

SCHOOL DISTRICT OF SOUTH MILWAUKEE
FINANCIAL STATEMENTS
JUNE 30, 2016

SCHOOL DISTRICT OF SOUTH MILWAUKEE

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	12
Statement of Activities	13
Balance Sheet - Governmental Funds	14
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund	17
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual – Special Education Fund	18
Statement of Fiduciary Net Position - Fiduciary Funds	19
Statement of Changes in Fiduciary Net Position - Fiduciary Funds	20
Notes to Financial Statements	21
REQUIRED SUPPLEMENTAL INFORMATION	
Schedule of Funding Progress for Postemployment Benefit Plan	46
Schedule of Proportionate Share of the Net Pension Liability (Asset) – Wisconsin Retirement System	47
Schedule of Contributions – Wisconsin Retirement System	48
Notes to Required Supplemental Information	49
SUPPLEMENTAL FINANCIAL INFORMATION	
Combining Balance Sheet – Nonmajor Governmental Funds	51
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	52
Schedule of Changes in Assets and Liabilities - Agency Fund	53

SCHOOL DISTRICT OF SOUTH MILWAUKEE

TABLE OF CONTENTS

	<u>Page</u>
SINGLE AUDIT SECTION	
Schedule of Expenditures of Federal Awards	55
Schedule of Expenditures of State Awards	56
Notes to Schedules of Expenditures of Federal and State Awards	57
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards	58
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance in Accordance with the Uniform Guidance and the State Single Audit Guidelines	60
Schedule of Findings and Questioned Costs	63
Corrective Action Plan	67
Summary Schedule of Prior Audit Findings	68

INDEPENDENT AUDITOR'S REPORT

Board of Education
School District of South Milwaukee
Milwaukee County, Wisconsin

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amount 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 School District of South Milwaukee as of June 30, 2016, and the respective changes in financial position, where applicable, and the respective budgetary comparisons for the General Fund and Special Education Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The financial information listed in the table of contents as supplemental financial information; and the schedules of expenditures of federal awards and state awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) 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; are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental financial information and schedules of expenditures of federal awards and state awards are the responsibility of management and was 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 supplemental financial information and the schedules of expenditures of federal awards and state awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Report Issued in Accordance with Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated January 6, 2017 on our consideration of the School District of South Milwaukee's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of the audit.

FELD, SCHUMACHER & COMPANY, LLP

Feld, Schumacher & Company, LLP
West Allis, Wisconsin
January 6, 2017

**MANAGEMENT'S DISCUSSION
AND
ANALYSIS**

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2016

The discussion and analysis of the School District of South Milwaukee's financial performance provides an overall review of financial activities for the fiscal year and focuses on the school district's financial performance as a whole.

FINANCIAL HIGHLIGHTS

- The District's total change in net position as shown in the statement of activities was a decrease of \$734,243.
- The General Fund (Fund 10) fund balance decreased \$270,466 from \$9.4 million to \$9.1 million. The fund balance is 26% of Fund 10 expenditures including transfers.
- The Debt Service Fund (Fund 30) fund balance decreased \$315,972.
- The decrease of \$568,247 in Other Governmental Funds was due to decreases in the Food Service Fund (\$176,695) and Capital Projects Fund (\$483,277) and increases in Community Service Fund (\$73,299) and the Gift Fund (\$18,426).
- Total revenues for Governmental Funds were \$44.3 million. This amount includes \$13.6 million of local property taxes, \$28.8 million of federal and state aid and \$1.9 million in contributions, charges for services and other miscellaneous revenue. Property taxes represent 31% of all revenue. Federal and state aid represents 65% of all revenue.
- Capital assets have been reported at \$90.2 million and accumulated depreciation of \$31.5 million for a net capital asset value of \$58.7 million. The amount listed represents the estimated historical cost of all sites, site improvements, buildings and building improvements, furniture and equipment with a unit value of at least \$1,000. An independent physical inventory was last conducted in June, 2016.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual financial report consists of four parts:

1. Management's Discussion and Analysis
2. Basic Financial Statements (District-wide and Fund Statements)
3. Notes to the Financial Statements.
4. Required and Additional Supplementary Information

The basic financial statements consist of *District-Wide Financial Statements* and *Fund Statements* that present different views of the District's financial activities.

