

**EAST TROY COMMUNITY  
SCHOOL DISTRICT**

**AUDITED FINANCIAL  
STATEMENTS**

**JUNE 30, 2010**

A large, stylized, black monogram logo consisting of the letters 'JRF' in a bold, cursive font. The 'J' is a large, sweeping curve that starts high on the left and ends low on the right. The 'R' is a tall, vertical stroke with a curved top and a horizontal base. The 'F' is a tall, vertical stroke with a horizontal top bar and a horizontal base.

**JAMES R. FRECHETTE**

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**CERTIFIED PUBLIC ACCOUNTANT**

EAST TROY COMMUNITY SCHOOL DISTRICT  
 June 30, 2010  
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**James R. Frechette**

CERTIFIED PUBLIC ACCOUNTANT

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## **Independent Auditor's Report**

To the School Board  
East Troy Community School District  
East Troy, Wisconsin

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Troy Community School District as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in table of contents. These financial statements are the responsibility of the District's Board of Education and management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, the budgetary comparison for the General Fund, and the aggregate remaining fund information of the East Troy Community School District as of June 30, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2010 on our consideration of East Troy Community School District's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management of the East Troy Community School District has not presented a "Management Discussion and Analysis" that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the East Troy Community School District's basic financial statements. The combining non-major fund financial statements, schedule of student activity funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards and schedule of state financial assistance are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the State of Wisconsin Single Audit Guidelines, and are not a required part of the basic financial statements of the East Troy Community School District. The combining non-major fund financial statements, schedule of student activity funds, schedule of expenditures of federal awards, and schedule of state financial assistance has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

JAMES R. FRECHETTE  
CERTIFIED PUBLIC ACCOUNTANT

November 18, 2010

## **BASIC FINANCIAL STATEMENTS**

EAST TROY COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
June 30, 2010

	Governmental Activities
<b><u>ASSETS</u></b>	
Current Assets:	
Cash and Investments	\$ 3,107,636
Taxes Receivable	4,086,928
Accounts Receivable	10,116
Due from Other Governments	290,046
Prepayments	23,258
Noncurrent Assets:	
Capital Assets	26,686,525
Less: Accumulated Depreciation	(11,278,122)
Total Assets	22,926,387
 <b><u>LIABILITIES</u></b>	
Current Liabilities:	
Short-term Notes Payable	\$ 4,600,000
Vouchers Payable	53,265
Accrued Salaries and Benefits	318,740
Deferred Revenue	7,887
Accrued Interest Payable	169,092
Bonds and State Trust Fund Loans - Current	854,284
Noncurrent Liabilities:	
General Obligation Bonds Payable (Net of Amortization)	6,654,956
State Trust Fund Loans Payable	100,762
Net Pension Obligations Payable	17,430
Net OPEB Obligations Payable	1,359,025
Total Liabilities	14,135,441
 <b><u>NET ASSETS</u></b>	
Invested in Capital Assets, net of related debt	8,071,448
Restricted for:	
Debt Service	199,874
Food Service	143,831
Community Service	(920)
Unrestricted	376,713
Total Net Assets	\$ 8,790,946

The notes to the financial statements are an integral part of this statement.

EAST TROY COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Governmental Activities
<b>Governmental Activities:</b>				
Instruction:				
Regular Instruction	\$ 9,546,973	\$ 405,023	\$ 381,362	\$ (8,760,588)
Vocational Instruction	800,402			(800,402)
Special Education	1,363,207	25,992	687,739	(649,476)
Other Instruction	831,408	69,547		(761,861)
Total Instruction	<u>12,541,990</u>	<u>500,562</u>	<u>1,069,101</u>	<u>(10,972,327)</u>
Support Services:				
Pupil Services	870,702			(870,702)
Libraries & Instructional Support	576,957		59,341	(517,616)
Administration	1,479,803	1,405		(1,478,398)
Operation and Maintenance	2,375,243	29,668		(2,345,575)
Pupil Transportation	728,679	19,115	39,025	(670,539)
Food Service	559,817	381,300	210,119	31,602
Other Support Services	460,319			(460,319)
Interest on Debt	369,933			(369,933)
Community Services	44,726	18,218		(26,508)
Total Support Services	<u>7,466,179</u>	<u>449,706</u>	<u>308,485</u>	<u>(6,707,988)</u>
Totals	<u>\$ 20,008,169</u>	<u>\$ 950,268</u>	<u>\$ 1,377,586</u>	<u>(17,680,315)</u>
<b>General Revenues:</b>				
				13,535,281
				4,289,130
				31,978
				21,565
				77,965
				<u>17,955,919</u>
				Change in Net Assets 275,604
				Net Assets - Beginning of Year 8,515,342
				<u>Net Assets - End of Year \$ 8,790,946</u>

The notes to the financial statements are an integral part of this report.

# EAST TROY COMMUNITY SCHOOL DISTRICT BALANCE SHEET - GOVERNMENTAL FUNDS June 30, 2010

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>ASSETS</u></b>				
Cash and Investments	\$ 2,917,816	\$ 199,874	\$ (10,054)	\$ 3,107,636
Taxes Receivable	4,086,928			4,086,928
Accounts Receivable	10,067		49	10,116
Due From Other Governments	108,967		181,079	290,046
Prepayments	23,258			23,258
<b>TOTAL ASSETS</b>	<b>\$ <u>7,147,036</u></b>	<b>\$ <u>199,874</u></b>	<b>\$ <u>171,074</u></b>	<b>\$ <u>7,517,984</u></b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
Liabilities:				
Short-Term Notes Payable	\$ 4,600,000	\$ 0	\$ 0	\$ 4,600,000
Vouchers Payable	40,167		13,098	53,265
Accrued Salaries and Fringes	318,740			318,740
Deferred Revenue	7,887			7,887
Accrued Interest Payable	50,628			50,628
<b>Total Liabilities</b>	<b>\$ <u>5,017,422</u></b>	<b>\$ <u>0</u></b>	<b>\$ <u>13,098</u></b>	<b>\$ <u>5,030,520</u></b>
Fund Balances:				
Reserved for:				
Debt Service		199,874		199,874
Food Service			143,831	143,831
Special Revenue			15,065	15,065
Community Service			(920)	(920)
Unreserved, Reported in:				
General Fund	2,129,614			2,129,614
<b>Total Fund Balances</b>	<b>\$ <u>2,129,614</u></b>	<b>\$ <u>199,874</u></b>	<b>\$ <u>157,976</u></b>	<b>\$ <u>2,487,464</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ <u>7,147,036</u></b>	<b>\$ <u>199,874</u></b>	<b>\$ <u>171,074</u></b>	<b>\$ <u>7,517,984</u></b>

The notes to the financial statements are an integral part of this statement.

