8,582,384</u>

**Defeased Debt** - In prior years, the District defeased certain general obligation debt by placing the proceeds of new debt in an irrevocable trust account for all future debt service payments of the old debt. Accordingly, the trust account assets and the liability for the defeased debt are not included in the District's financial statements. At June 30, 2016, \$2,965,000 of defeased debt remains outstanding.

**NOTE 5 - Wisconsin Retirement System**

**General Information about the 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

**MUKWONAGO AREA SCHOOL DISTRICT**  
 NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued  
 JUNE 30, 2016

**NOTE 5 - Wisconsin Retirement System - Continued**

(ETF). The system provides coverage to all eligible State of Wisconsin, local government and other public employees. All employees, initially employed by a participating WRS employer on or after July 1, 2011, and expected to work at least 1200 hours a year (880 hours for teachers and school district educational support employees) and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS.

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

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

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

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

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

The WRS also provides death and disability benefits for employees.

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

Year	Core Fund Adjustment	Variable Fund Adjustment
2006	0.8%	3%
2007	3.0	10
2008	6.6	0
2009	(2.1)	(42)
2010	(1.3)	22
2011	(1.2)	11
2012	(7.0)	(7)
2013	(9.6)	9

**MUKWONAGO AREA SCHOOL DISTRICT**  
 NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued  
 JUNE 30, 2016

**NOTE 5 - Wisconsin Retirement System - Continued**

2014	4.7	25
2015	2.9	2

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

During the reporting period, the WRS recognized \$1,717,656 in contributions from the employer.

Contribution rates as of June 30, 2016 are:

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

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

At June 30, 2016, the District reported a liability (asset) of 2,923,606 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2014, rolled forward to December 31, 2015. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The District's proportion of the net pension liability (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, 2015, the District's proportion was 0.17991634%, which was an increase of 0.0029548% from its proportion measured as of December 31, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$3,539,577.

**MUKWONAGO AREA SCHOOL DISTRICT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued  
JUNE 30, 2016

**NOTE 5 - Wisconsin Retirement System - Continued**

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 502,714	\$ 6,152,678
Changes in assumptions	2,045,482	-
Net differences between projected and actual earnings on pension plan investments	11,996,449	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	50,228	-
Employer contributions subsequent to the measurement date	991,652	-
Total	\$ 15,586,525	\$ 6,152,678

\$991,652 reported as deferred outflows related to pension resulting from the WRS Employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending June 30	Deferred Outflows of Resources	Deferred Inflows of Resources
2017	\$ 3,793,278	\$ 1,488,959
2018	3,793,278	1,488,959
2019	3,793,277	1,488,960
2020	3,149,512	1,488,960
2021	65,528	196,840

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

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

**MUKWONAGO AREA SCHOOL DISTRICT**  
 NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued  
 JUNE 30, 2016

**NOTE 5 - Wisconsin Retirement System - Continued**

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

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

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

Retirement Funds Asset Allocation Targets and Expected Returns as of December 31, 2015

<u>Core Fund Asset Class</u>	<u>Current Asset Allocation %</u>	<u>Destination Target Asset Allocation %</u>	<u>Long-Term Expected Nominal Rate of Return %</u>	<u>Long-Term Expected Real Rate of Return %</u>
U.S. Equities	27%	23%	7.6%	4.7%
International Equities	24.5	22	8.5	5.6
Fixed Income	27.5	37	4.4	1.6
Inflation Sensitive Assets	10	20	4.2	1.4
Real Estate	7	7	6.5	3.6
Private Equity/Debt	7	7	9.4	6.5
Multi-Asset	4	4	6.7	3.8
Total Core Fund	107%	120%	7.4%	4.5%
<u>Variable Fund Asset Class</u>				
U.S. Equities	70%	70%	7.6%	4.7%
International Equities	30	30	8.5	5.6
Total Variable Core Fund	100%	100%	7.9%	5%

New England Pension Consultants Long-Term US CPI (Inflation) Forecast 2.75%

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

**Single Discount Rate** - A single discount rate of 7.20% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.20% and a long term bond rate of 3.57%. Because of the unique structure of WRS, the 7.20% expected rate of return implies that a dividend of approximately 2.1% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments

**MUKWONAGO AREA SCHOOL DISTRICT**  
 NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued  
 JUNE 30, 2016

**NOTE 5 - Wisconsin Retirement System - Continued**

(including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease (6.20%)	Current Single Discount Rate Assumption (7.20%)	1% Increase (8.20%)
District's proportionate share of the net pension liability (asset)	\$ 20,506,226	\$ 2,923,606	\$ (10,808,734)

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

**Payables to the Pension Plan** - The District reported a payable of \$554,496 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

**NOTE 6 - Interfund Balances and Activity**

Interfund receivable and payable balances on June 30, 2016, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Other Capital Projects	\$ 152,058

The above balances resulted from the timing differences between the dates that (1) interfund goods and services are proved or reimbursable expenditures occur, (2) transactions are recorded in the accounting system and (3) payments between funds are made. All amounts are due within one year. For the statement of net position, interfund balances which are owed within the governmental activities are netted and eliminated.

Interfund transfers at June 30, 2016 were as follows:

<u>Transfer from</u>	<u>Transfer to</u>	<u>Amount</u>
General Fund	Debt Service	\$ 385,170

Generally, transfers are used to move revenue from the fund that collects them to the fund that the budget requires to expend them and use unrestricted revenue collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**MUKWONAGO AREA SCHOOL DISTRICT**  
 NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued  
 JUNE 30, 2016

**NOTE 7 - Post Employment Benefits Other Than Pensions**

**Plan Description** - The District, through its substantive commitment to provide other post employment benefits (OPEB), maintains a single-employer defined benefit plan to provide certain post retirement healthcare benefits to all former employees who meet retirement eligibility requirements and continue retiree medical coverage until he/she reaches the age of 65. The District is under contractual obligation to provide these post retirement healthcare benefits. Because of the District's firm commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated.

**Funding Policy** - Premiums under the Plan for post employment healthcare benefits are funded by retirees via co-pays paid to the District in accordance with rates established by the District and from the District itself from the appropriate governmental funds on a pay-as-you-go basis. The District may make additional contributions as determined by management. For the year ended June 30, 2016, contribution rates for Plan members were 7% - 12% of the premium or 50% of the premium increase compared to the year retired per participant per month, depending on the type of retiree plan. Plan members receiving benefits paid \$100,479 and the District paid \$1,126,339 for current year premiums due.

**Annual OPEB Cost and Net OPEB Obligation** - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of 4 years. The following illustrates the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation:

Annual required contribution		\$	892,458
Interest on net OPEB obligation			215,974
Adjustment to annual required contribution			<u>(1,118,748)</u>
Annual OPEB cost			(10,316)
Contributions made			<u>(1,775,762)</u>
Decrease in net OPEB obligation			(1,786,078)
Net OPEB obligation - beginning of year			<u>3,926,800</u>
Net OPEB Obligation - end of year			<u><u>\$ 2,140,722</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the year ending June 30, 2016 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation - End of Year
6/30/14	\$ 2,130,497	122.73%	\$ 6,293,223
6/30/15	\$ 892,458	365.16%	\$ 3,926,800
6/30/16	\$ (10,316)	NA	\$ 2,140,724

**Funding Status and Funding Progress** - As of July 1, 2014, the most recent actuarial valuation date, the Plan was funded in the amount of \$7,510,359 or 76% of the actuarial accrued liability

**MUKWONAGO AREA SCHOOL DISTRICT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued  
JUNE 30, 2016

**NOTE 7 - Post Employment Benefits Other Than Pensions - Continued**

(AAL). The AAL for benefits equaled \$9,821,497, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,311,138. The covered payroll (annual payroll of active employees covered by the Plan) equaled \$17,436,938 and the ratio of the UAAL to the covered payroll was 11.2%.