District-Wide Financial Statements

- The *Statement of Net Position* and *Statement of Activities* provide information on a District-wide basis. These statements present an aggregate view of the District's finances. These statements contain useful long-term information as well as information for the 2015-16 fiscal year.
- The *Statement of Net Position* compares assets to liabilities to give an overall view of the financial health of the district.
- The *Statement of Activities* defines the District's expenses by function and illustrates the total that is offset by corresponding revenues (charges for services and/or operating grants and contributions). General revenue and any extraordinary credits are identified. The result is total net expense offset by general and miscellaneous revenue and recognizing the change in net position for the District from the previous year.

Fund Financial Statements

- The remaining statements: *Balance Sheet - Governmental Funds* and *Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds* focus on individual parts of the District. Fund statements generally report operations in more detail than the District-wide statements and support the *Statement of Net Position*.
- *The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual* is required Supplementary Information, which further explains and supports the financial statements by including a comparison of the District's budget data for the year.
- The *Notes to the Financial Statements* provide further explanation of some of the information in the statements and provide additional disclosure so statement users have a complete picture of the District's financial activities and position.
- *Supplementary Information* provides information specific to non major governmental funds.

The major features of the District's financial statements, including the portion of the activities reported and type of information contained is shown in the following table (Table 1).

Table 1 - Major Features of District-Wide and Fund Financial Statements

	District-Wide Statements	Governmental Fund Statements	Proprietary Fund Statements	Fiduciary Fund Statements
Scope	Entire District (except fiduciary funds)	The activity of the District that is not proprietary or fiduciary, such as instructional, support services and community services.	An activity the District operates similar to private businesses. <u>The District does not report any program for this designation.</u>	Assets held by the District on behalf of someone else. Student and other groups that have funds on deposit with the District are reported here. All expendable and non-expendable scholarship funds are reported here. The District's Post Retirement Health Insurance Benefit Trust is reported here.
Required Financial Statements	Statement of Net Position Statement of Activities	Balance Sheet Statement of Revenues, Expenditures and Changes in Fund Balance	Statement of Net Position Statement of Revenues, Expenses and Changes in Net Position Statement of Cash Flows	Statement of Fiduciary Net Position Statement of Changes in Fiduciary Net Position
Basis of Accounting and Measurement Focus	Accrual accounting Economic resources focus	Modified accrual accounting Current financial resources focus	Accrual accounting Economic resources focus	Accrual accounting Economic resources focus
Type of Asset and Liability Information	All assets and liabilities, both financial and capital, short-term and long-term.	Generally, assets expected to be used and liabilities that come due during the year or soon thereafter. No capital assets or long-term liabilities are included.	All assets and liabilities, both financial and capital, short-term and long-term.	All assets and liabilities, both financial and capital, short-term and long-term. <u>The District's fiduciary funds do not currently contain capital assets.</u>
Type of Inflow and Outflow Information	All revenues and expenses during the year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year. Expenditures when goods or services have been received and the related liabilities are due and payable.	All revenues and expenses during the year, regardless of when cash is received or paid.	All additions or deductions during the year, regardless of when cash is received and paid.

Table 2 - Condensed Statement of Net Position

	<u>2016</u>	<u>2015</u>
<u>Assets and Deferred Outflows</u>		
Current Assets	\$ 13,455,214	\$ 15,184,951
Capital Assets	58,722,579	60,494,991
Other Assets and Deferred Outflows	<u>12,726,437</u>	<u>6,804,218</u>
Total Assets and Deferred Outflows	<u>\$ 84,904,230</u>	<u>\$ 82,484,160</u>
<u>Liabilities and Deferred Inflows</u>		
Current Liabilities	\$ 7,520,306	\$ 7,456,689
Non-Current Liabilities and Deferred Inflows	<u>50,202,394</u>	<u>47,111,498</u>
Total Liabilities and Deferred Inflows	<u>\$ 57,722,700</u>	<u>\$ 54,568,187</u>
<u>Net Position</u>		
Net Investment in Capital Assets	\$ 25,037,579	\$ 22,614,991
Restricted	2,935,532	3,798,688
Unrestricted	<u>(791,581)</u>	<u>1,502,294</u>
Total Net Position	<u>\$ 27,181,530</u>	<u>\$ 27,915,973</u>

As of June 30, 2016, the District reported total assets and deferred outflows of resources of \$84.9 million and total liabilities and deferred inflows of resources of \$57.7 million. Net Position amounts to \$27.2 million. Capital asset reporting includes historical cost of sites, site improvements, buildings, building improvements, furniture and equipment (all net of accumulated depreciation).