EAST TROY COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE  
SHEET TO THE STATEMENT OF NET ASSETS  
As Of June 30, 2010

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

Total Fund Balances - Governmental Funds	\$	2,487,464
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. This includes:

Capital Assets		26,686,525
Accumulated Depreciation		(11,278,122)

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. These include:

Notes and Bonds Payable		(7,336,955)
Amortization of Debt Premium (Net)		(273,047)
Accrued Interest on Long-Term Debt		(118,464)
Net OPEB Obligation		(1,359,025)
Net Pension Obligation		(17,430)

Net Assets of Governmental Activities	\$	<u><u>8,790,946</u></u>
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The notes to the financial statements are an integral part of this statement.



EAST TROY COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS  
For The Year Ended June 30, 2010

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
<b><u>REVENUES</u></b>				
Local Sources	\$ 12,561,807	\$ 1,142,981	\$ 497,579	\$ 14,202,367
Interdistrict Payments	324,162		25,992	350,154
Intermediate Sources	855		305,453	306,308
State Sources	4,387,497		198,359	4,585,856
Federal Sources	364,277		433,870	798,147
Other Sources	80,765			80,765
<b>TOTAL REVENUES</b>	<b><u>17,719,363</u></b>	<b><u>1,142,981</u></b>	<b><u>1,461,253</u></b>	<b><u>20,323,597</u></b>
<b><u>EXPENDITURES</u></b>				
Current:				
Instruction:				
Regular Instruction	8,806,492			8,806,492
Vocational Instruction	741,737			741,737
Special Education	70,215		1,224,938	1,295,153
Other Instruction	777,980			777,980
Support Services:				
Pupil Services	500,017		312,353	812,370
Libraries & Instr. Support	458,627		93,858	552,485
Administration	1,412,185			1,412,185
Operation and Maintenance	1,904,975		7,996	1,912,971
Pupil Transportation	626,391		105,057	731,448
Food Service			586,861	586,861
Other Support Services	843,407			843,407
Debt Service:				
Principal		770,065		770,065
Interest	52,029	388,588		440,617
Community Services			44,726	44,726
<b>TOTAL EXPENDITURES</b>	<b><u>16,194,055</u></b>	<b><u>1,158,653</u></b>	<b><u>2,375,789</u></b>	<b><u>19,728,497</u></b>
Excess of Revenues Over (Under) Expenditures	<u>1,525,308</u>	<u>(15,672)</u>	<u>(914,536)</u>	<u>595,100</u>
<b><u>OTHER FINANCING SOURCES (USES)</u></b>				
Transfers In (Out)	(1,022,475)	0	1,022,475	0
<b>Total Other Financing Sources (Uses)</b>	<b><u>(1,022,475)</u></b>	<b><u>0</u></b>	<b><u>1,022,475</u></b>	<b><u>0</u></b>
Net Change in Fund Balances	502,833	(15,672)	107,939	595,100
Fund Balances - Beginning	1,626,781	215,546	50,037	1,892,364
Fund Balances - Ending	<u>\$ 2,129,614</u>	<u>\$ 199,874</u>	<u>\$ 157,976</u>	<u>\$ 2,487,464</u>

The notes to the financial statements are an integral part of this statement.

EAST TROY COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For The Year Ended June 30, 2010

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

Net change in fund balances - total governmental funds	\$	595,100
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Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlays		171,613
Depreciation on Fixed Assets		(690,375)

The issuance of long-term debt provides current financial resources to governmental funds, but is recorded as an increase in long-term debt in the statement of net assets and does not affect the statement of activities

0

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

770,065

Payment of interest on long-term debt is reported in the governmental funds as an expenditure when paid, but is recorded in the statement of activities as incurred.

Interest Paid on Long-Term Debt		388,588
Interest Incurred for the Year		(375,751)
Amortization of Debt Premium (Net)		57,847

Vested employee benefits are reported in the governmental funds as an expenditure when paid, but is recorded in the statement of activities when earned.

Vested Employee Benefits Earned		(1,083,164)
Vested Employee Benefits Paid		441,681

Change in net assets of governmental activities	\$	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="border-top: 1px solid black; border-bottom: 3px double black; text-align: right;">275,604</td> </tr> </table>	275,604
275,604			

The notes to the financial statements are an integral part of this statement.

EAST TROY COMMUNITY SCHOOL DISTRICT  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL

For The Year Ended June 30, 2010

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	Variance with Final Budget - Positive (Negative)
<b><u>REVENUES</u></b>				
Local Sources	\$ 12,546,804	\$ 12,546,804	\$ 12,561,807	\$ 15,003
Interdistrict Payments	304,632	304,632	324,162	19,530
Intermediate Sources	0	2,956	855	(2,101)
State Sources	4,587,547	4,587,547	4,387,497	(200,050)
Federal Sources	162,514	163,432	364,277	200,845
Other Sources	17,500	32,890	80,765	47,875
<b>TOTAL REVENUES</b>	<b><u>17,618,997</u></b>	<b><u>17,638,261</u></b>	<b><u>17,719,363</u></b>	<b><u>81,102</u></b>
<b><u>EXPENDITURES</u></b>				
Instruction:				
Undifferentiated Curriculum	3,748,702	3,672,657	3,669,377	3,280
Regular Curriculum	4,814,042	4,651,224	4,600,631	50,593
Vocational Curriculum	787,751	769,764	741,737	28,027
Physical Curriculum	573,175	464,120	447,405	16,715
Co-Curricular Activities	317,639	342,639	330,575	12,064
Other Special Needs	69,622	70,628	70,215	413
Support Services:				
Pupil Services	599,090	565,701	500,017	65,684
Instructional Staff Services	480,291	480,291	458,627	21,664
General Administration	442,864	442,864	338,281	104,583
School Building Administration	748,057	770,242	768,920	1,322
Business Administration	2,864,888	2,864,888	2,836,349	28,539
Central Services	120,280	217,588	206,451	11,137
Insurance and Judgments	168,827	232,479	231,877	602
Debt Services	52,029	52,029	52,029	0
Other Support Services	290,111	402,531	401,815	716
Non-Program Transactions:				
Purchased Instructional Services	558,416	558,416	536,485	21,931
Other Non-Program Transactions	6,809	6,809	3,264	3,545
<b>TOTAL EXPENDITURES</b>	<b><u>16,642,593</u></b>	<b><u>16,564,870</u></b>	<b><u>16,194,055</u></b>	<b><u>370,815</u></b>
Excess of Revenues Over (Under) Expenditures	<u>976,404</u>	<u>1,073,391</u>	<u>1,525,308</u>	<u>451,917</u>
<b><u>OTHER FINANCING SOURCES (USES):</u></b>				
Proceeds from Capital Leases	0	0	0	0
Operating Transfer In (Out)	(976,404)	(1,030,472)	(1,022,475)	7,997
Total Other Financing Sources (Uses)	<u>(976,404)</u>	<u>(1,030,472)</u>	<u>(1,022,475)</u>	<u>7,997</u>
Net Change in Fund Balances	0	42,919	502,833	459,914
Fund Balance - Beginning	1,626,781	1,626,781	1,626,781	0
Fund Balance - Ending	<u>\$ 1,626,781</u>	<u>\$ 1,669,700</u>	<u>\$ 2,129,614</u>	<u>\$ 459,914</u>

The notes to the financial statements are an integral part of this statement.