**Actuarial Methods and Assumptions** - Actuarial valuations of an ongoing Plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The actuarial determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of unknown legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial calculations reflect the long-term perspective and actuarial methods and assumptions used included techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and assets.

The schedule of funding progress, presented as RSI following the notes to the financial statements, is to present multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The actuarial valuation, dated July 1, 2014, used the projected entry age normal - level % of salary method. The assumptions and methods used in the valuation were: a 5.5 percent investment rate because the District funds its OPEB on a pay-as-you-go basis, annual healthcare cost trend rates of 7.5 percent down to 5 percent and dental care cost trend rates of 5.0 percent. The UAAL is being amortized as a level dollar amount over 4 years on an open basis.

**NOTE 8 - Supplemental Retirement Plan**

**Plan Description and Funding Policy** - Retired teachers that have waived coverage in the group medical plan are instead receiving a cash benefit in lieu of their participation. Additionally, the District will provide 403(b) contributions based upon the retirees years of service with the district paid out equally over 5 years. Further, eligible Administrators hired prior to July 1, 2007 will receive an annual stipend upon their retirement. The total stipend amount of 50% of the retiree's salary (80% for those with at least 12 years of service in the District) will be paid out evenly over a period of 5 years.

**Annual Pension Costs and Actuarial Assumptions Used** - The District's annual pension costs for the year ended June 30, 2016, and related actuarial assumptions used for the current year and related information for each Plan is as follows:

Annual required contribution	\$ 460,824
Interest on net pension obligation	4,672
Adjustment to annual required contribution	<u>(12,439)</u>
Annual pension cost	453,057
Contributions made	<u>(290,358)</u>
Increase in net pension obligation	162,699
Net pension obligation - beginning of year	<u>116,807</u>
Net pension obligation - end of year	<u>\$ 279,506</u>

**MUKWONAGO AREA SCHOOL DISTRICT**  
 NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued  
 JUNE 30, 2016

**NOTE 8 - Supplemental Retirement Plan - Continued**

The District's annual pension cost, the percentage of annual pension cost contributed to the Plan, and the net pension obligation are as follows:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost</u>	<u>Percentage of Annual Pension Cost Contributed</u>	<u>Net Pension Obligation End of Year</u>
6/30/15	\$ 460,824	74.65%	\$ 116,807
6/30/16	\$ 453,057	64.09%	\$ 279,506

The actuarial valuation, dated July 1, 2014, used the projected entry age normal - level % of salary method. The assumptions and methods used in the valuation were: value of assets-fair market value, 4.0% investment return, 3% per annum salary increases, and level dollar amortization method over 12 years with open period.

**NOTE 9 - Fund Balance and Net Position**

Portions of fund balances and net position not available for current appropriation or expenditure is as follows:

<u>Governmental Fund</u>	<u>Purpose</u>	<u>Amount</u>
<u>Restricted</u>		
Debt service	Principal and interest	\$ 5,349,894
Capital expansion	Specific expenses	\$ 5,299,773
Special revenue trust	Specific expenses	\$ 80,493
Food service	DPI Regulation	\$ 645,756
Community service	Specific expenses	\$ 102,845
Long-term capital improvement	DPI Regulation	\$ 10,034
 <u>Governmental Activities</u>		
<u>Restricted</u>		
Special revenue	DPI Regulation	\$ 829,094
Debt service	Principal and interest	\$ 5,349,894
Capital projects	DPI Regulation	\$ 5,157,749
Other activities	Wisconsin Retirement System pension	\$ 6,510,241

**NOTE 10 - Risk Management**

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; employee health and accident claims; and natural disasters. For all risks of loss, the District's policy is to purchase commercial insurance. Settled claims have not exceeded commercial coverage in any of the past three years and there has been no significant reduction in insurance coverage from coverage in the prior year.

**NOTE 11 - Commitments and Contingencies**

The District has two transportation agreements with estimated cost for the following school years:

2016-2017	\$ 2,264,469
2017-2018	\$ 2,309,758
	<u>\$ 4,574,227</u>

**MUKWONAGO AREA SCHOOL DISTRICT**  
 NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued  
 JUNE 30, 2016

**NOTE 11 - Commitments and Contingencies - Continued**

From time to time, the District is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the District's Attorney that the likelihood is remote that any such claims or proceedings will have a material effect on the District's financial position or results of operations.

**NOTE 12 - Limitation of School District Revenue**

Wisconsin statutes limit the amount of revenue school districts may derive from general school aids and property taxes. This limitation does not apply to revenue needed for the payment of any general obligation debt service (including refinanced debt) authorized by either of the following: (a) a resolution of the School Board or by a referendum prior to August 12, 1993 and (b) a referendum on or after August 12, 1993.

**NOTE 13 - Self-Funded Insurance**

Self-Insured Risk - The District's self insured dental plan is accounted for in the general fund, with appropriate charges to other funds as payroll is incurred in the other funds. Benefit maximums contained in the plan limit the District's total liability under the plan. An administrator processes claims filed and the District is liable for administrative expenses.

Claims Liabilities - The District records an estimated liability for dental care claims against the District. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred but not reported based on historical experience.

Unpaid Claims Liabilities - The following represent the changes in approximate aggregate liabilities for health and dental care for the current and prior year.

	<u>Year Ended</u> <u>June 30, 2016</u>	<u>Year Ended</u> <u>June 30, 2015</u>
Beginning liability balance	\$ 220,590	\$ 136,925
Claims and changes in estimates	412,783	455,832
Claim payments	<u>(487,559)</u>	<u>(372,167)</u>
Ending liability balance	<u>\$ 145,814</u>	<u>\$ 220,590</u>

Claim payments are principally funded through charges to employees, which are paid through payroll deductions, and employer contributions to the dental plan.

**NOTE 14 - Subsequent Event**

On June 27, 2016 the District issued \$49,500,000 of general obligation bonds for the cost of a new school building and for improvements on existing buildings and equipment.