**Table 3 - Changes in Net Position from Operating Results
For Governmental Activities**

Revenues:		Actual		Actual	
		2015-2016	%	2014-2015	%
Program	Charges for Services	\$ 1,482,274	3.3%	\$ 1,445,429	3.2%
	Operating Grants & Cont.	6,247,197	14.1%	6,220,026	14.1%
General	Property & Other Taxes	13,609,657	30.7%	13,380,043	30.2%
	General Aid	22,547,403	50.9%	22,609,409	51.1%
	Donations	64,523	0.2%	27,683	0.1%
	Other	<u>324,813</u>	<u>0.7%</u>	<u>494,052</u>	<u>1.1%</u>
	Total Revenue	<u>44,275,867</u>	<u>100.0%</u>	<u>44,176,642</u>	<u>100.0%</u>

**Table 3 - Changes in Net Position from Operating Results
For Governmental Activities
(continued)**

Expenses:	Actual 2015-2016		Actual 2014-2015	
		%		%
Instruction	\$ 22,934,381	51.0%	\$ 21,008,577	46.7%
Business Administration	7,267,217	16.2%	12,265,946	27.3%
Pupil/Instr. Ser	4,228,161	9.4%	3,815,180	8.5%
Admin./Bldg. Admin	2,916,929	6.5%	1,947,067	4.3%
Other Support	3,931,043	8.7%	4,255,880	9.5%
Community Serv.	1,130,431	2.5%	1,113,791	2.5%
Debt Serv.	1,761,933	3.9%	1,599,048	3.6%
Loss on disposal of assets	840,015	1.9%	41,403	0.1%
Total Expense	45,010,110	100.0%	46,046,892	102.3%
Change in Net Position	(734,243)		(1,870,250)	
Net Position, beginning of year, as restated	27,915,773		29,786,223	
Net Position, end of year	\$ 27,181,530		\$ 27,915,973	

Revenues

- The District received \$44.3 million in revenue for the 2015-16 fiscal year. \$13.6 million (31%) of the District's total revenue came from local school property tax and prior year chargebacks. 65% of the total came from Grants and other federal and state aid. The District receives approximately 3.3% in the form of direct fees for services. Book and activity fees, admissions to athletic events, open-enrollment tuition, and building rental fees are included as direct fees for services. The overall make-up of the sources of revenue did not vary significantly from the previous fiscal year.
- Federal and State governments subsidized programs with grants and aid of \$28.8 million. Special Education Aid and General Equalization Aid are examples of these.

Expenses

- The District's total expenditure amount was \$45.0 million for fiscal year 2015-16. Pupil instruction and instructional services account for 60.4% of expenditures. Costs for teacher salaries/benefits, textbooks, and instructional supplies are examples of pupil instruction and instructional services. Business Administration and General/Building Administration account for 22.7% of total expense. These costs include individual building budgets, district maintenance, and school business insurance. The costs associated with Debt Service and Community Services account for 3.9% and 2.5%, respectively of all District expenses.

Table 4 - Net Cost of Governmental Activities

	2016		2015	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction	\$ 22,934,381	\$ 18,024,891	\$ 21,008,577	\$ 16,016,542
Business Admin.	7,267,217	5,631,925	12,265,946	10,692,429
Pupil/Inst. Ser.	4,228,161	3,650,002	3,815,180	3,284,758
Admin./Bldg. Admin.	2,916,929	2,916,929	1,947,067	1,947,067
Other Support	3,931,043	3,919,470	4,255,880	4,223,527
Community Serv.	1,130,431	535,474	1,113,791	576,663
Debt Serv.	1,761,933	1,761,933	1,599,048	1,599,048
Loss on asset disposal	840,015	840,015	41,403	41,403
Total	\$ 45,010,110	\$ 37,280,639	\$ 46,046,892	\$ 38,381,437

- The total cost of all governmental activities was \$45.0 million. (Table 4)
- The net cost of governmental activities was \$37.3 million. The net cost is the total cost less the program revenues. Refer to the Statement of Activities for the detailed adjustments made for the net cost of services.

General Fund Budgetary Comparison

The District adopts an interim budget in spring for the subsequent year. Consistent with current state statutes and regulations, the original budget is amended in October to reflect the actual revenue cap and state aid certification.

