

**EAST TROY COMMUNITY
SCHOOL DISTRICT**

**AUDITED FINANCIAL
STATEMENTS**

JUNE 30, 2016



JAMES R. FRECHETTE

CERTIFIED PUBLIC ACCOUNTANT

EAST TROY COMMUNITY SCHOOL DISTRICT
June 30, 2016
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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Troy Community School District, Wisconsin as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in 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.

Auditor 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 auditor's 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 East Troy Community School District, Wisconsin as of June 30, 2016, and the respective changes in financial position and the respective budgetary comparison for the General Fund thereof 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 Postemployment Benefit Plans and Wisconsin Retirement System information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the East Troy Community School District, Wisconsin's basic financial statements. The combining nonmajor fund financial statements and the schedule of student activity 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 schedule of expenditures of state awards are presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Costs Principles, and Audit Requirements, and the State of Wisconsin Single Audit Guidelines, and are also not a required part of the basic financial statements.

The combining nonmajor fund financial statements, the schedule of expenditures of federal awards, and the schedule of expenditures of state awards 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 combining nonmajor fund financial statements, the schedule of expenditures of federal awards, and the schedule of expenditures of state awards are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2016, on our consideration of the East Troy Community 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 East Troy Community School District's internal control over financial reporting and compliance.

December 28, 2016



JAMES R. FRECHETTE
CERTIFIED PUBLIC ACCOUNTANT

BASIC FINANCIAL STATEMENTS

EAST TROY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2016

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	<u>Governmental Activities</u>
Current Assets:	
Cash and Investments	\$ 4,053,301
Taxes Receivable	4,011,668
Accounts Receivable	5,990
Due from Other Governments	732,581
Prepayments	2,651
Noncurrent Assets:	
Restricted Cash and Investments - HRA Deposits	1,379,408
Restricted Cash and Investments - Capital Projects	18,607,389
Capital Assets	34,854,592
Less: Accumulated Depreciation	(14,352,425)
Total Assets	<u>49,295,155</u>
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Pension - Differences between Expected and Actual Experience	180,723
Pension - Change in Assumptions	739,909
Pension - Differences between Expected and Actual Investment Income	4,335,809
Pension - Change in Proportional Share and Differences in Actual Contributions	2,902
Pension - Contributions after Measurement Date	382,092
Total Deferred Outflows of Resources	<u>5,641,435</u>
Total Assets and Deferred Outflows	<u>\$ 54,936,590</u>
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</u>	
<u>LIABILITIES</u>	
Current Liabilities:	
Short-term Notes Payable	\$ 3,500,000
Vouchers Payable	35,211
Accrued Salaries and Benefits	557,781
Due to Other Funds	1,994
Accrued Interest Payable	344,086
Bonds and State Trust Fund Loans - Current (Net of Premium)	1,091,345
Current Liabilities Payable from Restricted Assets:	
Accounts Payable	2,120,688
Noncurrent Liabilities:	
Net Pension Liability (Asset)	1,057,551
HRA Deposits	1,379,408
General Obligation Bonds Payable (Net of Premium)	24,570,091
State Trust Fund Loans Payable	190,310
Net Pension Obligations Payable	(34,886)
Net OPEB Obligations Payable	1,148,085
Total Liabilities	<u>35,961,664</u>
 <u>DEFERRED INFLOWS OF RESOURCES</u>	
Summer School Fees	6,447
Food Service Fees	15,960
Pension - Differences between Expected and Actual Experience	2,225,598
Total Deferred Inflows of Resources	<u>2,248,005</u>
Total Liabilities and Deferred Inflows	<u>38,209,669</u>
 <u>NET POSITION</u>	
Net Investment in Capital Assets	11,137,122
Restricted for:	
Debt Service	577,563
Food Service	47,853
Special Revenue	166,086
Community Service	93,132
Unrestricted	4,705,165
Total Net Position	<u>16,726,921</u>
 Total Liabilities, Deferred Inflows of Resources, and Net Position	 <u>\$ 54,936,590</u>

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, 2016

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
Governmental Activities:				
Instruction:				
Regular Instruction	\$ 8,226,330	\$ 769,269	\$ 357,775	\$ (7,099,286)
Vocational Instruction	947,975			(947,975)
Special Education	1,638,632	5,397	738,920	(894,315)
Other Instruction	927,094	50,096		(876,998)
Total Instruction	<u>11,740,031</u>	<u>824,762</u>	<u>1,096,695</u>	<u>(9,818,574)</u>
Support Services:				
Pupil Services	863,666			(863,666)
Libraries & Instructional Support	853,037		70,520	(782,517)
Administration	1,730,647			(1,730,647)
Operation and Maintenance	2,491,114	2,900		(2,488,214)
Pupil Transportation	892,147	23,838	53,306	(815,003)
Food Service	637,489	338,426	314,190	15,127
Other Support Services	1,854,901			(1,854,901)
Interest on Debt	1,301,815			(1,301,815)
Community Services	77,067	14,766		(62,301)
Total Support Services	<u>10,701,883</u>	<u>379,930</u>	<u>438,016</u>	<u>(9,883,937)</u>
Totals	<u>\$ 22,441,914</u>	<u>\$ 1,204,692</u>	<u>\$ 1,534,711</u>	<u>(19,702,511)</u>
General Revenues:				
Property Taxes				14,599,734
State Aids - Unrestricted				4,438,518
Interest on Investments				70,825
Mobile Home Fees				19,135
Other				437,466
Total General Revenues				<u>19,565,678</u>
Change in Net Position				(136,833)
Net Position - Beginning of Year				16,863,843
Prior Period Adjustment - Note 3(O)				(89)
Net Position - End of Year				<u>\$ 16,726,921</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, 2016**