**MUKWONAGO AREA SCHOOL DISTRICT  
MUKWONAGO, WISCONSIN**

**REQUIRED  
SUPPLEMENTARY INFORMATION**

**MUKWONAGO AREA SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND**  
**BUDGET AND ACTUAL**  
**YEAR ENDED JUNE 30, 2016**

	ORIGINAL BUDGETED AMOUNTS			FINAL BUDGETED AMOUNTS			ACTUAL AMOUNTS			VARIANCE WITH FINAL BUDGET POSTIVE (NEGATIVE)
	SPECIAL EDUCATION		TOTAL	SPECIAL EDUCATION		TOTAL	SPECIAL EDUCATION		TOTAL	
	GENERAL	EDUCATION	TOTAL	GENERAL	EDUCATION	TOTAL	GENERAL	EDUCATION	TOTAL	
<b>REVENUES</b>										
Property taxes	\$ 24,078,530	\$ -	\$ 24,078,530	\$ 22,925,978	\$ -	\$ 22,925,978	\$ 22,925,978	\$ -	\$ 22,925,978	\$ -
Other local sources	865,000	-	865,000	884,000	-	884,000	935,680	-	935,680	51,680
Interdistrict sources	2,530,480	145,000	2,675,480	2,992,385	145,000	3,137,385	2,944,992	152,573	3,097,565	(39,820)
Intermediate sources	10,151	-	10,151	15,000	-	15,000	11,078	6,674	17,752	2,752
State sources	18,087,874	1,874,916	19,962,790	18,994,052	1,874,916	20,868,968	18,990,489	1,668,398	20,658,887	(210,081)
Federal sources	586,181	1,168,438	1,754,619	586,181	1,171,059	1,757,240	493,472	997,437	1,490,909	(266,331)
Other sources	35,000	-	35,000	35,000	-	35,000	100,854	-	100,854	65,854
<b>TOTAL REVENUES</b>	<b>46,193,216</b>	<b>3,188,354</b>	<b>49,381,570</b>	<b>46,432,596</b>	<b>3,190,975</b>	<b>49,623,571</b>	<b>46,402,543</b>	<b>2,825,082</b>	<b>49,227,625</b>	<b>(395,946)</b>
<b>EXPENDITURES</b>										
Current										
Instruction										
Regular instruction	20,850,469	-	20,850,469	20,850,469	-	20,850,469	20,352,074	-	20,352,074	498,395
Vocational instruction	1,523,114	-	1,523,114	1,523,114	-	1,523,114	1,423,751	-	1,423,751	99,363
Special instruction	-	6,056,184	6,056,184	6,058,805	-	6,058,805	-	5,656,221	5,656,221	402,584
Other instruction	2,344,837	-	2,344,837	2,344,837	-	2,344,837	2,176,060	-	2,176,060	168,777
<b>Total instruction</b>	<b>24,718,420</b>	<b>6,056,184</b>	<b>30,774,604</b>	<b>24,718,420</b>	<b>6,058,805</b>	<b>30,777,225</b>	<b>23,951,885</b>	<b>5,656,221</b>	<b>29,608,106</b>	<b>1,169,119</b>
Pupil services										
Instructional staff services	1,081,091	765,902	1,846,993	1,081,091	765,902	1,846,993	1,052,537	870,719	1,923,256	(76,263)
General administration services	2,900,810	278,727	3,179,537	2,900,810	278,727	3,179,537	2,398,859	234,385	2,633,244	546,293
Building administration services	421,635	1,000	422,635	421,635	1,000	422,635	420,367	-	420,367	2,268
Business services	2,945,718	-	2,945,718	2,945,718	-	2,945,718	2,622,811	-	2,622,811	322,907
Operations and maintenance	932,181	80,285	1,012,466	932,181	80,285	1,012,466	628,270	41,461	669,731	342,735
Pupil transportation	2,846,264	-	2,846,264	2,846,264	-	2,846,264	3,419,836	-	3,419,836	(573,572)
Central services	2,112,057	659,600	2,771,657	2,112,057	659,600	2,771,657	2,108,097	696,437	2,804,534	(32,877)
Insurance	389,150	-	389,150	389,150	-	389,150	165,269	-	165,269	223,881
Other support services	367,000	-	367,000	367,000	-	367,000	349,292	-	349,292	17,708
Total support services	121,143	-	121,143	121,143	-	121,143	1,233,151	227,010	1,460,161	(1,339,018)
Non-program transactions	14,117,049	1,785,514	15,902,563	14,117,049	1,785,514	15,902,563	14,398,489	2,070,012	16,468,501	(665,938)
Capital outlay	1,430,650	975,000	2,405,650	1,430,650	975,000	2,405,650	1,459,579	882,448	2,342,027	63,623
	718,045	-	718,045	718,045	-	718,045	591,042	-	591,042	127,003
<b>TOTAL EXPENDITURES</b>	<b>40,984,164</b>	<b>8,816,698</b>	<b>49,800,862</b>	<b>40,984,164</b>	<b>8,819,319</b>	<b>49,803,483</b>	<b>40,400,995</b>	<b>8,608,681</b>	<b>49,009,676</b>	<b>793,807</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>5,209,052</b>	<b>(5,628,344)</b>	<b>(419,292)</b>	<b>5,448,432</b>	<b>(5,628,344)</b>	<b>(179,912)</b>	<b>6,001,548</b>	<b>(5,783,599)</b>	<b>217,949</b>	<b>397,861</b>
<b>OTHER FINANCING SOURCES (USES)</b>										
Transfer (to) / from other funds	(6,013,514)	5,628,344	(385,170)	(6,013,514)	5,628,344	(385,170)	(6,188,769)	5,783,599	(385,170)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(6,013,514)</b>	<b>5,628,344</b>	<b>(385,170)</b>	<b>(6,013,514)</b>	<b>5,628,344</b>	<b>(385,170)</b>	<b>(6,188,769)</b>	<b>5,783,599</b>	<b>(385,170)</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(804,462)</b>	<b>-</b>	<b>(804,462)</b>	<b>(565,082)</b>	<b>-</b>	<b>(565,082)</b>	<b>(167,221)</b>	<b>-</b>	<b>(167,221)</b>	<b>397,861</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<b>12,900,028</b>	<b>-</b>	<b>12,900,028</b>	<b>12,900,028</b>	<b>-</b>	<b>12,900,028</b>	<b>12,900,028</b>	<b>-</b>	<b>12,900,028</b>	<b>-</b>
<b>FUND BALANCE - END OF YEAR</b>	<b>\$ 12,095,566</b>	<b>\$ -</b>	<b>\$ 12,095,566</b>	<b>\$ 12,334,946</b>	<b>\$ -</b>	<b>\$ 12,334,946</b>	<b>\$ 12,732,807</b>	<b>\$ -</b>	<b>\$ 12,732,807</b>	<b>\$ 397,861</b>

The accompanying notes are an integral part of these statements.

**MUKWONAGO AREA SCHOOL DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**ON BUDGETARY ACCOUNTING AND CONTROL**  
**JUNE 30, 2016**

**NOTE 1 - Budgetary Information** - Budgets are adopted each fiscal year for all funds in accordance with Section 65.90 of the Wisconsin Statutes, using the budgetary accounting basis prescribed by the Wisconsin Department of Public Instruction. The legally adopted budget and budgetary expenditure control is exercised at the function level in the general fund and at the individual fund level for all other funds. Reported budget amounts are as originally adopted or as amended by School Board resolution.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Based upon requests from District staff, the District Administration recommends budget proposals to the School Board.
2. The Board of Education prepares a proposed budget including proposed expenditures and the means of financing them for the July 1 through June 30 fiscal year.
3. A public notice is published containing a summary of the budget and identifying the time and place where a public hearing will be held on the proposed budget.
4. Pursuant to the budget hearing, the School Board may make alterations to the proposed budget.
5. After the Board of Education (following the public hearing) adopts the budget, no changes may be made in the amount of tax to be levied or in the amount of the various appropriations and the purposes of such appropriations unless authorized by a 2/3 vote of the entire School Board.
6. Appropriations lapse at year end unless authorized as a carryover by the School Board. The portion of fund balance representing carryover appropriations is reported as a reserved fund balance.
7. Encumbrance accounting is not used.
8. Budgets are adopted on a basis consistent with generally accepted accounting principles.