EAST TROY COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS -  
FIDUCIARY FUNDS  
June 30, 2010

	Private- Purpose Trust Fund	Agency Fund
<b><u>ASSETS</u></b>		
Cash and Investments	\$ 137,038	\$ 173,386
Total Assets	137,038	173,386
<b><u>LIABILITIES</u></b>		
Due to Student Organizations	\$ 0	\$ 173,386
<b><u>NET ASSETS</u></b>		
Held for Scholarships	\$ 137,038	\$ 0

The notes to the financial statements are an integral part of this statement.

EAST TROY COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -  
 FIDUCIARY FUNDS  
 For the Year Ended June 30, 2010

		<u>Private- Purpose Trust Fund</u>
<b><u>ADDITIONS</u></b>		
Gifts and Contributions	\$	4,089
Interest Income		4,146
Total Additions		<u>8,235</u>
<b><u>DEDUCTIONS</u></b>		
Scholarships Awarded		<u>5,760</u>
Total Deductions		<u>5,760</u>
Change in Net Assets		2,475
Net Assets - Beginning		<u>134,563</u>
Net Assets - Ending	\$	<u><u>137,038</u></u>

The notes to the financial statements are an integral part of this statement.

EAST TROY COMMUNITY SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2010

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The East Troy Community School District is organized as a common school district. The District, governed by a five member elected school board, operates grades K-12 and is comprised of all or parts of seven taxing districts. The District is not a component unit of another reporting entity nor does it have any component units.

The financial statements of the East Troy Community School District have been prepared in conformity with generally accepted accounting principles (GAAP) 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:

This report includes all of the funds of the East Troy Community School District.

**B. Government-wide and Fund Financial Statements**

***Government-wide statements***

The Government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and user charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

***Fund Financial statements***

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Funds are organized as major funds or non-major funds within the governmental and proprietary statements. The district reports the following major governmental and business-type funds:

**Governmental Funds:**

*General Fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

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

The District reports the following non-major governmental funds:

The *Community Service Fund* accounts for the activities of the district that are not elementary or secondary educational programs but have the primary function of serving the community.

The *Special Education Fund* accounts for the activities of the district's special education instruction and transportation.

The *Food Service Fund* accounts for the activities of the district's school lunch program.

EAST TROY COMMUNITY SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2010

**Business-Type Funds:**

The District does not report any business-type funds.

Additionally, the district reports the following fiduciary fund types that are not included in the government-wide financial statements:

The *Private-Purpose Trust Funds* account for resources legally held in trust for student scholarships.

The *Agency Fund* accounts for assets held by the district as an agent for student organizations.

**C. Measurement Focus and Basis of Accounting**

***Government-wide statements***

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Taxes receivable for the following year are recognized as receivables and deferred revenues. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule the effect of interfund activity has been removed from the government-wide financial statements. Exceptions to this general rule are charges between the district's governmental and business-type funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those statements do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The District has elected not to follow subsequent private-sector guidance.

***Fund financial statements***

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

State general and categorical aids and other entitlements are recognized as revenue at the time of receipt or earlier if the measurable and available criteria are met. Expenditure-driven programs currently reimbursable are recognized as revenue when the qualifying expenditures have been incurred. Aids received prior to meeting revenue recognition criteria are recorded as deferred revenue. Charges for services provided other educational agencies and private parties are recognized as revenue when services are provided. Charges for special educational services are not reduced by anticipated state special education aid settlements. All other revenue items are considered to be measurable and available only when cash is received by the district.

EAST TROY COMMUNITY SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
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**D. Assets, Liabilities, and Net Assets or Equity**

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes permit the District to invest available cash balances not immediately needed in any of the following:

- Time deposits in any credit union, bank, savings bank, trust company or savings and loan association if the deposits mature in no more than three years.
- Bonds or securities issued or guaranteed as to principal and interest by the federal government.
- Bonds or securities of any county, city, drainage district, technical college district, village, town, or school district of the State of Wisconsin. Also included are bonds issued by a local exposition district, local professional baseball park district, local professional football stadium district, University of Wisconsin Hospitals and Clinic Authority, a local cultural arts district, and by the Wisconsin Aerospace Authority.
- The local government investment pool.
- Any security which matures within not more than seven years and having a rating which is the highest or second highest rating category of a nationally recognized rating agency.
- Securities of an open-end management investment company or investment trust subject to various conditions.
- Repurchase agreements subject to certain conditions.

The State Treasurer's Local Government Investment Pool is not registered with the Securities and Exchange Commission as an investment company. The Investment pool is managed by the State of Wisconsin Investment Board with oversight by a Board of Trustees as authorized in Wisconsin Statutes Chapter 25.

The District has not adopted a formal investment policy.

Investments are stated at fair value unless the difference between amortized costs and fair value are immaterial.

Receivables

The aggregate district property tax levy is apportioned and certified by November 6 of the current fiscal year for collection to comprising municipalities based upon the immediate past October 1 full or "equalized" taxable property values. 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 and a final payment no later than the following July 31. On or before January 15, and by the 20th of each subsequent month thereafter, the district is paid by the collecting municipalities its proportionate share of tax collections received through the last day of the preceding month. On or before August 20, the county treasurer makes full settlement to the district for any remaining balance.

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 such allowance would not be material

Inventories and Prepayments

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.



EAST TROY COMMUNITY SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
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### Capital Assets

Capital assets, which include land, buildings and improvements, and equipment are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Land is not depreciated. Depreciable capital assets of the District are depreciated using the straight line method over the following estimated useful lives:

<u>Assets:</u>	<u>Years</u>
Buildings and Improvements	7-45
Equipment	5-20

In the fund financial statements, governmental fund fixed assets are accounted for as capital outlay expenditures in the year purchased. No depreciation is recorded in the governmental fund financial statements. Fixed assets in the proprietary funds are accounted for the same way as in the government-wide statements.

### Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the District. A liability for these amounts is reported in governmental funds only if they have matured.

### Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, if material, are deferred and amortized over the life of the bonds or notes using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs, if material, are reported as deferred charges and amortized over the term of the related debt.

In the fund statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### Claims and Judgments

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments that would normally be liquidated with expendable available financial resources are recorded during the year as expenditures in the governmental funds. If they are not to liquidated with expendable available financial resources, no liability is recognized in the governmental fund statements. The related expenditure is recognized when the liability is liquidated. Claims and judgments are recorded in the government-wide statements and proprietary funds as expenses when the related liabilities are incurred. There were no significant claims or judgments at year-end.