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>					
Cash and Investments	\$ 3,315,589	\$ 577,563	\$ 0	\$ 160,149	\$ 4,053,301
Taxes Receivable	4,011,668				4,011,668
Accounts Receivable				5,990	5,990
Due From Other Governments	571,732			160,849	732,581
Prepayments	2,651				2,651
Restricted Cash - Capital Projects			18,607,389		18,607,389
Restricted Cash - HRA Funds	1,379,408				1,379,408
TOTAL ASSETS	\$ <u>9,281,048</u>	\$ <u>577,563</u>	\$ <u>18,607,389</u>	\$ <u>326,988</u>	\$ <u>28,792,988</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</u>					
Liabilities:					
Short-Term Notes Payable	\$ 3,500,000	\$ 0	\$ 0	\$ 0	\$ 3,500,000
Vouchers Payable	33,248		2,120,688	1,963	2,155,899
Accrued Salaries and Fringes	557,781				557,781
HRA Deposits	1,379,408				1,379,408
Due to Other Funds				1,994	1,994
Accrued Interest Payable	25,569				25,569
Total Liabilities	<u>5,496,006</u>	<u>0</u>	<u>2,120,688</u>	<u>3,957</u>	<u>7,620,651</u>
Deferred Inflows of Resources:					
Summer School Fees	6,447	0	0	0	6,447
Food Services Fees				15,960	15,960
Total Deferred Inflows of Resources	<u>6,447</u>	<u>0</u>	<u>0</u>	<u>15,960</u>	<u>22,407</u>
Fund Balances:					
Nonspendable:					
Prepaid Expenses	2,651				2,651
Restricted:					
Debt Service		577,563			577,563
Capital Projects			16,486,701		16,486,701
Food Service				47,853	47,853
Special Revenue				166,086	166,086
Community Service				93,132	93,132
Unassigned	3,775,944				3,775,944
Total Fund Balances	<u>3,778,595</u>	<u>577,563</u>	<u>16,486,701</u>	<u>307,071</u>	<u>21,149,930</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ <u>9,281,048</u>	\$ <u>577,563</u>	\$ <u>18,607,389</u>	\$ <u>326,988</u>	\$ <u>28,792,988</u>

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 POSITION
As Of June 30, 2016

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

Total Fund Balances - Governmental Funds	\$	21,149,930
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. This includes:		
Capital Assets		34,854,592
Accumulated Depreciation		(14,352,425)
Some Assets (Liabilities), including net pension obligations, are not due and payable in the current period and, therefore, are not reported in the funds		
Net Pension Asset (Liability)		(1,057,551)
Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds		
Deferred outflows of resources related to pensions		5,641,435
Deferred inflows of resources related to pensions		(2,225,598)
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 (Net of Premium)		(25,851,746)
Accrued Interest on Long-Term Debt		(318,517)
Net OPEB Obligation		(1,148,085)
Net Pension Obligation		34,886
Net Position of Governmental Activities	\$	16,726,921

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, 2016

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES					
Local Sources	\$ 12,863,590	\$ 1,907,885	\$ 44,883	\$ 743,357	\$ 15,559,715
Interdistrict Payments	590,870			5,397	596,267
Intermediate Sources	6,727			35,323	42,050
State Sources	4,585,585			437,032	5,022,617
Federal Sources	312,164			580,755	892,919
Other Sources	191,513				191,513
TOTAL REVENUES	18,550,449	1,907,885	44,883	1,801,864	22,305,081
EXPENDITURES					
Current:					
Instruction:					
Regular Instruction	7,853,699			72,430	7,926,129
Vocational Instruction	922,291				922,291
Special Education	160,881			1,409,489	1,570,370
Other Instruction	883,988			10,041	894,029
Support Services:					
Pupil Services	481,084			343,250	824,334
Libraries & Instr. Support	646,161			173,828	819,989
Administration	1,658,188			863	1,659,051
Operation and Maintenance	1,650,948		8,238,678	15,894	9,905,520
Pupil Transportation	820,000			71,109	891,109
Food Service				612,071	612,071
Other Support Services	1,850,902		19,504		1,870,406
Debt Service:					
Principal		25,406,916			25,406,916
Interest and Other	34,359	1,079,591			1,113,950
Community Service				75,352	75,352
TOTAL EXPENDITURES	16,962,501	26,486,507	8,258,182	2,784,327	54,491,517
Excess of Revenues Over (Under) Expenditures	1,587,948	(24,578,622)	(8,213,299)	(982,463)	(32,186,436)
OTHER FINANCING SOURCES (USES)					
Proceeds from Long-term Debt	0	22,970,000	24,700,000	0	47,670,000
Premium on Long-Term Debt		2,035,414			2,035,414
Transfers In (Out)	(1,246,083)			1,246,083	0
Total Other Financing Sources (Uses)	(1,246,083)	25,005,414	24,700,000	1,246,083	49,705,414
Net Change in Fund Balances	341,865	426,792	16,486,701	263,620	17,518,978
Fund Balances - Beginning	3,436,730	150,771	0	43,451	3,630,952
Fund Balances - Ending	\$ 3,778,595	\$ 577,563	\$ 16,486,701	\$ 307,071	\$ 21,149,930

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, 2016

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

Net change in fund balances - total governmental funds	\$	17,518,978
<p>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.</p>		
Capital Outlays		8,091,530
Depreciation on Fixed Assets		(631,500)
<p>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 position and does not affect the statement of activities</p>		
		(49,705,414)
<p>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 position and does not affect the statement of activities.</p>		
		25,406,916
<p>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.</p>		
Interest Paid on Long-Term Debt		629,902
Interest Incurred for the Year		(817,767)
<p>Vested employee benefits are reported in the governmental funds as an expenditure when paid, but is recorded in the statement of activities when earned.</p>		
Vested Employee Benefits Earned		(551,241)
Vested Employee Benefits Paid		579,909
<p>Governmental funds report pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.</p>		
Pension contributions		623,871
Cost of benefits earned net of employee contributions (pension expense)		(1,282,017)
Change in net position of governmental activities	\$	(136,833)

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, 2016

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	Variance with Final Budget - Positive (Negative)
<u>REVENUES</u>				
Local Sources	\$ 12,801,590	\$ 12,801,590	\$ 12,863,590	\$ 62,000
Interdistrict Payments	554,726	554,726	590,870	36,144
Intermediate Sources	7,000	7,000	6,727	(273)
State Sources	4,554,941	4,554,941	4,585,585	30,644
Federal Sources	294,168	301,153	312,164	11,011
Other Sources	53,630	53,630	191,513	137,883
TOTAL REVENUES	<u>18,266,055</u>	<u>18,273,040</u>	<u>18,550,449</u>	<u>277,409</u>
<u>EXPENDITURES</u>				
Instruction:				
Undifferentiated Curriculum	2,624,017	2,624,017	2,599,247	24,770
Regular Curriculum	3,865,417	3,806,632	3,786,221	20,411
Vocational Curriculum	526,980	922,980	922,291	689
Physical Curriculum	473,088	473,088	469,928	3,160
Co-Curricular Activities	408,934	420,934	414,060	6,874
Other Special Needs	163,988	163,988	160,881	3,107
Support Services:				
Pupil Services	488,130	491,285	481,084	10,201
Instructional Staff Services	710,357	653,365	646,161	7,204
General Administration	420,343	423,950	424,432	(482)
School Building Administration	919,443	919,443	912,829	6,614
Business Administration	2,967,209	2,817,734	2,791,875	25,859
Central Services	1,034,741	1,059,741	1,063,465	(3,724)
Insurance and Judgments	188,454	188,454	179,948	8,506
Debt Services	34,000	34,000	34,359	(359)
Other Support Services	603,865	605,865	605,513	352
Non-Program Transactions:				
Purchased Instructional Services	1,513,738	1,478,738	1,468,231	10,507
Other Non-Program Transactions	4,000	4,000	1,976	2,024
TOTAL EXPENDITURES	<u>16,946,704</u>	<u>17,088,214</u>	<u>16,962,501</u>	<u>125,713</u>
Excess of Revenues Over (Under) Expenditures	<u>1,319,351</u>	<u>1,184,826</u>	<u>1,587,948</u>	<u>403,122</u>
<u>OTHER FINANCING SOURCES (USES):</u>				
Proceeds from Long-Term Debt	0	0	0	0
Operating Transfer In (Out)	<u>(1,419,351)</u>	<u>(1,284,826)</u>	<u>(1,246,083)</u>	<u>38,743</u>
Total Other Financing Sources (Uses)	<u>(1,419,351)</u>	<u>(1,284,826)</u>	<u>(1,246,083)</u>	<u>38,743</u>
Net Change in Fund Balances	(100,000)	(100,000)	341,865	441,865
Fund Balance - Beginning	3,436,730	3,436,730	3,436,730	0
Fund Balance - Ending	<u>\$ 3,336,730</u>	<u>\$ 3,336,730</u>	<u>\$ 3,778,595</u>	<u>\$ 441,865</u>