**NOTE 2 - Excess of Actual Expenditure Over Budget** - The following functions had an excess of actual expenditures over budget.

General/Special Education	Pupil services	\$ 76,263
General/Special Education	Pupil transportation	32,877
General/Special Education	Other support services	1,339,018
General/Special Education	Operations and maintenance	573,572

**MUKWONAGO AREA SCHOOL DISTRICT**  
**SCHEDULE OF FUNDING PROGRESS - POST EMPLOYMENT HEALTHCARE AND**  
**SUPPLEMENTAL PENSION**  
**JUNE 30, 2016**

**SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
<u>Post Employment Healthcare</u>						
2014						
7/1/12	\$ 5,792,919	\$ 17,490,788	\$ 11,697,869	33.1%	\$ 22,378,670	52.3%
2015						
7/1/14	7,510,359	9,821,497	2,311,138	76.5%	20,726,457	11.2%
2016						
7/1/14	7,510,359	9,821,497	2,311,138	76.5%	17,436,938	13.3%
<u>Supplemental Pension</u>						
2015						
7/1/14	\$ -	\$ 2,882,187	\$ 2,882,187	0.0%	\$ 20,726,457	13.9%
2016						
7/1/14	\$ -	\$ 2,882,187	2,882,187	0.0%	\$ 17,436,938	16.5%

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Year Ended June 30	Annual Required Contribution	Actual Contribution	Percentage Contributed
<u>Post Employment Healthcare</u>			
2014	\$ 3,713,412	\$ 2,614,858	70.4%
2015	892,458	3,258,881	365.2%
2016	892,458	1,775,762	199.0%
<u>Supplemental Pension</u>			
2015	\$ 460,824	\$ 344,017	74.7%
2016	460,824	290,358	63.0%

Information regarding the supplemental pension is not available for 2014.

**MUKWONAGO AREA SCHOOL DISTRICT**  
**WISCONSIN RETIREMENT SYSTEM SCHEDULES**  
**JUNE 30, 2016**

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)**  
**Last 10 Fiscal Years \***

	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability (asset)	0.17991634%	0.18287114%
Proportionate share of the net pension liability (asset)	\$ 2,923,606	\$ (4,491,816)
Covered payroll	\$25,259,744	\$ 25,061,949
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	11.57%	-17.92%
Plan fiduciary net position as a percentage of the total pension liability (asset)	98.20%	102.74%

**SCHEDULE OF CONTRIBUTIONS**  
**Last 10 Fiscal Years \***

	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 1,717,656	\$ 1,754,351
Contributions in relation to the contractually required contributions	<u>(1,717,656)</u>	<u>(1,754,351)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$25,259,744	\$ 25,061,949
Contributions as a percentage of covered payroll	6.80%	7.00%

\* The amounts presented for each fiscal year were determined as of the calendar year end which occurred with the fiscal year.

The District implemented the Government Accounting Standards Board Statement No. 68 for the year ended June 30, 2015. Requirements have been implemented prospectively; therefore, the above illustrations do not reflect similar information for the 8 preceding years.

**Notes to Required Supplementary Information for the Year Ended June 30, 2016**

Changes of benefit terms - there were no changes of benefit terms for any participating employer in the Wisconsin Retirement System.

Changes of assumptions - there were no changes in the assumptions.

**MUKWONAGO AREA SCHOOL DISTRICT  
MUKWONAGO, WISCONSIN**

**OTHER  
SUPPLEMENTARY INFORMATION**

**MUKWONAGO AREA SCHOOL DISTRICT**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**JUNE 30, 2016**

	<u>SPECIAL REVENUE FUNDS</u>			<u>CAPITAL PROJECTS</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
	<u>TRUST</u>	<u>FOOD SERVICE</u>	<u>COMMUNITY SERVICE</u>	<u>LONG-TERM CAPITAL IMPROVEMENT</u>	
<b><u>ASSETS</u></b>					
Cash and investments	\$ -	\$ 701,939	\$ 106,397	\$ 10,034	\$ 818,370
Receivables					
Accounts	126,261	2,131	-	-	128,392
Due from other governments	<u>-</u>	<u>9,108</u>	<u>-</u>	<u>-</u>	<u>9,108</u>
<b>TOTAL ASSETS</b>	<b><u>126,261</u></b>	<b><u>713,178</u></b>	<b><u>106,397</u></b>	<b><u>10,034</u></b>	<b><u>955,870</u></b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>					
<b>LIABILITIES</b>					
Short term notes payable	-	-	-	-	-
Accounts payable	-	1,327	-	-	1,327
Accrued payroll liabilities	26	9,215	3,552	-	12,793
Accrued liabilities	-	-	-	-	-
Accrued interest	-	-	-	-	-
Due to other funds	45,742	-	-	-	45,742
Due to other governments	-	-	-	-	-
Deposits payable	-	-	-	-	-
Unearned revenue	<u>-</u>	<u>56,880</u>	<u>-</u>	<u>-</u>	<u>56,880</u>
<b>TOTAL LIABILITIES</b>	<b><u>45,768</u></b>	<b><u>67,422</u></b>	<b><u>3,552</u></b>	<b><u>-</u></b>	<b><u>116,742</u></b>
<b>FUND BALANCES</b>					
Restricted	<u>80,493</u>	<u>645,756</u>	<u>102,845</u>	<u>10,034</u>	<u>839,128</u>
<b>TOTAL FUND BALANCES</b>	<b><u>80,493</u></b>	<b><u>645,756</u></b>	<b><u>102,845</u></b>	<b><u>10,034</u></b>	<b><u>839,128</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 126,261</u></b>	<b><u>\$ 713,178</u></b>	<b><u>\$ 106,397</u></b>	<b><u>\$ 10,034</u></b>	<b><u>\$ 955,870</u></b>