EAST TROY COMMUNITY SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2010

Equity Classifications

Equity in the government-wide financial statements is reflected in three components:

- Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any bonds, notes, land contracts, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net assets – consists of net assets with restrictions placed on their use either by external groups or state and federal law.
- Unrestricted net assets – All other net assets that do not meet the definition of the other two.

Equity in the fund financial statements is classified as fund balance in the governmental funds. Fund balance is further classified as reserved and unreserved. Governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Unreserved fund balance may include amounts set aside by management which are shown as designated. Designations of fund balance represent tentative management plans that are subject to change.

**NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

A. Budgetary Information

A budget for the General Fund was adopted on a basis consistent with generally accepted accounting principles. The budget was adopted in compliance with all material state statutes.

The legally adopted budget and budgetary expenditure control is exercised at the two digit sub-function level for the General Fund and the function level for all other funds. Reported budget amounts are as originally adopted or amended by school board resolution. Once the school board 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.

Budgetary information as presented in the fund financial statements is derived from:

- A public hearing to obtain taxpayer comments on the proposed budget
- The annual operating budget as originally adopted by the school board.
- Individual amendments to the original budget as approved by the school board during the year.

Budget appropriations lapse at year-end unless specifically carried over to the next year.

B. Excess of Expenditures over Appropriations

For the year ended June 30, 2010, expenditures did not exceed budgeted amounts in any categories.

**NOTE 3 – DETAILED NOTES ON ALL FUNDS**

**A - CASH AND INVESTMENTS**

The district's deposits include checking accounts, money market accounts, and certificate's of deposit. The agency fund uses separate and distinct deposit accounts. All other funds share in common deposit accounts.

EAST TROY COMMUNITY SCHOOL DISTRICT  
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Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2010, \$2,540,838 of the government’s bank balance of \$3,040,838 was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	\$	1,677,942
Total	\$	1,677,942

Differences between bank balance and book balance represent deposits in transit and outstanding checks.

During the year, the District’s investments consisted entirely of amounts in the State Treasurer’s Local Government Investment Pool. The balance at June 30, 2010 was \$1,240,117.

Total cash and investments at June 30, 2010 consisted of the following:

Governmental Funds	\$	3,107,636
Agency Funds		173,386
Private Purpose Trust		137,038
Total Cash and Investments	\$	3,418,060

Depository insurance is also provided by the State Deposit Guarantee Fund of the State of Wisconsin. The coverage is limited to \$400,000 above the applicable insurance provided by the FDIC. However, due to the relatively small size of the Guarantee Fund in relation to the total coverage, total recovery of losses may not be available. As a result, this coverage was not considered in computing the above amount.

**B - CAPITAL ASSETS**

Capital asset balances and activity for the year ended June 30, 2010 were as follows:

<b>Governmental Activities:</b>	Balance 7-1-2009	Additions	Removals	Balance 6-30-2010
Land	\$ 694,708	\$ 0	\$ 0	\$ 694,708
Land Improvements	1,348,676			1,348,676
Buildings	21,671,518			21,671,518
Equipment	2,908,210	171,613	108,200	2,971,624
Totals	26,623,112	171,613	108,200	26,686,525
Less:				
Accumulated Depreciation	10,695,947	690,375	108,200	11,278,122
Net	\$ 15,927,165	\$ (518,761)	\$ 0	\$ 15,408,403

EAST TROY COMMUNITY SCHOOL DISTRICT  
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Land is not depreciated. Depreciation expense was charged to the following governmental functions as follows:

Regular Instruction	\$	40,489
Vocational Education		333
Other Instruction		5,491
Libraries and Instructional Support		3,226
Operation and Maintenance		502,183
Pupil Transportation		93,181
Food Service		12,780
Other Support Services		<u>32,692</u>
Total Depreciation of Governmental Activities	\$	<u><u>690,375</u></u>

**C - LONG-TERM OBLIGATIONS**

Long-Term obligations of the governmental activities of the district are as follows:

	Balance 7-1-2009	Additions	Reductions	Balance 6-30-2010	Amounts Due Within One Year
General Obligation Bonds	\$ 7,945,000	\$ 0	\$ 740,000	\$ 7,205,000	\$ 770,000
Amortization of Bond Premium	330,894	0	57,847	273,047	53,091
State Trust Fund Loans	162,020	0	30,065	131,955	31,193
Net Pension Obligation	39,803	20,965	43,338	17,430	0
Net OPEB Obligation	695,169	1,062,199	398,343	1,359,025	0
Totals	\$ <u>9,172,886</u>	\$ <u>1,083,164</u>	\$ <u>1,269,593</u>	\$ <u>8,986,457</u>	\$ <u>854,284</u>

All general obligation debt is secured by the full faith and credit and unlimited taxing powers of the district.

General obligation debt at June 30, 2010 is comprised of the following individual issues:

Issue	Issue Dates	Interest Rates	Maturity Dates	Balances 6-30-2010
G.O. Bonds	07-01-2006	4.00-6.00%	03-01-2018	\$ 7,205,000
State Trust Fund Loan	07-01-2004	3.75%	03-15-2014	<u>131,955</u>
Total General Obligation Debt				\$ <u><u>7,336,955</u></u>

EAST TROY COMMUNITY SCHOOL DISTRICT  
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The 2010 equalized valuation of the District as certified by the Wisconsin Department of Revenue is \$1,549,695,554. The legal debt limit and margin of indebtedness as of June 30, 2010 in accordance with Section 67.03(1)(b) of the Wisconsin Statutes follows:

Debt Limit (10% of \$1,549,695,554)	\$	154,969,554
Deduct Long-Term Debt Applicable To Debt Margin		7,336,955
Margin of Indebtedness	\$	147,632,599

Total interest paid during the year aggregated \$388,588 for long-term debt.

Aggregate cash flow requirements for the retirement of long-term principal and interest on June 30, 2010 follows:

Year Ended Year	Principal	Interest	Total
2010-11	\$ 801,193	\$ 356,011	\$ 1,157,204
2011-12	832,352	324,051	1,156,403
2012-13	868,576	290,828	1,159,404
2013-14	899,834	256,169	1,156,003
2014-15	905,000	220,262	1,125,262
2015-19	3,030,000	370,800	3,400,800
Totals	\$ 7,336,955	\$ 1,818,121	\$ 9,155,076

**D – AMORTIZATION OF DEBT PREMIUM**

The District refunded a portion of the General Obligation Bonds dated March 1, 1998. The proceeds from the refunding bonds dated July 1, 2006 included a premium of \$636,357 less issuance costs of \$106,100 for a net amount of \$530,257. This net premium amount is being amortized over the life of the refunding bonds. The amortization amount in 2009-10 was \$57,847. The balance to be amortized as of June 30, 2010 was \$273,047.