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

EAST TROY COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION -
FIDUCIARY FUNDS
June 30, 2016

	Private- Purpose Trust Fund	Agency Fund	
<u>ASSETS</u>			
Cash and Investments	\$ 178,649	\$ 53,743	
Due From Other Funds	59	1,994	
Total Assets	178,708	55,737	
<u>LIABILITIES</u>			
Due to Student Organizations	\$ 0	\$ 55,678	
Due to Other Funds		59	
Total Liabilities	0	55,737	
<u>NET POSITION</u>			
Held for Scholarships	\$ 178,708	\$ 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 POSITION -
FIDUCIARY FUNDS
For the Year Ended June 30, 2016

		<u>Private- Purpose Trust Fund</u>
<u>ADDITIONS</u>		
Gifts and Contributions	\$	36,984
Interest Income		<u>965</u>
Total Additions		<u>37,949</u>
<u>DEDUCTIONS</u>		
Scholarships Awarded		<u>8,160</u>
Total Deductions		<u>8,160</u>
Change in Net Position		29,789
Net Position - Beginning		<u>148,919</u>
Net Position - Ending	\$	<u><u>178,708</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, 2016

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 position 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.

Capital Project Funds are used to account for the activities of the District's various construction projects.

The District reports the following non-major governmental funds:

The *Special Education Fund* accounts for the activities of the district's special education instruction and transportation. The fund received a substantial portion of the inflows reported in the fund from various state and federal grants that are to be used for special education purposes.

EAST TROY COMMUNITY SCHOOL DISTRICT
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The *Food Service Fund* accounts for the activities of the district's school lunch program. The fund has a substantial amount of inflows from sale of meals and federal grants.

The *Special Revenue Fund* accounts for various gifts, donations, and other special revenue sources received by the district.

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.

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.

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 inflows. 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
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D. Assets, Liabilities, and Net Position 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, school district, 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
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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 acquisition 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.

Pensions

For purposes of measuring the net pension asset or liability, 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 Pension Plan and additions to/deductions from the Wisconsin Retirement System Pension Plan's fiduciary have been determined on the same basis as they are reported by the Wisconsin Retirement System Pension Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The WRS adopted GASB Statement No. 82, Pension Issues, an amendment of GASB No. 67, No. 68, and No. 73 during the year ended December 31, 2015. Statement No. 82 addresses the presentation of payroll related measures in the Required Supplementary Information, the selection of assumptions used in determining the total pension liability and related measures, and the classification of employer-paid member contributions.

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 position. 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. Debt issuance costs are reported as debt service expenses in the year incurred.

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.

EAST TROY COMMUNITY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

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 be 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.

Equity Classifications

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

- Net Investment in capital assets – 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 position – consists of net position with restrictions placed on their use either by external groups or state and federal law.
- Unrestricted net position – All other net position that do not meet the definition of the other two.

The Fund Balance amounts will be reported in conformance with generally accepted accounting principles and shall be reclassified not less than at the end of each fiscal year. The District shall report fund balances as either Nonspendable, Restricted, Committed, Assigned, or Unassigned.

- Nonspendable Fund Balance – This includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. The district shall report inventories, prepaid items, long-term receivables, and other amounts legally or contractually required to be maintained intact as nonspendable.
- Restricted Fund Balance – This includes amounts limited by external parties, laws or regulations, constitutional provisions or enabling legislation. The district shall report amounts as restricted that can be spent only for specific purposes stipulated by constitution, external source providers, or through legislation. The fund balance for the spendable portion in the debt service funds, capital projects fund, food service fund, community service fund, and employee trust fund shall be classified as restricted. When both restricted and unrestricted resources are available for use, it is district policy to use unrestricted resources first, then restricted resources as they are needed.
- Committed Fund Balance – This includes amounts that are committed for specific purposes by formal action of the Board. Such action shall be made in resolution form and require the approval of a majority of the school board. Commitments of fund balance, once made, can only be modified or eliminated by a subsequent resolution.
- Assigned Fund Balance – The Board of Education authorizes the District Administrator to assign fund balance. Assigned fund balance are intended to be used by the district for specific purposes but do not meet the criteria to be classified as restricted or committed.
- Unassigned Fund Balance – The fund balance is the residual classification for the district's General Fund and includes all spendable amounts not contained in other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts have been restricted, committed, or assigned.

Fund Balance of a special revenue fund, where donations and contributions received from an individual or organization, shall be committed for the specific purpose identified by the individual, organization, or district administration.

EAST TROY COMMUNITY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2016

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, 2016, General Fund expenditures exceeded budgeted amounts in General Administration (\$482), Central Services (\$3,724), and Debt Services (\$359) categories.

NOTE 3 – DETAILED NOTES ON ALL FUNDS

A - CASH AND INVESTMENTS

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

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, 2016, \$5,003,249 of the government's bank balance of \$5,503,249 was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	\$	2,809,958
Total	\$	2,809,958

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, Health Reimbursement Arrangement (HRA) account, and the Wisconsin Investment Series Cooperative (WISC). The balance at June 30, 2016 was \$20,962,534.