**MUKWONAGO AREA SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2016**

	SPECIAL REVENUE FUNDS			CAPITAL PROJECTS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
	TRUST	FOOD SERVICE	COMMUNITY SERVICE	LONG-TERM CAPITAL IMPROVEMENT	
<b>REVENUES</b>					
Property taxes	\$ -	\$ -	\$ 204,929	\$ -	\$ 204,929
Other local sources	342,295	1,568,042	-	27	1,910,364
State sources	-	22,255	-	-	22,255
Federal sources	-	514,665	-	-	514,665
<b>TOTAL REVENUES</b>	<u>342,295</u>	<u>2,104,962</u>	<u>204,929</u>	<u>27</u>	<u>2,652,213</u>
<b>EXPENDITURES</b>					
Current					
Instruction					
Regular instruction	83,486	-	-	-	83,486
Vocational instruction	500	-	-	-	500
Other instruction	5,682	-	-	-	5,682
Total instruction	<u>89,668</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>89,668</u>
Support service					
Instructional staff services	999	-	-	-	999
General administration services	59	-	-	-	59
Building administration services	500	-	30,734	-	31,234
Business services	201,907	1,921,523	-	-	2,123,430
Operation and maintenance	-	-	145,720	-	145,720
Total support services	<u>203,465</u>	<u>1,921,523</u>	<u>176,454</u>	<u>-</u>	<u>2,301,442</u>
Capital outlay	17,917	11,817	-	-	29,734
<b>TOTAL EXPENDITURES</b>	<u>311,050</u>	<u>1,933,340</u>	<u>176,454</u>	<u>-</u>	<u>2,420,844</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>31,245</u>	<u>171,622</u>	<u>28,475</u>	<u>27</u>	<u>231,369</u>
<b>NET CHANGE IN FUND BALANCE</b>	31,245	171,622	28,475	27	231,369
<b>FUND BALANCES - BEGINNING OF YEAR</b>	49,248	474,134	74,370	10,007	607,759
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 80,493</u>	<u>\$ 645,756</u>	<u>\$ 102,845</u>	<u>\$ 10,034</u>	<u>\$ 839,128</u>

**MUKWONAGO AREA SCHOOL DISTRICT**  
**SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES**  
**AGENCY FUNDS**  
**YEAR ENDED JUNE 30, 2016**

	<u>BALANCE</u> <u>JULY 1, 2015</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> <u>JUNE 30, 2016</u>
<b><u>ASSETS</u></b>				
Cash and investments	\$ 472,550	\$ 1,127,837	\$ 1,084,168	\$ 516,219
<b>TOTAL ASSETS</b>	<b><u>472,550</u></b>	<b><u>1,127,837</u></b>	<b><u>1,084,168</u></b>	<b><u>516,219</u></b>
<b><u>LIABILITIES</u></b>				
Due to student organizations				
Middle School	242,225	240,901	247,466	235,660
High School	<u>230,325</u>	<u>886,936</u>	<u>836,702</u>	<u>280,559</u>
<b>TOTAL LIABILITIES</b>	<b><u>\$ 472,550</u></b>	<b><u>\$ 1,127,837</u></b>	<b><u>\$ 1,084,168</u></b>	<b><u>\$ 516,219</u></b>

**MUKWONAGO AREA SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2016**

Awarding Agency Pass-Through Agency Award Description	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL CATALOG NUMBER	PROGRAM OR AWARD AMOUNT	ACCRUED RECEIVABLE (UNEARNED REVENUE) JULY 1, 2015	REVENUES GRANTOR REIMBURSE- MENTS	EXPENDITURES	ACCRUED RECEIVABLE (UNEARNED REVENUE) JUNE 30, 2016	SUBRECIPIENT PASS-THROUGH EXPENDITURES
<b>U.S. DEPARTMENT OF AGRICULTURE</b>								
Wisconsin Department of Public Instruction								
School Breakfast Program								
July 1, 2014 - June 30, 2015	None	10.553	N/A	\$ 166	\$ 166	\$ -	\$ -	-
July 1, 2015 - June 30, 2016	None		N/A	-	4,252	4,367	115	-
Food Distribution								
July 1, 2015 - June 30, 2016	None	10.555	N/A	-	129,870	129,870	-	-
National School Lunch Program								
July 1, 2014 - June 30, 2015	None	10.555	N/A	13,447	13,447	-	-	-
July 1, 2015 - June 30, 2016	None		N/A	-	371,434	380,428	8,994	-
Total Child Nutrition Cluster				13,613	519,169	514,665	9,109	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE				13,613	519,169	514,665	9,109	-
<b>U.S. DEPARTMENT OF EDUCATION</b>								
Wisconsin Department of Public Instruction								
Special Education - Grants to States (IDEA Part B)								
July 1, 2014 - June 30, 2015	2015-3822-730-341	84.027	N/A	299,474	299,474	-	-	-
July 1, 2015 - June 30, 2016	A341-00000-673822		\$ 1,014,316	-	529,389	851,635	322,246	-
High Cost Special Education Aid								
July 1, 2015 - June 30, 2016	None	84.027	18,086	-	18,086	18,086	-	-
Special Education - Preschool Grants (IDEA Part B)								
July 1, 2014 - June 30, 2015	None	84.173	N/A	12,028	12,028	-	-	-
July 1, 2015 - June 30, 2016	A347-00000-673822		41,019	-	20,018	32,202	12,184	-
School District of Elmbrook								
High Cost Special Education Aid								
July 1, 2014 - June 30, 2015	None	84.027	N/A	10,256	10,256	-	-	-
July 1, 2015 - June 30, 2016	None		1,671	-	1,671	1,671	-	-
Total Special Education Cluster				321,758	890,922	903,594	334,430	-
Wisconsin Department of Public Instruction								
Career and Technical Education - Basic Grants to State								
July 1, 2014 - June 30, 2015	None	84.048	N/A	\$ 22,117	\$ 22,117	\$ -	\$ -	-
July 1, 2015 - June 30, 2016	A420-00000-673822		\$ 20,781	-	-	20,781	20,781	-
Title 1A - Grants to Local Educational Agencies								
July 1, 2014 - June 30, 2015	None	84.010	N/A	51,059	51,059	-	-	-
July 1, 2015 - June 30, 2016	A141-00000-673822		140,844	-	94,466	132,578	38,112	-
Safe and Supportive Schools								
July 1, 2014 - June 30, 2015	11-01-3822/SSS1	84.184	N/A	28,765	28,765	-	-	-
July 1, 2015 - June 30, 2016	11-01-3822/SSS1		45,530	-	-	-	-	-
Carol M. White Physical Education Program								
July 1, 2014 - June 30, 2015	None	84.215F	N/A	155,258	155,258	-	-	-
July 1, 2015 - June 30, 2016	None		288,590	-	184,537	238,880	54,343	-
Title II-A - Improving Teacher Quality State Grants								
July 1, 2014 - June 30, 2015	15-67-3822-TIIA-Formula	84.367	N/A	38,391	38,391	-	-	-
July 1, 2015 - June 30, 2016	A365-00000-673822		93,272	-	54,236	73,550	19,314	-
Waukesha County Technical College								
Tech Prep Education								
July 1, 2014 - June 30, 2015	None	84.243	-	527	527	-	-	-
July 1, 2015 - June 30, 2016	None		325	-	325	325	-	-
TOTAL U.S. DEPARTMENT OF EDUCATION				617,875	629,681	1,369,708	132,550	-
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>								
Wisconsin Department of Health Services								
Medical Assistance								
July 1, 2014 - June 30, 2015	None	93.778	N/A	36,233	36,233	-	-	-
July 1, 2015 - June 30, 2016	None		N/A	-	100,178	123,196	23,018	-
Center For Disease Control - Basic								
July 1, 2014 - June 30, 2015	NONE	93.938	N/A	-	-	-	-	-
July 1, 2015 - June 30, 2016	NONE		-	-	-	-	-	-
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				36,233	136,411	123,196	23,018	-
<b>TOTAL FEDERAL ASSISTANCE</b>				<b>\$ 667,721</b>	<b>\$ 2,176,183</b>	<b>\$ 2,007,569</b>	<b>\$ 499,107</b>	<b>-</b>