**E – SUPPLEMENTAL PENSION PLAN (EARLY RETIREMENT BENEFIT)**

*Plan Description:* The East Troy Community School District provides a defined contribution supplemental pension benefit to eligible administrators who retire early. An employee must have reached the age of 55 years and served in a regular full-time capacity as an administrator in the District for not less than ten years. To become eligible for early retirement, the employee must become 55 years of age on or before the first day of school of the following school year. For administrators hired prior to 2005, the employees will be compensated at the rate of 20 to 50% of their last year's salary. For administrators hired after 2005, the employees will be compensated at the rate of 30% of their last year's salary. Such compensation will be payable in installments over the next three years.

*Funding Policy:* Payments under the plan are made on a pay-as-you-go basis. There are no invested plan assets accumulated for payments of future benefits as of June 30, 2010. The general fund is used for funding all supplemental pension benefits.

EAST TROY COMMUNITY SCHOOL DISTRICT  
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*Annual Pension Cost and Net Pension Obligation:* The district's annual pension cost and net pension obligation for the current year is:

<u>Component</u>	<u>Amount</u>
Annual required contribution	\$ 20,514
Interest on net pension obligation	2,587
Annual supplemental pension cost adjustment	(2,136)
Annual supplemental pension cost (expense)	20,965
Pension contributions made	43,338
Increase in net pension obligation	(22,373)
Net pension obligation – beginning of year	39,803
Net pension obligation – end of year	\$ 17,430

The annual required contribution for the current year was determined as part of the April, 2009 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 6.5% discount rate and (b) projected salary increases at 3.0%.

The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The unfunded actuarial accrued liability is being amortized as a 30 year open level percent method. The remaining amortization period at January 1, 2009 is 30 years. The unfunded accrued liability at January 1, 2009 was \$124,164.

*Trend Information:* The district's annual pension cost, the percentage of the annual pension cost contributed to the plan, and the net pension obligation for 2009-10 and the preceding years were:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost</u>	<u>Percentage of Annual Pension Cost Contributed</u>	<u>Net Pension Obligation</u>
6-30-2006	\$ 16,537	0%	\$ 16,537
6-30-2007	\$ 17,612	0%	\$ 34,149
6-30-2008	\$ 18,757	0%	\$ 52,906
6-30-2009	\$ 18,351	171.4%	\$ 39,803
6-30-2010	\$ 20,965	206.7%	\$ 17,430

**F– POST RETIREMENT HEALTHCARE BENEFITS**

*Plan description:* The East Troy Community School District operates a single-employer retiree benefit plan that provides postemployment medical benefits to eligible employees and their spouses. There are approximately 124 active and 20 retired members in the plan. Benefits and eligibility for teachers are established and amended through collective bargaining and administrators are established and amended by the school board.

Teachers at least age 55 with a minimum of 15 years of service with the District are eligible. The district will pay 94% of the monthly premium for the single or family medical insurance plan for a period of (1) one month of coverage for every two sick days the retiree has accrued at the time of retirement and (2) six months of coverage for every year of service to the district. The total months of District provided coverage may not exceed a total of 120 months.

Administrators hired prior to 2005 at least age 55 with a minimum of 10 years of service with the District are eligible. The District will pay 100% of the monthly premium for the single or family medical insurance plan for a period of 10 years, or when the retiree reaches age 65, whichever should occur first. The District will also pay 100% of the retiree's life insurance premiums. This benefit will expire when the retiree reaches the age of 65.

EAST TROY COMMUNITY SCHOOL DISTRICT  
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 June 30, 2010

Administrators hired after 2005 at least age 55 with a minimum of 10 years service with the District are eligible. In return for one year of service, the District will contribute towards a retiree's medical premiums for a period of 6 months. For the first three years of coverage, the District's contributions will be equal to the percentage paid prior to retirement. Thereafter, the District's contributions will be frozen at the amounts contributed at the amounts contributed in the third year. The District's contributions, however, will not exceed a 10 year period or age 65. The District will also pay 100% of the retiree's life insurance premiums. This benefit will expire when the retiree reaches the age of 65.

Supervisors hired after 2005 at least age 55 with a minimum of 15 years service with the District are eligible. In return for one year of service, the District will contribute towards a retiree's medical premiums for a period of 4 months. For the first three years of coverage, the District's contributions will be equal to the percentage paid prior to retirement. Thereafter, the District's contributions will be frozen at the amounts contributed at the amounts contributed in the third year. The District's contributions, however, will not exceed a 10 year period or age 65. The District will also pay 100% of the retiree's life insurance premiums. This benefit will expire when the retiree reaches the age of 65.

*Funding Policy:* Payments under the plan are made on a pay-as-you-go basis. There are no invested plan assets accumulated for payments of future benefits as of June 30, 2010. The general fund is used for funding all post retirement healthcare benefits.

*Annual OPEB Cost and Net OPEB Obligation:* The district's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB #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 over a period not to exceed thirty years. The following table reflects 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

<u>Component</u>	<u>Amount</u>
Annual required contribution (ARC)	\$ 1,054,327
Interest on net OPEB obligation	45,186
ARC adjustment	<u>(37,314)</u>
Annual OPEB cost (expense)	1,062,199
OPEB contributions made	<u>398,343</u>
Increase (decrease) in net OPEB obligation	663,856
Net OPEB obligation – beginning of year	<u>695,169</u>
Net OPEB obligation – end of year	<u>\$ 1,359,025</u>

The district's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009-10 is:

<u>Fiscal</u> <u>Year Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
6-30-2006	\$ n/a	n/a	\$ n/a
6-30-2007	\$ n/a	n/a	\$ n/a
6-30-2008	\$ n/a	n/a	\$ n/a
6-30-2009	\$ 1,054,327	34.07%	\$ 695,169
6-30-2010	\$ 1,062,199	37.50%	\$ 1,359,025

*Funding Status and Funding Progress:* As of January 1, 2009, the most recent actuarial valuation date, the district's unfunded actuarial accrued liability (UAAL) was \$9,819,892, all of which was unfunded. The annual payroll for active employees covered by the plan for the 2009-10 fiscal year was \$9,352,533 for a ratio of the UAAL to covered payroll of 105.0%.

EAST TROY COMMUNITY SCHOOL DISTRICT  
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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, such as assumptions about future terminations, mortality, and healthcare cost trends. Actuarially determined amounts are subject to continual revisions as actuarial results are compared with past experience and new estimates are made about the future. The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*Actuarial Methods and Assumptions:* Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2009 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a rate of 6.5% to discount expected liabilities to the valuation date. The initial healthcare trend rate was 9.5% for medical, decreasing by 1% per year down to 5.5% then decreasing by .5% down to 5.0%. Mortality, disability, and retirement rates are from the Group Annuity Reserve Unisex Table 1994 projected to 2002 set forward 3 years for males and set back 3 years for females. The UAAL is being amortized as a level percentage of projected payrolls. The remaining amortization period at January 1, 2009 was 30 years.