Total cash and investments at June 30, 2016 consisted of the following:

Governmental Funds	\$	24,040,098
Agency Funds		53,743
Private Purpose Trust		178,649
Total Cash and Investments	\$	24,272,490

EAST TROY COMMUNITY SCHOOL DISTRICT
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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, 2016 were as follows:

Governmental Activities:	Balance 7-1-2015	Additions	Removals	Balance 6-30-2016
Land	\$ 694,708	\$ 0	\$ 0	\$ 694,708
Land Improvements	1,348,676			1,348,676
Buildings	21,671,518			21,671,518
Equipment	3,096,960	223,202	48,800	3,271,362
CWIP	0	7,868,328	0	7,868,328
Totals	<u>26,811,862</u>	<u>8,091,530</u>	<u>48,800</u>	<u>34,854,592</u>
Less:				
Accumulated Depreciation	13,769,725	631,500	48,800	14,352,425
Net	<u>\$ 13,042,137</u>	<u>\$ 7,460,030</u>	<u>\$ 0</u>	<u>\$ 20,502,167</u>

Land is not depreciated. Depreciation expense was charged to the following governmental functions as follows:

Regular Instruction	\$ 5,031
Other Instruction	1,956
Libraries and Instructional Support	1,501
Operation and Maintenance	457,985
Pupil Transportation	141,877
Food Service	12,246
Other Support Services	10,904
Total Depreciation of Governmental Activities	<u>\$ 631,500</u>

C - LONG-TERM OBLIGATIONS

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

	Balance 7-1-2015	Additions	Reductions	Balance 6-30-2016	Amounts Due Within One Year
G. O. Bonds	\$ 1,215,000	\$ 25,005,414	\$ 680,237	\$ 25,540,177	\$ 970,086
G.O. Notes	428,485	0	116,916	311,569	121,259
Bond Anticipation Notes	0	24,700,000	24,700,000	0	0
Net Pension Obligation	(44,238)	22,217	12,865	(34,886)	0
Net OPEB Obligation	1,186,105	529,024	567,044	1,148,085	0
Totals	<u>\$ 2,785,352</u>	<u>\$ 50,256,655</u>	<u>\$ 26,077,062</u>	<u>\$ 26,964,945</u>	<u>\$ 1,091,345</u>

EAST TROY COMMUNITY SCHOOL DISTRICT
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All general obligation debt is secured by the full faith and credit and unlimited taxing powers of the district.

General Obligation Bonds are shown net of bond premiums of \$1,945,177.

General obligation debt at June 30, 2016 is comprised of the following individual issues:

Issue	Issue Dates	Interest Rates	Maturity Dates	Balances 6-30-2016
G.O. Bond	07-01-2006	4.00-6.00%	03-01-2017	\$ 625,000
G.O. Note	12-19-2011	3.60%	09-19-2018	311,569
G.O. Bond	09-02-2015	3.0-5.0%	03-01-2035	18,600,000
G.O. Bond Premium	09-02-2015	3.0-5.0%	03-01-2035	1,807,701
G.O. Bond	03-01-2016	2.0-3.5%	03-01-2036	4,370,000
G.O. Bond Premium	03-01-2016	2.0-3.5%	03-01-2036	137,476
Total General Obligation Debt				\$ 25,851,746

The 2016 equalized valuation of the District as certified by the Wisconsin Department of Revenue is \$1,490,162,948. 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% of \$1,490,162,948)	\$ 149,016,295
Deduct Long-Term Debt Applicable To Debt Margin	23,906,569
Margin of Indebtedness	\$ 125,109,726

Total interest paid during the year aggregated \$629,902 for long-term debt.

Aggregate cash flow requirements for the retirement of long-term principal and interest (excluding debt premium) on June 30, 2016 follows:

Year Ended Year	Principal	Interest	Total
2016-17	\$ 951,259	\$ 956,211	\$ 1,907,470
2017-18	965,726	910,144	1,875,870
2018-19	939,584	888,713	1,828,297
2019-20	885,000	870,025	1,755,025
2020-21	905,000	852,325	1,757,325
2021-26	5,055,000	3,774,325	8,829,325
2026-31	6,410,000	2,441,875	8,851,875
2031-36	7,795,000	909,475	8,704,475
Totals	\$ 23,906,569	\$ 11,603,093	\$ 35,509,662

D – PARTIAL DEFEASANCE OF LONG-TERM DEBT

In 2011-12, the District defeased a portion of the General Obligation Bonds dated July 1, 2006. The District defeased \$310,000 of the \$1,070,000 principal payment due March 1, 2018. The District used cash on hand in the amount of \$417,166 and deposited the funds with an escrow agent to provide for all future debt service payments of the \$310,000 principal. As a result, the \$310,000 of the \$1,070,000 principal due March 1, 2018 is considered to be defeased and the liability for those bonds has been removed from the statement of net position.

The District defeased the debt to reduce its debt service payments over the next few years. The economic gain or loss was immaterial.

EAST TROY COMMUNITY SCHOOL DISTRICT
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June 30, 2016

In 2013-14 the District defeased another portion of the General Obligation Bonds dated July 1, 2006. The District defeased \$360,000 of the \$950,000 principal payment due March 1, 2016, \$385,000 of the \$1,010,000 principal payment due March 1, 2017, and \$175,000 of the \$760,000 principal payment due March 1, 2018. The District used cash on hand in the amount of \$1,028,300 and deposited the funds with an escrow agent to provide for all future debt service payments of the defeased amounts listed above. As a result, \$920,000 of the remaining principal on the 2006 bonds is considered to be defeased and the liability for those bonds has been removed from the statement of net position.

The District defeased the debt to reduce its debt service payments over the next few years. The economic gain or loss was immaterial.

On April 28, 2015 the District defeased another portion of the General Obligation Bonds dated July 1, 2006. The District defeased \$585,000 of the \$760,000 principal payment due March 1, 2018. The District used cash on hand in the amount of \$665,294 and deposited the funds with an escrow agent to provide for all future debt service payments of the defeased amounts listed above. As a result, \$585,000 of the remaining principal on the 2006 bonds is considered to be defeased and the liability for those bonds has been removed from the statement of net position.

The District defeased the debt to reduce its debt service payments over the next few years. The economic gain or loss was immaterial

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. The employees will be compensated at the rate of 20 to 50% of their last year's salary based upon the age at retirement. 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, 2016. The general fund is used for funding all supplemental pension benefits.

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	\$ 14,050
Interest on net pension obligation	(1,770)
Annual supplemental pension cost adjustment	9,937
Annual supplemental pension cost (expense)	<u>22,217</u>
Pension contributions made	<u>12,865</u>
Increase (Decrease) in net pension obligation	9,352
Net pension obligation – beginning of year	<u>(44,238)</u>
Net pension obligation – end of year	<u>\$ (34,886)</u>

The annual required contribution for the current year was determined as part of the July 1, 2014 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 4.00% 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 5 year open level percent method. The remaining amortization period at January 1, 2014 is 5 years. The unfunded accrued liability at July 1, 2014 was \$57,789.