**MUKWONAGO AREA SCHOOL DISTRICT**  
**SCHEDULE OF STATE FINANCIAL ASSISTANCE**  
**YEAR ENDED JUNE 30, 2016**

AWARDING AGENCY PASS-THROUGH AGENCY AWARD DESCRIPTION	PASS-THROUGH		RECEIVABLE			RECEIVABLE		SUBRECIPIENT PASS-THROUGH EXPENDITURES
	ENTITY IDENTIFYING NUMBER	STATE I.D. NUMBER	(UNEARNED REVENUE) JULY 1, 2015	REVENUE GRANTOR REIMBURSEMENTS	EXPENDITURES	(UNEARNED REVENUE) JUNE 30, 2016		
<b>WISCONSIN DEPARTMENT OF PUBLIC INSTRUCTION</b>								
Wisconsin Department of Public Instruction								
Special Education and School Age Parents:	LEA-100	255.101	\$ -	\$ 1,747,807	\$ 1,747,807	\$ -	\$ -	-
State School Lunch Aid	LEA-107	255.102	-	21,958	21,958	-	-	-
Common School Fund Library Aid	LEA-104	255.103	-	193,669	193,669	-	-	-
General Transportation Aid	LEA-102	255.107	-	168,054	168,054	-	-	-
Equalization Aid	LEA-116	255.201	324,703	17,756,666	17,764,312	332,349	-	-
High Cost Special Education Aid	LEA-119	255.210	-	26,593	26,593	-	-	-
School Breakfast Program	LEA-108	255.344	-	297	297	-	-	-
Educator Effectiveness Evaluation System	LEA-154	255.940	-	-	25,100	25,100	-	-
Per Pupil Aid	LEA-113	255.945	-	-	682,500	682,500	-	-
Career and Technical Education Incentive	LEA-151	255.950	-	28,216	28,216	-	-	-
TOTAL WISCONSIN DEPARTMENT OF PUBLIC INSTRUCTION			<u>324,703</u>	<u>19,943,260</u>	<u>20,658,506</u>	<u>1,039,949</u>		<u>-</u>
<b>WISCONSIN DEPARTMENT OF NATURAL RESOURCES</b>								
Wisconsin Department of Natural Resources								
Payment in Lieu of Taxes	None	None	-	102,964	102,964	-	-	-
TOTAL WISCONSIN DEPARTMENT OF NATURAL RESOURCES			<u>-</u>	<u>102,964</u>	<u>102,964</u>	<u>-</u>		<u>-</u>
<b>WISCONSIN ENVIRONMENTAL EDUCATION BOARD</b>								
Entitlement Program - Nonmajor State Program								
Forest Grant	None	None	14	959	945	-	-	-
<b>WISCONSIN DEPARTMENT OF REVENUE</b>								
Wisconsin Department of Revenue								
Exempt Computer Aid	None	None	21,996	21,996	22,770	22,770	-	-
<b>WISCONSIN DEPARTMENT OF WORKFORCE DEVELOPMENT</b>								
Wisconsin Department of Workforce Development								
Youth Apprenticeship Grant	None	445.112	2,983	13,736	10,753	-	-	-
TOTAL WISCONSIN DEPARTMENT OF WORKFORCE DEVELOPMENT			<u>2,983</u>	<u>13,736</u>	<u>10,753</u>	<u>-</u>		<u>-</u>
<b>TOTAL STATE FINANCIAL ASSISTANCE</b>			<b>\$ 349,696</b>	<b>\$ 20,082,915</b>	<b>\$ 20,795,938</b>	<b>\$ 1,062,719</b>	<b>\$ -</b>	<b>\$ -</b>

**MUKWONAGO AREA SCHOOL DISTRICT**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF**  
**FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE**  
**JUNE 30, 2016**

**NOTE 1 - Basis of Presentation**

The accompanying schedules of expenditures of federal awards and state financial assistance include the federal and state grant activity of the Mukwonago Area School District. The information in these schedules is presented in accordance with the requirements of Uniform Guidance and *State Single Audit Guidelines*. Therefore, some amounts presented in these schedules may differ from amounts presented in or used in the preparation of the financial statements.

**NOTE 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 the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable and are limited as to reimbursement.

**NOTE 3 - Special Education and School Age Parents Program**

2015-2016 eligible costs under the State Special Education Program are \$6,447,954.

**NOTE 4 - Food Distribution Program**

Non-monetary assistance is reported in the schedule of federal awards at the fair market value of the commodities received and used.

**NOTE 5 - 10% De Minimis Cost Rate**

Elected not to use.

**MUKWONAGO AREA SCHOOL DISTRICT  
MUKWONAGO, WISCONSIN**

**OTHER REPORTS**



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mukwonago Area School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Mukwonago Area School District's basic financial statements and have issued our report thereon dated January 6, 2017.

**Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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 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. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, 2016-001, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency.

## **Compliance and Other Matters**

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

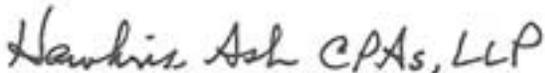
## **Mukwonago Area School District's Response to Findings**

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

## **Purpose of this Report**

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

HAWKINS ASH CPAS, LLP

A handwritten signature in cursive script that reads "Hawkins Ash CPAs, LLP".

Manitowoc, Wisconsin  
January 6, 2017



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

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

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

We have audited the Mukwonago Area School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and *State Single Audit Guidelines* that could have a direct and material effect on each of the Mukwonago Area School District's major federal and state programs for the year ended June 30, 2016. The Mukwonago Area School District's major federal and state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal and state programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the Mukwonago Area School District's major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and *State Single Audit Guidelines*. Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about the Mukwonago Area School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

## **Opinion on Each Major Federal and State Program**

In our opinion, the Mukwonago Area School 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 or state programs for the year ended June 30, 2016.

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

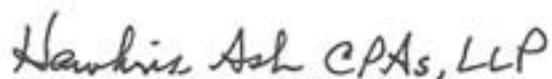
Management of the Mukwonago Area School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirement referred to above. In planning and performing our audit of compliance, we considered the Mukwonago Area School District's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal or state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each federal and state program and to test and report on internal control over compliance in accordance with Uniform Guidance and *State Single Audit Guidelines*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Mukwonago Area School District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal and state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

HAWKINS ASH CPAS, LLP



Manitowoc, Wisconsin  
January 6, 2017

**MUKWONAGO AREA SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
 JUNE 30, 2016

**Section I - Summary of Auditors' Results**

*Financial Statements*

Type of auditors' report issued: Unmodified

Internal control over financial reporting:  
 Material weakness identified?  Yes  No  
 Significant deficiency(ies) identified not considered to be material weaknesses?  Yes  None reported  
 Noncompliance material to the financial statements?  Yes  No

*Federal Awards*

Internal control over financial reporting:  
 Material weakness identified?  Yes  No  
 Significant deficiency(ies) identified not considered to be material weaknesses  Yes  None reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?  Yes  No

Identification of major federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.553/10.555	Child Nutrition Cluster

*State Awards*

Internal control over financial reporting:  
 Material weakness identified?  Yes  No  
 Significant deficiency(ies) identified not considered to be material weaknesses?  Yes  None reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with *State Single Audit Guidelines*?  Yes  No

**MUKWONAGO AREA SCHOOL DISTRICT**  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued  
 JUNE 30, 2016

**Section I - Summary of Auditor's Results - Continued**

Identification of major state programs:

<u>State ID Number</u>	<u>Name of State Program or Cluster</u>	
255.201	Equalization Aid	
Dollar threshold used to distinguish between:		
Type A and Type B federal programs	\$750,000	
Type A and Type B state programs	\$250,000	
Auditee qualified as a low-risk auditee?	<u>  X  </u> Yes	<u>      </u> No

**Section II - Financial Statement Findings and Questioned Costs**

**2016-001 - Preparation of Financial Statements**

Program: District-Wide

Criteria: Adequate internal controls necessitate personnel to have knowledge and training which would enable them to prepare financial statements (and footnotes) in accordance with generally accepted accounting principles (GAAP).