**G – GOVERNMENTAL ACTIVITIES NET ASSETS**

Governmental Activities net assets reported on the governmental-wide financial statements at June 30, 2010 include the following:

<u>Invested in Capital Assets:</u>	
Invested in Capital Assets	\$ 26,686,525
Less: Accumulated Depreciation	11,278,122
Less: Long-Term Bonds and Notes Outstanding (Net)	7,336,955
Net	\$ 8,071,448
 <u>Restricted for:</u>	
Food Service	\$ 143,831
Community Service	(920)
Debt Service	199,874
Total Restricted	\$ 342,785

**H- DEFINED BENEFIT PENSION PLAN**

All eligible District employees participate in the Wisconsin Retirement System (WRS), a cost-sharing multiple-employer defined benefit public employee retirement system (PERS). All teachers expected to work over 440 hours a year are eligible to participate in the System. Covered employees in the General/Teacher category are required to contribute 5.9% of their salary to the plan. Employers may make these contributions to the plan on behalf of employees. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

The payroll for District employees covered by the System for the year ended December 31, 2009 was \$9,352,533; the employer's total payroll was \$9,737,235. The total required contribution for the year ended December 31, 2009 was \$1,103,598, which consisted of \$551,799, or 5.9% of payroll from the employer and \$551,799, or 5.9% of payroll from the employees. Total contributions for the years ended December 31, 2008 and 2007 were \$1,088,586 and \$1,033,294, respectively. These contributions were equal to the required contributions for each year



EAST TROY COMMUNITY SCHOOL DISTRICT  
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June 30, 2010

The District's unfunded actuarial accrued liability as of December 31, 2009 was \$1,128,307.

Employees who retire at or after age 65 are entitled to receive a retirement benefit. Employees may retire at age 55 and receive actuarially reduced benefits. 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 employees three highest years earnings. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contribution and, by doing so, forfeit all rights to any subsequent benefit. For employees beginning participation after January 1, 1990 and no longer actively employed 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 are immediately vested.

The system also provides death and disability benefits for employees. Eligibility for and the amount of all benefits is determined under Chapter 40 of the State Statutes. The System issues an annual financial report which may be obtained by writing to the Department of Employee Trust Funds, P.O. Box 7931, Madison, WI. 53707-7931.

#### **I - CONTINGENT LIABILITIES**

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

#### **J - LIMITATION ON SCHOOL DISTRICT REVENUES**

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

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

#### **K – INTERFUND BALANCES AND TRANSFERS**

There was an interfund transfer from the General Fund to the Special Education Special Revenue Fund in the amount of \$1,022,475. This was to cover the deficit in the special education fund.

#### **L – RISK MANAGEMENT**

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

EAST TROY COMMUNITY SCHOOL DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 June 30, 2010

**M - SHORT-TERM NOTES PAYABLE**

Short-term notes payable at June 30, 2010 totaled \$4,600,000. The notes were issued on October 7, 2009 for cash flow purposes and mature on October 7, 2010. The interest rate on the notes is 1.50%. Total interest expense on short-term notes for the year totaled \$52,029.

	Balance 7-1-2009	Additions	Reductions	Balance 6-30-2010
Short-term Notes	\$ 3,300,000	\$ 4,600,000	\$ 3,300,000	\$ 4,600,000

**N – UNSETTLED TEACHERS CONTRACTS**

As of October 1, 2010, the District and teachers have been unable to reach agreement on a new contract for the year ended June 30, 2010. Because the District's liability cannot be estimated, no accrual has been made at June 30, 2010.

**O – SUBSEQUENT EVENTS**

Management of the District has evaluated all subsequent events for possible recognition or disclosure through the date of the financial statements. There have been no subsequent events that require recognition or disclosure.

**REQUIRED  
SUPPLEMENTAL INFORMATION**

EAST TROY COMMUNITY SCHOOL DISTRICT  
Schedule of Funding Progress  
For Postemployment Benefit Plans  
As of June 30, 2010

<u>Acturial Valuation Date</u>	<u>Acturial Value of Assets</u>	<u>Acturial Accrued Liability (AAL)</u>	<u>Unfunded AAL</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage Of Covered Payroll</u>
<b><u>Pension</u></b>						
6/30/2007	\$ 0	\$ 164,505	\$ 164,505	0.0%	\$ N/A	N/A
6/30/2008	\$ 0	\$ 164,505	\$ 164,505	0.0%	\$ N/A	N/A
6/30/2009	\$ 0	\$ 124,164	\$ 124,164	0.0%	\$ N/A	N/A
6/30/2010	\$ 0	\$ 124,164	\$ 124,164	0.0%	\$ N/A	N/A
<b><u>Postretirement Health Care Benefits</u></b>						
6/30/2009	\$ 0	\$ 9,819,892	\$ 9,819,892	0.00%	\$ N/A	N/A
6/30/2010	\$ 0	\$ 9,819,892	\$ 9,819,892	0.00%	\$ N/A	N/A

**OTHER  
SUPPLEMENTAL INFORMATION**

EAST TROY COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET -  
 NONMAJOR GOVERNMENTAL FUNDS  
 June 30, 2010

	<u>Special Education Fund</u>	<u>Food Service Fund</u>	<u>Special Revenue Fund</u>	<u>Community Service Fund</u>	<u>Totals 6/30/2010</u>
<b>ASSETS</b>					
Cash and Investments	\$ (132,004)	\$ 112,646	\$ 15,065	\$ (5,761)	\$ (10,054)
Accounts Receivable		49			49
Due From Other Governments	145,000	31,161		4,918	181,079
Prepayments					0
<b>TOTAL ASSETS</b>	<b>\$ <u>12,996</u></b>	<b>\$ <u>143,856</u></b>	<b>\$ <u>15,065</u></b>	<b>\$ <u>(843)</u></b>	<b>\$ <u>171,074</u></b>
<b>LIABILITIES AND FUND EQUITY</b>					
<b>Liabilities:</b>					
Vouchers Payable	\$ 12,996	\$ 25	\$ 0	\$ 77	\$ 13,098
<b>Total Liabilities</b>	<b><u>12,996</u></b>	<b><u>25</u></b>	<b><u>0</u></b>	<b><u>77</u></b>	<b><u>13,098</u></b>
<b>Fund Balances:</b>					
Reserved	0	143,831	15,065	(920)	157,976
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ <u>12,996</u></b>	<b>\$ <u>143,856</u></b>	<b>\$ <u>15,065</u></b>	<b>\$ <u>(843)</u></b>	<b>\$ <u>171,074</u></b>

The notes to the financial statements are an integral part of this statement.