EAST TROY COMMUNITY SCHOOL DISTRICT
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June 30, 2016

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 2015-16 and the preceding years were:

<u>Fiscal</u> <u>Year Ended</u>		<u>Annual</u> <u>Pension Cost</u>	<u>Percentage of</u> <u>Annual Pension</u> <u>Cost Contributed</u>		<u>Net Pension</u> <u>Obligation</u>
6-30-2009	\$	18,351	171.4%	\$	39,803
6-30-2010	\$	20,965	206.7%	\$	17,430
6-30-2011	\$	10,852	164.3%	\$	10,457
6-30-2012	\$	11,121	462.3%	\$	(29,833)
6-30-2013	\$	10,135	165.8%	\$	(36,505)
6-30-2014	\$	10,469	283.4%	\$	(55,708)
6-30-2015	\$	24,335	52.9%	\$	(44,238)
6-30-2016	\$	22,217	57.9%	\$	(34,886)

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 26 active and 50 retired members in the plan. Benefits and eligibility for teachers 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 as of June 30, 2013 are eligible. The district will pay the same percentage of the retiree's medical premiums as active employees. The maximum that will be paid by the district will be \$100,000. Payments will continue until the retired employee uses the entire \$100,000 or becomes Medicare eligible.

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.

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, 2016. 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)	\$	607,963
Interest on net OPEB obligation		47,444
ARC adjustment		(126,383)
Annual OPEB cost (expense)		529,024
OPEB contributions made		567,044
Increase (decrease) in net OPEB obligation		(38,020)
Net OPEB obligation – beginning of year		1,186,105
Net OPEB obligation – end of year	\$	<u>1,148,085</u>

EAST TROY COMMUNITY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2016

The district's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015-16 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>
6-30-2009	\$	1,054,327	34.07%	\$	695,169
6-30-2010	\$	1,062,199	37.50%	\$	1,359,025
6-30-2011	\$	850,286	73.97%	\$	1,580,367
6-30-2012	\$	846,952	82.43%	\$	1,729,113
6-30-2013	\$	501,629	129.40%	\$	1,581,614
6-30-2014	\$	504,297	139.86%	\$	1,380,599
6-30-2015	\$	516,801	137.63%	\$	1,186,105
6-30-2016	\$	529,024	107.19%	\$	1,148,085

Funding Status and Funding Progress: As of July 1, 2014, the most recent actuarial valuation date, the district's unfunded actuarial accrued liability (UAAL) was \$5,009,479, all of which was unfunded. The annual payroll for active employees covered by the plan for the 2015-16 fiscal year was \$9,123,153 for a ratio of the UAAL to covered payroll of 182.12%.

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 July 1, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a rate of 4.0% to discount expected liabilities to the valuation date. The initial healthcare trend rate was 0.0% for medical for years 1 and 2, then 6.5% for year 3, then decreasing by .1% per year 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 July 1, 2014 was 12 years.

H - DEFINED BENEFIT PENSION PLAN

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

EAST TROY COMMUNITY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2016

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
2014	4.7	25
2015	2.9	2

EAST TROY COMMUNITY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

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 \$625,983 in contributions from the employer.

Contribution rates as of December 31, 2015:

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 East Troy Community School District reported a liability (asset) of \$1,057,551 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2015, 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 East Troy Community School District's proportion of the net pension liability (asset) was based on the East Troy Community School District's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2015, the East Troy Community School District's proportion was .06508083%, which was an increase of .00066026% from its proportion measured as of December 31, 2014.

For the year ended June 30, 2016, the East Troy Community School District recognized pension expense of \$1,282,017.

At June 30, 2016, the East Troy Community School 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	\$180,723	\$2,225,598
Changes in assumptions	\$739,909	\$0
Net differences between projected and actual earnings on pension plan investments	\$4,335,809	\$0
Changes in proportion and differences between employer contributions and proportionate share of contributions	\$2,902	\$0
Employer contributions subsequent to the measurement date	\$382,092	\$0
Total	\$5,641,435	\$2,225,598

EAST TROY COMMUNITY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2016

\$382,092 reported as deferred outflows related to pension resulting from the WRS Employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year ended June 30:	Deferred Outflow of Resources	Deferred Inflows of Resources
2016	\$1,366,040	\$538,599
2017	\$1,366,040	\$538,599
2018	\$1,366,040	\$538,599
2019	\$1,137,495	\$538,599
Thereafter	\$23,728	\$71,202

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

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

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

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

EAST TROY COMMUNITY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2016

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				
	Current Asset Allocation %	Destination Target Asset Allocation %	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %
<u>Core Fund Asset Class</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 Fund	100%	100%	7.9%	5.0%
New England Pension Consultants Long Term US CPI (Inflation) Forecast: 2.75%				
Asset Allocations are managed within established ranges, target percentages may differ from actual monthly allocations				

Single Discount rate. A single discount rate of 7.20% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.20% and a long term bond rate of 3.56%. Because of the unique structure of WRS, the 7.20% expected rate of return implies that a dividend of approximately 2.1% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

EAST TROY COMMUNITY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2016

Sensitivity of the East Troy Community School District's proportionate share of the net pension liability (asset) to changes in the discount rate. The following presents the East Troy Community School District's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.20 percent, as well as what the East Troy Community School 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 to Discount Rate (6.20%)	Current Discount Rate (7.20%)	1% Increase To Discount Rate (8.20%)
East Troy Community School District's proportionate share of the net pension liability (asset)	\$7,417,682	\$1,057,551	\$(3,909,825)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in separately issued financial statements available at <http://legis.wisconsin.gov/lab/>.

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 \$1,246,083. 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, 2016

M - SHORT-TERM NOTES PAYABLE

Short-term notes payable at June 30, 2016 totaled \$3,500,000. The notes were issued on October 7, 2015 for cash flow purposes and mature on September 21, 2016. The interest rate on the notes is 1.0%. Total interest expense on short-term notes for the year totaled \$33,869.

	Balance 7-1-2015	Additions	Reductions	Balance 6-30-2016
Short-term Notes	\$ 4,100,000	\$ 3,500,000	\$ 4,100,000	\$ 3,500,000

N – 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 other than the following:

O - PRIOR PERIOD ADJUSTMENT

The Statement of Activities Net Position at July 1, 2015 was adjusted for the effect of GASB 82. This adjustment of \$89 relates to District's share of the Net Assets of the Wisconsin Retirement System pension plan.