Condition: Personnel cannot prepare GAAP basis financial statements.

Questioned Costs: Not applicable.

Context: Personnel have adequate knowledge and experience in governmental accounting and interim reporting requirements; however, their limited knowledge and lack of training limits their ability to prepare GAAP basis financial statements.

Effect: This weakness could result in the possibility of undetected errors and irregularities.

Information: Isolated instance.

Prior Year Finding: This was a prior year audit finding numbered 2015-001.

Recommendation: Obtain adequate training to prepare GAAP basis financial statements or use external sources to prepare the financial statements.

Management's Response: Due to the complexities involved with preparing GAAP basis financial statements, management has weighed the cost-benefit of training personnel or hiring a certified public accounting (CPA) firm. Management has concluded to hire a CPA firm.

**Section III - Federal and State Award Findings and Questioned Costs**

None

**MUKWONAGO AREA SCHOOL DISTRICT**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued  
JUNE 30, 2016

**Section IV - Prior Year Findings**

2015-001 - Preparation of Financial Statements - Repeat. Initially occurred 6/30/10.

**MUKWONAGO AREA SCHOOL DISTRICT**  
CORRECTIVE ACTION PLAN  
JUNE 30, 2016

2016-001 - Preparation of Financial Statements - Contact: Thomas Karthausser, Director of Business Services. Completion date: N/A. Due to the complexities of governmental reporting in accordance with GAAP, i.e. financial statements and related disclosure reporting, District management has weighed the cost benefit of training current staff or hiring a Certified Public Accountant on staff for the purposes of preparing the external financial statements in accordance with GAAP. District management has concluded to outsource the preparation of the external financial statements and related disclosures to their certified public accounting firm, which is an acceptable practice according to *Government Auditing Standards*. District management will review and approve the externally prepared financial statements.

**MUKWONAGO AREA SCHOOL DISTRICT**  
**INDEPENDENT AUDITORS' REPORT ON COMMUNICATION**  
**WITH THOSE CHARGED WITH GOVERNANCE**  
**AND MANAGEMENT ADVISORY COMMENTS**

**JUNE 30, 2016**

# MUKWONAGO AREA SCHOOL DISTRICT

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5-7	Independent Auditors' Report on Management Advisory Comments
Appendix A	Adjusting Journal Entries Report



**INDEPENDENT AUDITORS' REPORT ON  
COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mukwonago Area School District for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 14, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Mukwonago Area School District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2016. We noted no transactions entered into by the Mukwonago Area School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Mukwonago Area School District's financial statements were:

Management's estimate of the depreciable lives of fixed assets is based on prior history.

Management's estimate of the other post-employment benefit liability is calculated by Key Benefit Concepts, LLC, the District's third-party actuary.

Management's estimated liability for dental care claims is based on estimates of the ultimate cost of reported claims and an estimate for claims incurred but not reported based on historical experience.

Management estimate of the Wisconsin Retirement System pension was calculated by the State of Wisconsin Department of Employee Trust Funds' third-party actuary.

We evaluated the key factors and assumptions used to develop the estimates above, determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such attached misstatements in Appendix A. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

#### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated January 6, 2017.

#### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Mukwonago Area School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Other Matters

We applied certain limited procedures to the budgetary comparison information, schedule of funding progress - post employment healthcare, and Wisconsin Retirement System schedules which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining and individual nonmajor fund financial statements, the schedule of changes in assets and liabilities of the agency funds, and the schedule of expenditures of federal awards and schedule of state financial assistance, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

### Restriction on Use

This information is intended solely for the use of the Board of Education and management of the Mukwonago Area School District and is not intended to be, and should not be, used by anyone other than these specified parties.

HAWKINS ASH CPAS, LLP

A handwritten signature in cursive script that reads "Hawkins Ash CPAs, LLP".

Manitowoc, Wisconsin  
January 6, 2017



**INDEPENDENT AUDITORS' REPORT ON MANAGEMENT ADVISORY COMMENTS**

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

We have audited the general purpose financial statements of the Mukwonago Area School District as of and for the year ended June 30, 2016 and have issued our report thereon dated January 6, 2017. We have also issued compliance reports and reports on the internal control structure in accordance with *Government Auditing Standards*. These reports disclosed any material instances of noncompliance, federal and state program findings and questioned cost, material weaknesses and significant deficiencies that were identified during the audit.

Other matters involving the internal control structure and the District's operations which came to our attention during the audit are reported on the following pages as management advisory comments.

We would like to take this opportunity to acknowledge the many courtesies extended to us by the District's personnel during the course of our work. In particular, we would like to note the considerable assistance and cooperation provided to us by Thomas Karthausser and his staff.

We shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, we would welcome the opportunity of assisting you in these matters.

HAWKINS ASH CPAS, LLP

A handwritten signature in blue ink that reads 'Hawkins Ash CPAs, LLP'.

Manitowoc, Wisconsin  
January 6, 2017

## MANAGEMENT ADVISORY COMMENTS

### Current Year Comments

#### Purchasing Policy

The District's purchasing policy should be updated for the new Uniform Guidance procurement requirements for the 2016-17 school year.

#### New Standard - GASB Statement No. 73 - Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68

This statement establishes accounting and financial reporting requirements for defined benefit and contribution pensions that are provided to employees of local governmental employers and are not within the scope of GASB Statement 68.

The accounting and financial reporting requirements of this statement are effective for financial statement periods beginning after June 15, 2016. Your June 30, 2017 financial statements will be updated for these new reporting requirements.

#### New Standard - GASB Statement No. 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

This statement improves the accounting and financial reporting for postemployment benefits other than pensions provided to employees of state and local governmental employers. Governments previously were allowed to choose from six different methods with additional variations, now they are limited to a single method of attributing the actuarial present value of projected benefit payments to periods of employee service. This will significantly increase the comparability of the information reported by employers regarding OPEB transactions. The requirements of this statement will improve the decision-usefulness of information in employer financial reports by requiring recognition of the entire OPEB liability. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This will significantly increase the comparability of OPEB information for Districts. Requirements for note disclosure and required supplementary information are also addressed to create additional transparency. However, this statement does not change how the District should fund its OPEB.

The provisions of this statement are effective for financial statement periods beginning after June 15, 2017. Your June 30, 2018 financial statements will be updated for these new reporting requirements.