EAST TROY COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
 IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 For The Year Ended June 30, 2010

	Special Education Fund	Food Service Fund	Special Revenue Fund	Community Service Fund	Total Nonmajor Funds
REVENUES					
Local Sources	\$ 0	\$ 381,300	\$ 23,061	\$ 93,218	\$ 497,579
Interdistrict Payments Within Wisconsin	25,992				25,992
Intermediate Sources	305,453				305,453
State Sources	187,218	11,141			198,359
Federal Sources	195,068	238,802			433,870
<b>TOTAL REVENUES</b>	<b>713,731</b>	<b>631,243</b>	<b>23,061</b>	<b>93,218</b>	<b>1,461,253</b>
EXPENDITURES					
Instruction:					
Special Education Instruction	1,224,938				1,224,938
Support Services:					
Pupil Services	312,353				312,353
Libraries & Instr. Support	93,858				93,858
Operation and Maintenance			7,996		7,996
Pupil Transportation	105,057				105,057
Food Service		586,861			586,861
Debt Service					0
Community Service				44,726	44,726
<b>TOTAL EXPENDITURES</b>	<b>1,736,206</b>	<b>586,861</b>	<b>7,996</b>	<b>44,726</b>	<b>2,375,789</b>
Excess of Revenues Over (Under) Expenditures	(1,022,475)	44,382	15,065	48,492	(914,536)
OTHER FINANCING SOURCES (USES):					
Operating Transfer In (Out)	1,022,475	0	0	0	1,022,475
<b>Total Other Financing Sources (Uses)</b>	<b>1,022,475</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,022,475</b>
Net Change in Fund Balances	0	44,382	15,065	48,492	107,939
Fund Balances - Beginning	0	99,449	0	(49,412)	50,037
Fund Balances - Ending	\$ 0	\$ 143,831	\$ 15,065	\$ (920)	\$ 157,976

The notes to the financial statements are an integral part of this statement.

EAST TROY COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF STUDENT ACTIVITY FUNDS

For The Year Ended June 30, 2010

	<u>Balance</u> <u>7/1/2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>6/30/2010</u>
<u>STUDENT ACTIVITY FUNDS:</u>				
ASSETS				
Cash and Investments	\$ 155,872	\$ 303,779	\$ 286,265	\$ 173,386
	<u>\$ 155,872</u>	<u>\$ 303,779</u>	<u>\$ 286,265</u>	<u>\$ 173,386</u>
LIABILITIES				
Due to Student Organizations:				
Middle School	\$ 23,822	\$ 50,226	\$ 43,240	\$ 30,808
High School	132,050	253,553	243,025	142,578
	<u>\$ 155,872</u>	<u>\$ 303,779</u>	<u>\$ 286,265</u>	<u>\$ 173,386</u>



**SINGLE AUDIT REPORTS**



**James R. Frechette**

CERTIFIED PUBLIC ACCOUNTANT

W339 S9511 Harvest Court  
Mukwonago, WI 53149  
262/594-3995  
Fax: 262/594-3996

**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  
East Troy Community School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Troy Community School District as of and for the year ended June 30, 2010, which collectively comprise the East Troy Community School District's basic financial statements, and have issued our report thereon dated November 18, 2010. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered East Troy Community's internal control over financial reporting as a basis for designing our auditing procedures 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 East Troy Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the East Troy Community School District's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying summary of audit results, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses in internal control over financial reporting. We consider the deficiencies described in the accompanying summary of audit results as items 10-1 and 10-2 to be material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether East Troy Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements 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*.

East Troy Community School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit East Troy Community School District's response and, accordingly, we express no opinion on it.

We noted certain matters that we reported to management of the East Troy Community School District in a separate letter dated November 18, 2010.

This report is intended solely for the information and use of the school board, management, and the Department of Public Instruction and is not intended to be and should not be used by anyone other than those specified parties.



JAMES R. FRECHETTE  
CERTIFIED PUBLIC ACCOUNTANT

November 18, 2010



**James R. Frechette**

CERTIFIED PUBLIC ACCOUNTANT

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**REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND THE  
STATE SINGLE AUDIT GUIDELINES**

Board of Education  
East Troy Community School District

**Compliance**

We have audited East Troy Community School District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the *State Single Audit Guidelines*, issued by the Wisconsin Department of Administration (DOA) that could have a direct and material effect on each of East Troy Community School District's major federal and state programs for the year ended June 30, 2010. East Troy Community's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal and state programs is the responsibility of East Troy Community School District's management. Our responsibility is to express an opinion on East Troy Community School District's compliance based on our audit.

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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the *State Single Audit Guidelines* issued by the Wisconsin Department of Administration. Those standards, OMB Circular A-133, and the *State Single Audit Guidelines* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the type 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 East Troy Community 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. Our audit does not provide a legal determination of East Troy Community School District's compliance with those requirements.

In our opinion, the East Troy Community School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

**Internal Control Over Compliance**

Management of East Troy Community School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal and state programs. In planning and performing our audit, we considered East Troy Community School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal or state program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the *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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of East Troy Community 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 10-3. 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 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.

East Troy Community School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit East Troy Community School District's response and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the School Board, management, others within the entity, the Department of Public Instruction, and federal or state awarding agencies and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.



November 18, 2010

James R. Frechette  
Certified Public Accountant

EAST TROY COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For The Year Ended June 30, 2010

Awarding Agency: Pass-Through Agency: Award Description	Federal CFDA Number	Accrued or (Deferred) Revenue at 7/1/2009	Receipts or Revenues Recognized	Federal Disbursements/ Expenditures	Accrued or (Deferred) Revenue at 6/30/2010
<u>U.S. Department of Agriculture:</u>					
Wisconsin Department of Public Instruction:					
<u>Breakfast Program</u>					
2008-09	10.553	\$ 929	\$ 929	\$ 0	0
2009-10		0	29,501	35,623	6,122
<u>National School Lunch Program</u>					
2008-09 (Cash Assistance)	10.555	5,905	5,905	0	0
2009-10 (Cash Assistance)		0	136,989	161,791	24,802
2009-10 (Commodities)		0	39,824	39,824	0
<u>Special Milk Program for Children</u>					
2008-09	10.556	77	77	0	0
2009-10		0	1,327	1,564	237
<u>U.S. Department of Education:</u>					
Wisconsin Department of Public Instruction:					
<u>ESEA Title I-A</u>					
2008-09	84.010	30,697	30,697	0	0
2009-10		0	70,966	70,966	0
<u>ESEA Title V-A</u>					
2008-09	84.298	814	799	0	0
<u>ESEA Title IV-A</u>					
2008-09	84.186	4,868	4,868	0	0
2009-10		0	0	2,192	2,192
<u>ESEA Title II-D</u>					
2008-09	84.318	500	500	0	0
2009-10		0	0	1,003	1,003
<u>ARRA - ESEA Title II-D</u>					
2009-10	84.386	0	0	768	768
<u>ESEA Title II-A</u>					
2008-09	84.367	19,707	19,707	0	0
2009-10		0	53,896	53,896	0
<u>ARRA - IDEA Flowthrough</u>					
2009-10	84.391	0	0	98,954	98,954
<u>ARRA - IDEA Preschool</u>					
2009-10	84.392	0	0	17,788	17,788
<u>ARRA - State Stabilization Funds</u>					
2009-10	84.394	0	235,202	235,202	0
<u>CESA:</u>					
<u>EESA Title III-A</u>	84.365	0	0	855	855
<u>CCDEB:</u>					
<u>IDEA Flowthrough</u>					
2008-09	84.027	49,581	49,581	0	0
2009-10		0	194,685	203,449	8,764
<u>U.S. Department of Health &amp; Human Services:</u>					
<u>Medicaid</u>	93.778	0	78,326	78,326	0
<u>Center for Disease Control</u>	93.938	0	250	250	0
		\$ 113,078	\$ 954,029	\$ 1,002,451	\$ 161,485