P – GOVERNMENTAL ACTIVITIES NET POSITION

Governmental Activities net position reported on the governmental-wide financial statements at June 30, 2016 include the following:

<u>Net Investment in Capital Assets:</u>	
Invested in Capital Assets	\$ 34,854,592
Add: Unspent Debt Proceeds	18,607,389
Less: Liabilities related to Capital Debt	2,120,688
Less: Accumulated Depreciation	14,352,425
Less: Long-Term Bonds and Notes Outstanding	25,851,746
Net	\$ 11,137,122
 <u>Restricted for:</u>	
Debt Service	\$ 577,563
Food Service	47,853
Special Revenue	166,086
Community Service	93,132
Total Restricted	\$ 884,634

**REQUIRED
SUPPLEMENTAL INFORMATION**

EAST TROY COMMUNITY SCHOOL DISTRICT
Schedule of Funding Progress
For Postemployment Benefit Plans
As of June 30, 2016

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial 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>
<u>Pension</u>						
6/30/2007	\$ 0	\$ 164,505	\$ 164,505	0.0%	\$ N/A	N/A
1/01/2009	\$ 0	\$ 124,164	\$ 124,164	0.0%	\$ N/A	N/A
7/01/2010	\$ 0	\$ 89,914	\$ 89,914	0.0%	\$ N/A	N/A
7/01/2012	\$ 0	\$ 74,354	\$ 74,354	0.0%	\$ N/A	N/A
7/01/2014	\$ 0	\$ 57,789	\$ 57,789	0.0%	\$ N/A	N/A
<u>Postretirement Health Care Benefits</u>						
1/01/2009	\$ 0	\$ 9,819,892	\$ 9,819,892	0.00%	\$ N/A	N/A
7/01/2010	\$ 0	\$ 9,160,841	\$ 9,160,841	0.00%	\$ N/A	N/A
7/01/2012	\$ 0	\$ 7,472,214	\$ 7,472,214	0.00%	\$ N/A	N/A
7/01/2014	\$ 0	\$ 5,009,479	\$ 5,009,479	0.00%	\$ N/A	N/A

EAST TROY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
 OF THE NET PENSION LIABILITY
 WISCONSIN RETIREMENT SYSTEM PENSION PLAN
 June 30, 2016

Last 10 Fiscal Years

	<u>2014</u>	<u>2015</u>
District's proportion of the Net Pension Liability (Asset)	0.06574109%	0.06508083%
Beginning Balance - Net Pension Liability (Asset)	\$ (2,606,168)	\$ (1,614,337)
District's proportionate share of the Net Pension Liability (Asset)	\$ (1,614,781)	\$ 1,057,551
District's covered-employee payroll	\$ 8,998,269	\$ 9,205,638
District's proportionate share of the Net Pension Liability (Asset) as a percentage of its covered-employee payroll	-17.95%	11.49%
Plan fiduciary net position as a percentage of the total pension liability (asset)	102.74%	98.20%

The District is required to show information for 10 years. Only 2014 and 2015 are available.

Notes:

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

EAST TROY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF DISTRICT CONTRIBUTIONS
 June 30, 2016
 WISCONSIN RETIREMENT SYSTEM PENSION PLAN

Last 10 Fiscal Years

	<u>2014</u>	<u>2015</u>
Contractually required contributions	\$ 629,838	\$ 625,983
Contributions in relation to the contractually required contribution	(629,838)	(625,983)
Contribution deficiency (excess)	\$ <u>0</u>	\$ <u>0</u>
District's covered-employee payroll	\$ 8,998,269	\$ 9,205,638
Contributions as a percentage of covered-employee payroll	7.00%	6.80%

The District is required to show information for 10 years. Only 2014 and 2015 are available.

Notes:

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

Changes of assumptions. There were no changes in the assumptions.

**OTHER
SUPPLEMENTAL INFORMATION**

EAST TROY COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET -
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2016

	Special Education Fund	Food Service Fund	Special Revenue Fund	Community Service Fund	Totals 6/30/2016
ASSETS					
Cash and Investments	\$ (148,060)	\$ 52,987	\$ 168,080	\$ 87,142	\$ 160,149
Accounts Receivable				5,990	5,990
Due From Other Governments	150,023	10,826			160,849
TOTAL ASSETS	\$ 1,963	\$ 63,813	\$ 168,080	\$ 93,132	\$ 326,988
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities:					
Vouchers Payable	\$ 1,963	\$ 0	\$ 0	\$ 0	\$ 1,963
Due to Other Funds			1,994		1,994
Total Liabilities	1,963	0	1,994	0	3,957
Deferred Inflows of Resources:					
Food Service Fees		15,960			15,960
Total Deferred Inflows of Resources	0	15,960	0	0	15,960
Fund Balances:					
Restricted		47,853	166,086	93,132	307,071
Unassigned	0				0
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND EQUITY	\$ 1,963	\$ 63,813	\$ 168,080	\$ 93,132	\$ 326,988

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, 2016

	Special Education Fund	Food Service Fund	Special Revenue Fund	Community Service Fund	Total Nonmajor Funds
REVENUES					
Local Sources	\$ 0	\$ 338,426	\$ 246,953	\$ 157,978	\$ 743,357
Interdistrict Payments Within Wisconsin	5,397				5,397
Intermediate Sources	35,323				35,323
State Sources	426,666	10,366			437,032
Federal Sources	276,931	303,824			580,755
TOTAL REVENUES	<u>744,317</u>	<u>652,616</u>	<u>246,953</u>	<u>157,978</u>	<u>1,801,864</u>
EXPENDITURES					
Instruction:					
Regular Instruction			72,430		72,430
Physical Curriculum			24		24
Special Education Instruction	1,409,489				1,409,489
Co-Curricular			10,017		10,017
Support Services:					
Pupil Services	342,310		940		343,250
Libraries & Instr. Support	166,629		7,199		173,828
Administration	863				863
Operation and Maintenance				15,894	15,894
Pupil Transportation	71,109				71,109
Food Service		612,071			612,071
Community Service				75,352	75,352
TOTAL EXPENDITURES	<u>1,990,400</u>	<u>612,071</u>	<u>90,610</u>	<u>91,246</u>	<u>2,784,327</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,246,083)</u>	<u>40,545</u>	<u>156,343</u>	<u>66,732</u>	<u>(982,463)</u>
OTHER FINANCING SOURCES (USES):					
Operating Transfer In (Out)	<u>1,246,083</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,246,083</u>
Total Other Financing Sources (Uses)	<u>1,246,083</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,246,083</u>
Net Change in Fund Balances	0	40,545	156,343	66,732	263,620
Fund Balances - Beginning	0	7,308	9,743	26,400	43,451
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 47,853</u>	<u>\$ 166,086</u>	<u>\$ 93,132</u>	<u>\$ 307,071</u>

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, 2016

	<u>Balance</u> <u>7/1/2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>6/30/2016</u>
<u>STUDENT ACTIVITY FUNDS:</u>				
ASSETS				
Cash and Investments	\$ 232,473	\$ 610,576	\$ 789,306	\$ 53,743
Due from Other Funds	0	1,994	0	1,994
	<u>\$ 232,473</u>	<u>\$ 612,570</u>	<u>\$ 789,306</u>	<u>\$ 55,737</u>
LIABILITIES				
Due to Other Funds	\$ 0	\$ 59	\$ 0	\$ 59
Due to Student Organizations:				
Middle School	29,095	152,922	172,656	9,361
High School	203,378	459,589	616,650	46,317
	<u>\$ 232,473</u>	<u>\$ 612,570</u>	<u>\$ 789,306</u>	<u>\$ 55,737</u>

SINGLE AUDIT REPORTS

**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**

Independent Auditor's Report

To The School Board
East Troy Community School District

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 East Troy Community School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the East Troy Community School District's basic financial statements, and have issued our report thereon dated December 28, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the East Troy Community School District's internal control over financial reporting (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of the East Troy Community 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 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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2016-001 and 2016-002, that we consider 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 Findings

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. East Troy Community School District's responses were not subjected to our auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.