The Fund 10 final budget was approved with no change in fund balance. Actual results for 2015-16 show a deficit of \$270,467. The budget to actual variance is mainly due to:

- Investment in Infrastructure Projects
- Medicaid School Based Services Cost Report Settlements

Fund Balances

- The District shows a total for all fund balances of \$11.6 million as of June 30, 2016. (See Note 7 in the financial statements for the detail of total governmental fund balances).
- \$9.1 million is in the General Fund (Fund 10). The District utilizes this fund balance for funding short-term operations. The interest earned on investment of these funds provides additional spending capacity.
- \$743,318 is in the Debt Service Fund (Fund 30), which is reserved for future debt payments.
- \$581,669 is in the Community Service Fund (Fund 80), which is used to fund short-term operations.
- The remaining amounts are the balance of the Food Service Fund in the amount of \$605,485, Gift Fund in the amount of \$141,925 and the Capital Projects fund of \$416,466.

Capital Asset and Debt Administration

Capital Assets

- The District hired an independent appraisal firm to perform a comprehensive physical inventory of all capital assets over \$1,000 and calculated both annual and accumulated depreciation on all applicable capital assets as of June 30, 2016. The District reported \$1.1 million in capital asset additions and \$2.0 million in depreciation expense in fiscal 2016.

Long Term Debt

- As of June 30, 2016 the District had \$48.0 million in long-term notes, general obligation bonds, accrued compensated absences, and accrued postemployment benefits. (Notes 4 and 14 in the Financial Statements details long-term obligations). The District made payments of \$4.2 million on its general obligation debt during the year.

Decisions that will impact the Future of the District

The 2015-17 Wisconsin biennial budget included a \$0 revenue limit per pupil adjustment for the 2015-16 and 2016-17 fiscal years. This freeze is a continuation of unrealistic expectations from Madison and will result in limited opportunities for our students. Revenue limits began in 1993 and were based on 1992 revenue generation; which fostered inequity between school districts. The formula continues to be based on the 1992 revenues and continues to go neglected due to irresponsible budget practices in Madison. The 2017-19 Wisconsin biennial budget work will take place between January 2017 and June 2017 and will ultimately provide the framework for public education budgets for the next two fiscal years. It is important that our legislators know the value of public education and understand that public education is a top priority and a wise investment.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions regarding this report or need additional financial information, please contact:

Blaise Paul, Director of Business Services
School District of South Milwaukee
901 15th Avenue
South Milwaukee, WI 53172

Phone: (414) 766-5020
Fax: (414) 766-5029

BASIC FINANCIAL STATEMENTS

SCHOOL DISTRICT OF SOUTH MILWAUKEE
STATEMENT OF NET POSITION
June 30, 2016

ASSETS

Current Assets

Cash and investments	\$ 8,651,345
Restricted investments	415,463
Accounts receivable	2,152,097
Prepaid expenses	309,618
Due from other governments	1,892,264
Inventories	<u>34,427</u>

Total Current Assets 13,455,214

Noncurrent Assets

Capital assets, net of accumulated depreciation	58,722,579
---	------------

Deferred Outflows of Resources

Deferred outflows of resources from pensions	<u>12,726,437</u>
--	-------------------

Total Assets and Deferred Outflows of Resources \$ 84,904,230

LIABILITIES

Current Liabilities

Accounts payable and accrued expenses	\$ 2,117,890
Current portion of long-term obligations	5,260,073
Other current liabilities	<u>142,343</u>

Total Current Liabilities 7,520,306

Non-Current Liabilities

Non-current portion of long-term obligations	42,758,085
Pension liability	<u>2,390,242</u>

Total Non-Current Liabilities 45,148,327

Deferred Inflows of Resources

Deferred inflows of resources from pensions	<u>5,054,067</u>
---	------------------

Total Liabilities and Deferred Inflows of Resources 57,722,700

NET POSITION

Net investment in capital assets	25,037,579
Restricted	2,935,532
Unrestricted	<u>(791,581)</u>

Total Net Position 27,181,530

Total Liabilities, Deferred Inflows of Resources and Net Position \$ 84,904,230

See accompanying notes to the financial statements.