#### New Standard - GASB Statement No. 82 - Pension Issues-An Amendment of GASB Statements No. 67, No. 68, and No. 73

This statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The payroll and contribution provisions of this statement are effective for financial statements periods beginning after June 15, 2016. Your June 30, 2017 financial statements will be updated for these new reporting requirements. Your June 30, 2018 financial statements will be updated for the new assumption reporting requirements.

### **Status of Prior Year(s) Comments**

#### Uniform Grant Guidance Single Audit Changes (6/30/15)

The Uniform Grant Guidance has revised the following for completing a single audit.

- Increases single audit threshold from \$500,000 to \$750,000 of federal expenditures
- Type A grant program increases from \$300,000 to \$750,000
- Type B grant program increases from \$100,000 to \$187,500
- Questioned costs increases from \$10,000 to \$25,000
- Percentage of coverage of federal expenditures changes from 50% to 40% for a high risk auditee and 25% to 20% for a low risk auditee
- Changes the Catalog of Federal Domestic Assistance (CFDA) name to Catalog of Federal Financial Assistance (CFFA)

These changes will be effective for your June 30, 2016 year end audit.

Status: Resolved.

## APPENDIX A

Client: **0201746 - Mukwonago Area School District**  
 Engagement: **16 Audit - Mukwonago Area School District**  
 Period Ending: **6/30/2016**  
 Trial Balance: **Database**  
 Workpaper: **1501 - Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
<b>Adjusting Journal Entries JE # 17</b>		<b>2015 wp. 4308</b>		
2016 - To reverse accrued payroll entry made in prior year				
10-711000	Cash		1,966.00	
10-811800	Accrued Payroll Payable		17,136.00	
10-811800	Accrued Payroll Payable		65,950.00	
27-811800	Accrued Payroll Payable		674.00	
27-811800	Accrued Payroll Payable		1,292.00	
27R-411000-110	Transfer From General Fund		1,966.00	
50-811800	Accrued Payroll Payable		624.00	
50-811800	Accrued Payroll Payable		2,600.00	
80-811800	Accrued Payroll Payable		62.00	
10E-110000-100	Salaries			6,995.00
10E-110000-100	Salaries			17,066.00
10E-110000-220	Social Security			4.00
10E-110000-220	Social Security			535.00
10E-110000-220	Social Security			1,302.00
10E-120000-100	Salaries			3,043.00
10E-120000-100	Salaries			12,255.00
10E-120000-220	Social Security			233.00
10E-120000-220	Social Security			938.00
10E-160000-100	Salaries			825.00
10E-160000-220	Social Security			63.00
10E-173000-100	Salaries			180.00
10E-173000-100	Salaries			210.00
10E-173000-220	Social Security			14.00
10E-173000-220	Social Security			16.00
10E-221100-100	Salaries			188.00
10E-221100-100	Salaries			1,842.00
10E-221100-220	Social Security			15.00
10E-221100-220	Social Security			141.00
10E-221300-100	Salaries			160.00
10E-221300-220	Social Security			12.00
10E-222000-100	Salaries			391.00
10E-222000-100	Salaries			1,517.00
10E-222000-220	Social Security			30.00
10E-222000-220	Social Security			116.00
10E-223100-100	Salaries			99.00
10E-223100-220	Social Security			8.00
10E-230000-350	Communication			200.00
10E-240000-100	Salaries			624.00
10E-240000-100	Salaries			4,288.00
10E-240000-220	Social Security			48.00
10E-240000-220	Social Security			328.00
10E-253000-100	Salaries			4,446.00
10E-253000-100	Salaries			20,330.00
10E-253000-220	Social Security			340.00
10E-253000-220	Social Security			1,555.00
10E-254300-100	Salaries			50.00
10E-254300-100	Salaries			257.00
10E-254300-220	Social Security			4.00
10E-254300-220	Social Security			20.00
10E-254410-100	Salaries			2,228.00
10E-254410-220	Social Security			170.00
10E-411000-827	Transfer to Special Education Fund			1,966.00
27-711000	Cash			1,966.00
27E-150000-100	Salaries			1,200.00
27E-150000-220	Social Security			92.00
27E-219000-100	Salaries			274.00
27E-219000-220	Social Security			21.00
27E-229000-100	Salaries			352.00
27E-229000-220	Social Security			27.00

Client: **0201746 - Mukwonago Area School District**  
 Engagement: **16 Audit - Mukwonago Area School District**  
 Period Ending: **6/30/2016**  
 Trial Balance: **Database**  
 Workpaper: **1501 - Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
50E-257000-100	Salaries			580.00
50E-257000-100	Salaries			2,415.00
50E-257000-220	Social Security			44.00
50E-257000-220	Social Security			185.00
80E-240000-100	Salaries			58.00
80E-240000-220	Social Security			4.00
<b>Total</b>			<b>92,270.00</b>	<b>92,270.00</b>

**Adjusting Journal Entries JE # 19** **1505.1**

2016 - Adjustment made per client subsequent to importing the trial balance

10E-292000-218	Retirement--Contribution to Employee Benefit Trust		1,191,804.00	
27E-292000-218	Retirement--Contribution to Employee Benefit Trust		227,010.00	
10E-110000-218	Retirement--Contribution to Employee Benefit Trust			349,501.00
10E-120000-218	Retirement--Contribution to Employee Benefit Trust			426,207.00
10E-136000-218	Retirement--Contribution to Employee Benefit Trust			59,586.00
10E-140000-218	Retirement--Contribution to Employee Benefit Trust			46,469.00
10E-172000-218	Retirement--Contribution to Employee Benefit Trust			8,932.00
10E-214000-218	Retirement--Contribution to Employee Benefit Trust			38,944.00
10E-222000-218	Retirement--Contribution to Employee Benefit Trust			76,131.00
10E-230000-218	Retirement--Contribution to Employee Benefit Trust			13,278.00
10E-240000-218	Retirement--Contribution to Employee Benefit Trust			98,743.00
10E-252000-218	Retirement--Contribution to Employee Benefit Trust			74,013.00
27E-150000-218	Retirement--Contribution to Employee Benefit Trust			189,776.00
27E-212000-218	Retirement--Contribution to Employee Benefit Trust			2,058.00
27E-213000-218	Retirement--Contribution to Employee Benefit Trust			2,176.00
27E-214000-218	Retirement--Contribution to Employee Benefit Trust			1,046.00
27E-215000-218	Retirement--Contribution to Employee Benefit Trust			17,193.00
27E-218200-218	Retirement--Contribution to Employee Benefit Trust			4,145.00
27E-223300-218	Retirement--Contribution to Employee Benefit Trust			8,647.00
27E-229000-218	Retirement--Contribution to Employee Benefit Trust			394.00
27E-252000-218	Retirement--Contribution to Employee Benefit Trust			1,575.00
<b>Total</b>			<b>1,418,814.00</b>	<b>1,418,814.00</b>

**Adjusting Journal Entries JE # 24** **TB**

2016 - To zero out negative cash balance in Fund 21

10-714000	Due From Other Funds		45,742.00	
21-711000	Cash		45,742.00	
10-711000	Cash			45,742.00
21-814000	Due To Other Funds			45,742.00
<b>Total</b>			<b>91,484.00</b>	<b>91,484.00</b>