JAMES R. FRECHETTE
CERTIFIED PUBLIC ACCOUNTANT

December 28, 2016
Mukwonago, WI

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

Independent Auditor's Report

To The School Board
East Troy Community School District

Report on Compliance for Each Major Federal and State Program

We have audited East Troy Community School District's compliance with the types of compliance requirements described in the *OMB 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, 2016. The East Troy Community School District's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the East Troy Community 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; 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 the *State Single Audit Guidelines* issued by the Wisconsin Department of Administration. Those standards, Uniform Guidance, 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 on compliance for each major federal and state program. However, our audit does not provide a legal determination of East Troy Community School District's compliance.

Opinion on Each Major Federal and State Program

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 and state programs for the year ended June 30, 2016.

Report over Internal Control Over Compliance

Management of East Troy Community School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered East Troy Community School District's internal control over compliance with the types of requirements that could have a direct and material effect on each 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 major federal and state program and to test and report on internal control over compliance in accordance with the Uniform Guidance 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 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 THE Uniform Guidance and the State Single Audit Guidelines. Accordingly, this report is not suitable for any other purpose.



December 28, 2016
Mukwonago

James R. Frechette
Certified Public Accountant

EAST TROY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Accrued or (Deferred) Revenue at 7/1/2015	Receipts or Revenues Recognized	Total Federal Expenditures	Accrued or (Deferred) Revenue at 6/30/2016	Passed Through to Subrecipients
<u>U.S. Department of Agriculture:</u>							
Wisconsin Department of Public Instruction:							
Breakfast Program	10.553	A546-00000-641540	\$ 2,973	\$ 51,240	\$ 51,679	\$ 3,412	0
National School Lunch Program	10.555	A547-00000-641540					
Lunch Program			9,879	203,737	201,272	7,414	0
Commodities			0	50,873	50,873	0	0
Team Nutrition Grant	10.574	A552-00000-641540	2,000	2,000	0	0	0
Total Child Nutrition Cluster			<u>14,852</u>	<u>307,850</u>	<u>303,824</u>	<u>10,826</u>	<u>0</u>
Total U.S. Department of Agriculture			14,852	307,850	303,824	10,826	0
<u>U.S. Department of Education:</u>							
Wisconsin Department of Public Instruction:							
IDEA Flowthrough	84.027	A341-00000-641540	164,946	233,222	217,851	149,575	0
IDEA Preschool	84.173	A347-00000-641540	0	2,896	3,273	377	0
Total Special Education Cluster			<u>164,946</u>	<u>236,118</u>	<u>221,124</u>	<u>149,952</u>	<u>0</u>
ESEA Title I-A	84.010	A141-00000-641540	67,139	130,372	242,021	178,788	0
ESEA Title II-A	84.367	A365-00000-641540	18,186	36,270	43,746	25,662	0
Total U.S. Department of Education			250,271	402,760	506,891	354,402	0
<u>U.S. Department of Health & Human Services:</u>							
Wisconsin Department of Health Services:							
Medicaid	93.778	44221900	0	82,204	82,204	0	0
Total Medicaid Cluster			<u>0</u>	<u>82,204</u>	<u>82,204</u>	<u>0</u>	<u>0</u>
Total U.S. Department of Health and Human Services			0	82,204	82,204	0	0
			<u>\$ 265,123</u>	<u>\$ 792,814</u>	<u>\$ 892,919</u>	<u>\$ 365,228</u>	<u>\$ 0</u>
<u>Summary of Revenues:</u>							
Intermediate	\$		0				
Federal			<u>892,919</u>				
	\$		<u>892,919</u>				

See accompanying notes to schedules of expenditures of federal and state awards.

EAST TROY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For The Year Ended June 30, 2016

Awarding Agency: Pass-Through Agency: Award Description	State I.D. Number	State Pass-Through Number	Receivable 7/1/2015	State Receipts	Total State Expenditures	Receivable 6/30/2016	Passed Through to Subrecipients
WI. DEPT. OF PUBLIC INSTRUCTION:							
Handicapped Pupils and School Age Parents: Internal District Programs	255.101	641540-100	\$ 0	\$ 426,666	\$ 426,666	\$ 0	0
General Equalization	255.201	641540-116	51,041	4,067,556	4,088,269	71,754	0
Special Adjustment Aid	255.203	641540-118	0	0	0	0	0
Per Pupil Aid	255.945	641540-113	0	0	259,650	259,650	0
State Lunch	255.102	641540-107	0	7,301	7,301	0	0
Common School Fund	255.103	641540-104	0	70,520	70,520	0	0
Pupil Transportation	255.107	641540-102	0	53,306	53,306	0	0
AODA Mini-Grant	255-306	641540-143	0	800	800	0	0
School Breakfast Program	255.344	641540-108	0	3,065	3,065	0	0
Educator Effectiveness Grant	255.940	641540-154	0	10,240	10,240	0	0
Career and Technical Educ Incentive	255.950	641540-152	0	12,201	12,201	0	0
Total Wi. Dept. of Public Instruction			<u>51,041</u>	<u>4,651,655</u>	<u>4,932,018</u>	<u>331,404</u>	<u>0</u>
Other:							
Exempt Computer Aid	n/a	n/a	9,811	9,811	8,222	8,222	0
P.I.L.O.T. from Local Governments	n/a	n/a	0	82,377	82,377	0	0
Grand Total			<u>\$ 60,852</u>	<u>\$ 4,743,843</u>	<u>\$ 5,022,617</u>	<u>\$ 339,626</u>	<u>\$ 0</u>
Total State Revenue			<u>\$ 5,022,617</u>				

See accompanying notes to schedules of expenditures of federal and state awards.