SCHOOL DISTRICT OF SOUTH MILWAUKEE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes In Net Assets
		Charges for Services	Operating Grants and Contributions	
Instruction				
Regular	\$ 15,616,816	\$ 311,649	\$ 2,489,858	\$ (12,815,309)
Special education	4,522,143	87,582	1,607,598	(2,826,963)
Vocational	1,336,325	26,835	206,715	(1,102,775)
Physical	815,594	-	100,095	(715,499)
Other	643,503	-	79,158	(564,345)
Total Instruction	22,934,381	426,066	4,483,424	(18,024,891)
Support Services				
Pupil services	1,646,599	-	140,595	(1,506,004)
Instructional support services	2,581,562	-	437,564	(2,143,998)
General administrative services	853,410	-	-	(853,410)
Building administrative services	2,063,519	-	-	(2,063,519)
Business administrative services	7,267,217	510,256	1,125,036	(5,631,925)
Central services	716,646	-	-	(716,646)
Insurance and judgments	296,507	-	-	(296,507)
Debt service	1,761,933	-	-	(1,761,933)
Other support services	1,957,547	-	11,573	(1,945,974)
Unallocated depreciation *	960,343	-	-	(960,343)
Total Support Services	20,105,283	510,256	1,714,768	(17,880,259)
Community Service	1,130,431	545,952	49,005	(535,474)
Total Activities	\$ 44,170,095	\$ 1,482,274	\$ 6,247,197	(36,440,624)
General Revenues				
Property taxes				13,609,657
State and Federal aids not restricted to specific functions				22,547,403
Donations				64,523
Other revenue				296,891
Loss on asset disposal				(840,015)
Investment income				27,922
Total General Revenues				35,706,381
Change in Net Position				(734,243)
Net Position, beginning of year, as restated				27,915,773
NET POSITION, end of year				\$ 27,181,530

* excludes direct expenses of the appropriate functions.

See accompanying notes to the financial statements.

**SCHOOL DISTRICT OF SOUTH MILWAUKEE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016**

	<u>General Fund</u>	<u>Debt Service Funds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and investments	\$ 6,504,363	\$ 743,318	\$ 1,403,664	\$ 8,651,345
Restricted investments	-	-	415,463	415,463
Accounts receivable	2,146,641	-	5,456	2,152,097
Prepaid expenses	304,408	-	5,210	309,618
Due from other governments	1,764,786	-	127,478	1,892,264
Inventories	34,427	-	-	34,427
Total Assets	<u>\$ 10,754,625</u>	<u>\$ 743,318</u>	<u>\$ 1,957,271</u>	<u>\$ 13,455,214</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 344,388	\$ -	\$ 29,612	\$ 374,000
Accrued salaries and wages	209,679	-	40,976	250,655
Other accrued liabilities	1,071,884	-	-	1,071,884
Unearned revenue	1,209	-	141,138	142,347
Total Liabilities	<u>1,627,160</u>	<u>-</u>	<u>211,726</u>	<u>1,838,886</u>
Fund Balances				
Nonspendable	338,835	-	5,210	344,045
Restricted	451,879	743,318	1,740,335	2,935,532
Committed	0	-	-	-
Assigned	0	-	-	-
Unassigned	8,336,751	-	-	8,336,751
Total Fund Balances	<u>9,127,465</u>	<u>743,318</u>	<u>1,745,545</u>	<u>11,616,328</u>
Total Liabilities and Fund Balances	<u>\$ 10,754,625</u>	<u>\$ 743,318</u>	<u>\$ 1,957,271</u>	

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

Capital assets, other long-term assets, and deferred outflows of resources used in governmental activities are not financial resources and, therefore, are not reported in the funds. 71,449,016

Long-term liabilities, including bonds and notes payable, deferred inflows of resources, and related accrued interest are not due and payable in the current period and, therefore, are not reported in the funds. (55,883,814)

Net Position of Governmental Activities \$ 27,181,530

See accompanying notes to the financial statements.

SCHOOL DISTRICT OF SOUTH MILWAUKEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016