Summary of Revenues:

Intermediate	\$ 204,304
Federal	798,147
Other	0
	<u>\$ 1,002,451</u>

EAST TROY COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF STATE FINANCIAL ASSISTANCE  
 For The Year Ended June 30, 2010

Awarding Agency: Pass-Through Agency: Award Description	State I.D. Number	Receivable 7/1/2009	State Receipts	State Expenditures	Receivable 6/30/2010
<u>WI. DEPT. OF PUBLIC INSTRUCTION:</u>					
Handicapped Pupils and School Age Parents:	255.101	\$ 0	\$ 187,218	\$ 0	0
Internal District Programs					
General Equalization	255.201	77,974	4,210,751	0	75,338
State Lunch	255.102		7,551		
Common School Fund	255.103		59,341		
Pupil Transportation	255.107	0	39,026	0	0
School Breakfast Program	255.344		3,590		
Total Wi. Dept. of Public Instruction		<u>77,974</u>	<u>4,507,477</u>	<u>0</u>	<u>75,338</u>
<u>Other:</u>					
Exempt Computer Aid		0	0	0	19,230
P.I.L.O.T. from Local Governments		0	61,785	0	0
Grand Total		\$ <u>77,974</u>	\$ <u>4,569,262</u>	\$ <u>0</u>	\$ <u>94,568</u>
 Total State Revenue		\$ <u>4,585,856</u>			

EAST TROY COMMUNITY SCHOOL DISTRICT  
NOTES TO SCHEDULE OF FEDERAL  
AWARDS AND STATE FINANCIAL ASSISTANCE  
For the Year Ended June 30, 2010

**1 – Basis of Presentation**

The accompanying schedule of expenditures of federal awards and state financial assistance includes the federal and state grant activity of the East Troy Community School District and is presented on the modified accrual basis of accounting. The information in these schedules are presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in these schedules may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**2 – Comments on Various Grant Programs**

The Commodities reported under CFDA # 10.555 was a non-cash transaction.

For the Federal CFDA # 84.367, the District claimed expenditures greater than actual. The District later refunded \$6,990 to the State of Wisconsin.

**3 – DPI Aidable Costs (Project 011)**

Department of Public Instruction (DPI) aidable expenditures (Project 011) for the year ended June 30, 2010 were \$1,329,439.

**4 – Single Audit Clusters**

Child Nutrition Cluster – CFDA # 10.553, 10.555, and 10.556

Special Education Cluster – CFDA # 84.027, 84.391, and 84.392



EAST TROY COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For the Year Ended June 30, 2010

**Section I – Summary of Auditor’s Results**

FINANCIAL STATEMENTS		
1.	Type of auditor’s report issued:	Unqualified
2.	Internal control over financial reporting:	
	Material weakness Identified?	Yes
	Significant deficiencies identified that are not considered to be material weaknesses?	No
3.	Noncompliance material to financial statements noted?	No
FEDERAL AWARDS		
4.	Internal control over major programs:	
	Material weakness(es) identified?	No
	Significant deficiencies identified that are Not considered to be material weakness(es)	Yes
5.	Type of auditor’s report issued on compliance For major programs:	Unqualified
6.	Any audit findings disclosed that are required To be reported in accordance with section 510 (a) of OMB Circular A-133?	No
7.	Identification of major federal programs:	
	Name of federal program or cluster:	CFDA Number(s)
	Special Education Cluster (IDEA)	
	IDEA Flowthrough	84.027
	ARRA – IDEA Flowthrough	84.391
	ARRA – IDEA Preschool	84.392
	ARRA – State Stabilization Funds	84.394
8.	Dollar threshold used to distinguish between type A and type B programs:	\$300,000
9.	Auditee qualified as low-risk auditee?	No

EAST TROY COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For the Year Ended June 30, 2010

**Section I – Summary of Auditor’s Results**

**STATE AWARDS**

10. Identification of major state programs:

Name of State Program	State ID Number
Handicapped Pupils and School Age Parents	255.101
Pupil Transportation	255.107
General Equalization Aids	255.201

**Section II – Financial Statement Findings:**

Finding Number	Finding
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10-1

**Lack of Segregation of Duties**

The available staff precludes a proper separation of functions to assure adequate internal control. This is not unusual in Organizations of the District’s size, but management should continue to be aware of this condition and realize that the concentration of the duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these circumstances, the most effective controls lie in management’s knowledge and monitoring of matters relating to the District’s operations.

District Response: The district agrees with this finding.

10-2

**Financial Reporting**

Preparation of the District’s financial statements and footnote disclosures in accordance with Generally Accepted Accounting Principles (GAAP) requires a very high level of technical experience and expertise. The District’s staff does not have the necessary resources to properly apply GAAP in the preparation of these documents. Accordingly, the District has decided to rely in the technical experience and expertise of its auditors and have requested us to prepare the financial statements and footnote disclosures in accordance with GAAP. This condition, although very common, represents a material weakness in internal controls.

District Response: The District agrees with this finding.

EAST TROY COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2010

**Section III – Federal and State Award Findings and Questioned Costs:**

Finding Number	Finding
10-3	<p data-bbox="363 443 743 470"><b><u>Lack of Segregation of Duties</u></b></p> <p data-bbox="363 474 1451 653">The available staff precludes a proper separation of functions to assure adequate internal control. This is not unusual in Organizations of the District's size, but management should continue to be aware of this condition and realize that the concentration of the duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these circumstances, the most effective controls lie in management's knowledge and monitoring of matters relating to the District's operations.</p> <p data-bbox="363 684 1003 716">District Response: The district agrees with this finding.</p>

EAST TROY COMMUNITY SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
For the Year Ended June 30, 2010

**FINDING 09-5: LACK OF SEGREGATION OF DUTIES**

Condition: This finding states that the District does not have adequate staff to provide a proper segregation of duties.

Current Status: The finding was repeated as finding 10-3 in the 2009-10 audit.