EAST TROY COMMUNITY SCHOOL DISTRICT
NOTES TO SCHEDULES OF EXPENDITURES OF
FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2016

1 – Basis of Presentation

The accompanying schedules of expenditures of federal awards and expenditures of state awards include the federal and state grant activity of the East Troy Community School District under programs of the federal and state government for the year ended June 30, 2016. The information in these schedules are presented in accordance with the 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 the State Single Audit Guidelines. Because the schedules present only a selected portion of the operations of the East Troy Community School District, it is not intended to and does not present the financial position, changes in net position or cash flows of the East Troy Community School District.

2 – Summary of Significant Accounting Policies

Expenditures reported on the schedule of expenditures of federal awards and schedule of expenditures of state awards are reported on the modified accrual basis of accounting. Such expenditures are recognized following the costs principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedules represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

3 – Comments on Various Grant Programs

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

4. Medicaid Program (CFDA # 93.778) Payments

Medicaid revenues and expenditures reflect payments actually received by the district during the year.

5 – DPI Aidable Costs (Project 011)

Department of Public Instruction (DPI) aidable expenditures (Project 011) for the year ended June 30, 2016 were \$1,615,516.

6. Indirect Cost Rate

The District has not elected to use the 10% de minimis indirect cost rate of the Uniform Guidance.

7. DPI Pass Thru ID Numbers

The East Troy Community School District identification number is 641540.

8 – Single Audit Clusters

Child Nutrition Cluster – CFDA # 10.553, 10.555, 10.556 and 10.559

Special Education Cluster – CFDA # 84.027 and 84.173

Medicaid Cluster – CFDA # 93.775, 93.777, and 93.778

EAST TROY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended June 30, 2016

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

- | | | | |
|----|--|---------------|----------------------|
| 1. | Type of auditor’s report issued: | Unmodified | |
| 2. | Internal control over financial reporting: | | |
| | Material weakness Identified? | Yes | (2016-001, 2016-002) |
| | Significant deficiencies identified that are not considered to be material weaknesses? | None reported | |
| 3. | Noncompliance material to financial statements noted? | No | |

FEDERAL OR STATE AWARDS

- | | | | |
|----|--|---------------------------|--|
| 4. | Internal control over major programs: | | |
| | Material weakness(es) identified? | No | |
| | Significant deficiencies identified that are Not considered to be material weakness(es) | None reported | |
| 5. | Type of auditor’s report issued on compliance For major programs: | Unmodified | |
| 6. | Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | No | |
| 7. | Identification of major federal programs: | | |
| | Name of federal program or cluster: | CFDA Number(s) | |
| | Child Nutrition Cluster
ESEA Title I-A | 10.553, 10.555,
84.010 | |
| 8. | Dollar threshold used to distinguish between type A and type B programs: | | |
| | - Federal \$750,000 | | |
| | - State \$250,000 | | |
| 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, 2016

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
General Equalization Aids	255.201
Per Pupil Aid	255-945

Section II – Financial Statement Findings:

Finding Number	Finding
2016-001	<p><u>Lack of Segregation of Duties</u></p> <p>Criteria: Auditing standards require us to review internal controls of the school district's major accounting processes.</p> <p>Condition: The available staff precludes a proper separation of functions to assure adequate internal control.</p> <p>Cause: The school district has a limited number of employees.</p> <p>Effect: The concentration of the duties and responsibilities in a limited number of employees is not desirable from a control point of view. The lack of adequate segregation of duties increases the possibility of improper/incorrect transactions.</p> <p>Repeat Finding: This finding was reported in the prior year as finding 15-1.</p> <p>Recommendation: Under these circumstances, the most effective controls lie in the school district board's knowledge and monitoring of matters relating to the School Board's operations.</p> <p>School District Response: We concur with the finding, and management is aware of the situation related to lack of segregation of duties. To compensate for the lack of segregation of duties:</p> <ol style="list-style-type: none"> 1. The Business Manager reviews the work of other business office employees including payroll and accounts payable as much as possible. 2. The Board of Education monthly reviews budget comparison reports and approves expenditures. 3. The District has re-evaluated job descriptions and has included cross-training amongst clerical positions in order to begin to provide back-up training and avoid isolation of positions without hiring more people in the business office due to revenue limit constraints.
2016-002	<p><u>Financial Reporting</u></p> <p>Criteria: Auditing standards state that the school district should have internal control procedures that enable the preparation of financial records and financial statements by school district personnel that are free from material errors.</p>

EAST TROY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016

Section II – Financial Statement Findings (Cont'd):

Finding Number	Finding
	<p>Condition: The East Troy Community School District has not presented financial records that are free from material errors and has not prepared the annual financial statements. Preparation of financial statements requires a very high level of technical experience and expertise.</p> <p>Cause: The school district staff does not have the necessary resources to properly prepare the school district's financial statements that are free from material errors.</p> <p>Effect: The school district's financial records were materially misstated. The auditor proposed and made audit entries that were material to the school district's financial statements for the 2015-16 audit and prepared the school district's financial statements.</p> <p>Repeat Finding: This finding was reported in the prior year as finding 15-2.</p> <p>Recommendation: The school district may consider and implement additional internal control procedures to ensure the accuracy or preparation of its financial records and annual financial statements.</p> <p>School District Response: We concur with the finding and management is aware. Business staff does not have a CPA licensure. The process for reviewing and accepting East Troy's financial statements is as follows:</p> <ol style="list-style-type: none">1. The business manager reviews the ledger in detail during the fiscal year and at the close of the fiscal year, making any needed journal entries including receivables so that the financial statements are as complete and accurate as possible at the end of the fiscal year. The Business Manager also uploads the ledger to the DPI SAFR reporting shortly after the portal is open in July so that any remaining errors can be addressed prior to the auditor beginning the audit process, and so that the auditor uses the District's numbers to prepare the draft financial statements. The auditor has had less than 10 audit adjustments in each of the past two years, so basically the auditor is preparing the draft financial statements with district general ledger amounts, which we have already reviewed.2. The auditor completes a draft version of the financial statements which the Business Manager reviews and approves for accuracy and questions any items that seem unusual. The auditor and business manager discuss any material changes required for the financial statements that year as required by any new GASB pronouncements.3. Upon completion of the final version, the Business Manager presents the financial statements to the Board of Education for discussion and approval. (Note, approximately every five years in the process the auditor attends the board meeting to be available for presentation and questions from the Board of Education.

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

None

EAST TROY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016

Section IV – Other Issues:

1. Does the auditor's report or the notes to the financial statements include disclosure with regard to substantial doubt as to the auditee's ability to continue as a going concern? No

2. Does the audit report show audit issues related to grants/contracts with funding agencies that require audits to be in accordance with the State Single Audit guidelines:
Department of Public Instruction No

3. Was a management letter or other document conveying audit comments issued as a result of this audit? No

4. Name and signature of partner



James R Frechette, CPA

5. Date of Report December 28, 2016