	<u>General Fund</u>	<u>Debt Service Funds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Local	\$ 8,600,498	\$ 4,673,942	\$ 1,869,414	\$ 15,143,854
Interdistrict	2,337,454	-	109,107	2,446,561
Intermediate	8,410	-	-	8,410
State	23,759,861	-	53,147	23,813,008
Federal	1,521,341	-	1,188,742	2,710,083
Other	151,266	-	2,688	153,954
Total Revenues	<u>36,378,830</u>	<u>4,673,942</u>	<u>3,223,098</u>	<u>44,275,870</u>
Expenditures				
Current				
Instruction				
Regular	14,920,997	-	4,482	14,925,479
Physical	780,448	-	-	780,448
Special education	4,322,732	-	-	4,322,732
Vocational	1,195,208	-	91,835	1,287,043
Other	617,195	-	-	617,195
Total Instruction	<u>21,836,580</u>	<u>-</u>	<u>96,317</u>	<u>21,932,897</u>
Support Services				
Pupil services	1,577,308	-	-	1,577,308
Instructional support services	2,427,130	-	67,929	2,495,059
General administrative services	587,967	-	74,219	662,186
Building administrative services	2,027,363	-	-	2,027,363
Building and operations	4,945,515	-	2,387,561	7,333,076
Central services	660,275	-	34,888	695,163
Insurance and judgments	296,507	-	-	296,507
Other support services	131,525	-	-	131,525
Debt service				
Principal	-	26,555,000	-	26,555,000
Interest and fees	-	1,797,984	-	1,797,984
Total Support Services	<u>12,653,590</u>	<u>28,352,984</u>	<u>2,564,597</u>	<u>43,571,171</u>
Community Services	<u>-</u>	<u>-</u>	<u>1,130,431</u>	<u>1,130,431</u>
Non-Program				
General tuition payments	1,537,648	-	-	1,537,648
Other non-program	244,167	-	-	244,167
Total Expenditures	<u>36,271,985</u>	<u>28,352,984</u>	<u>3,791,345</u>	<u>68,416,314</u>
Excess (deficiency) of revenues over expenditures	106,845	(23,679,042)	(568,247)	(24,140,444)
Other Financing Sources (Uses)				
Long-term debt proceeds	-	22,360,000	-	22,360,000
Proceeds from sale of capital assets	11,300	-	-	11,300
Premium on debt refinancing	-	614,459	-	614,459
Operating transfers in	-	388,611	-	388,611
Operating transfers out	(388,611)	-	-	(388,611)
Net Change in Fund Balance	(270,466)	(315,972)	(568,247)	(1,154,685)
Fund Balances, beginning of year	9,397,931	1,059,290	2,313,792	12,771,013
FUND BALANCES, end of year	<u>\$ 9,127,465</u>	<u>\$ 743,318</u>	<u>\$ 1,745,545</u>	<u>\$ 11,616,328</u>

See accompanying notes to the financial statements.

SCHOOL DISTRICT OF SOUTH MILWAUKEE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

Net Change in Fund Balances - Total Governmental Funds \$ (1,154,685)

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital outlay reported in governmental fund statements	1,120,382	
Proceeds from sale of capital assets	(11,300)	
Loss on asset disposal	(840,015)	
Depreciation expense reported in the statement of activities	<u>(2,041,479)</u>	
		(1,772,412)

Payments to early retirees under the District's OPEB and administrative pension plans are recorded on a pay-as-you-go basis in the fund statements. In the Statement of Activities, OPEB and pension expense is reported on the accrual basis based on an actuarial valuation. 82,415

Deferred finance premium from issuance of long-term obligations is income in the governmental funds but is recorded as deferred income and amortized in the Statement of Activities.

Deferred finance premium is:		
Amortization reported in the Statement of Activities	425	
Bond Premium	<u>(614,459)</u>	
		(614,034)

Bond, note, and capital lease proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of principal is an expenditure in the government funds, but the repayment reduces long-term liabilities in the Statement of Net Position. This is the amount by which proceeds exceeded repayments. 4,195,000

Net differences between pension system contributions recognized in the fund statement of revenues, expenditures, and changes in fund balances and the statement of activities (1,501,856)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 31,329

Change in Net Position of Governmental Activities \$ (734,243)

See accompanying notes to the financial statements.

SCHOOL DISTRICT OF SOUTH MILWAUKEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance
	Original	Final		with Final Budget
Revenues				
Local	\$ 8,544,721	\$ 8,548,721	\$ 8,600,498	\$ 51,777
Interdistrict	2,200,000	2,200,000	2,245,982	45,982
State	22,513,186	22,568,972	22,619,027	50,055
Federal	684,044	797,994	772,776	(25,218)
Other	60,000	60,000	151,266	91,266
Total Revenues	34,001,951	34,175,687	34,389,549	213,862
Expenditures				
Current				
Instruction				
Regular	14,666,560	14,753,251	14,920,997	(167,746)
Physical	783,450	783,450	780,448	3,002
Vocational	1,210,883	1,210,883	1,193,369	17,514
Other	641,210	655,784	617,195	38,589
Total Instruction	17,302,103	17,403,368	17,512,009	(108,641)
Support Services				
Pupil services	1,001,083	1,009,840	948,687	61,153
Instructional support services	2,188,994	2,251,408	2,180,605	70,803
General administrative services	601,851	601,851	587,967	13,884
Building administrative services	1,968,435	1,968,435	2,027,363	(58,928)
Business administrative services	4,385,666	4,385,966	4,797,425	(411,459)
Central services	695,318	695,318	650,975	44,343
Insurance and judgments	323,500	323,500	296,507	26,993
Other support services	1,700	1,700	131,525	(129,825)
Debt service				
Interest and fees	10,000	10,000	-	10,000
Total Support Services	11,176,547	11,248,018	11,621,054	(373,036)
Non-Program				
General tuition payments	1,552,871	1,553,871	1,362,972	190,899
Other non-program	-	-	244,167	(244,167)
Total Non-Program	1,552,871	1,553,871	1,607,139	(53,268)
Total Expenditures	30,031,521	30,205,257	30,740,202	(534,945)
Excess of revenues over expenditures	3,970,430	3,970,430	3,649,347	(321,083)
Other Financing Uses				
Proceeds from sale of capital assets	-	-	11,300	11,300
Operating transfers out	(3,970,430)	(3,970,430)	(3,931,113)	39,317
Total Other Financing Sources (Uses)	(3,970,430)	(3,970,430)	(3,919,813)	50,617
Net Change in Fund Balances	-	-	(270,466)	(270,466)
Fund Balances, beginning of year	9,397,931	9,397,931	9,397,931	-
FUND BALANCES, end of year	\$ 9,397,931	\$ 9,397,931	\$ 9,127,465	\$ (270,466)

See accompanying notes to the financial statements.

SCHOOL DISTRICT OF SOUTH MILWAUKEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
SPECIAL EDUCATION FUND
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance
	Original	Final		with Final Budget
Revenues				
Interdistrict	\$ 80,000	\$ 80,000	\$ 91,472	\$ 11,472
Intermediate	-	-	8,410	8,410
State	1,075,000	1,075,000	1,140,834	65,834
Federal	768,830	768,830	748,565	(20,265)
Total Revenues	<u>1,923,830</u>	<u>1,923,830</u>	<u>1,989,281</u>	<u>65,451</u>
Expenditures				
Current				
Instruction				
Special Education	4,289,797	4,340,830	4,322,732	18,098
Vocational	-	1,950	1,839	111
Total Instruction	<u>4,289,797</u>	<u>4,342,780</u>	<u>4,324,571</u>	<u>18,209</u>
Support Services				
Pupil services	638,505	646,605	628,621	17,984
Instructional support services	222,347	228,201	246,525	(18,324)
Business administrative services	182,000	182,000	148,090	33,910
Central services	10,000	10,000	9,300	700
Total Support Services	<u>1,052,852</u>	<u>1,066,806</u>	<u>1,032,536</u>	<u>34,270</u>
Non-Program				
General tuition payments	163,000	216,000	174,676	41,324
Total Expenditures	<u>5,505,649</u>	<u>5,625,586</u>	<u>5,531,783</u>	<u>93,803</u>
Deficiency of revenues over expenditures	(3,581,819)	(3,701,756)	(3,542,502)	159,254
Other Financing Sources				
Operating transfers in	3,581,819	3,701,756	3,542,502	(159,254)
Net Change in Fund Balances	-	-	-	-
Fund Balances, beginning of year	-	-	-	-
FUND BALANCES, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to the financial statements.

**SCHOOL DISTRICT OF SOUTH MILWAUKEE
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2016**

	<u>Employee Benefit Trust Fund</u>	<u>Scholarship Trust Fund</u>	<u>Agency</u>
ASSETS			
Cash and investments	<u>\$ 346,484</u>	<u>\$ 480,771</u>	<u>\$ 211,627</u>
LIABILITIES			
Due to student organizations	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 211,627</u>
NET POSITION			
Restricted	<u>346,484</u>	<u>480,771</u>	<u>-</u>
Total Net Position	<u>346,484</u>	<u>480,771</u>	<u>-</u>
Total Liabilities and Net Position	<u>\$ 346,484</u>	<u>\$ 480,771</u>	<u>\$ 211,627</u>

See accompanying notes to the financial statements.

**SCHOOL DISTRICT OF SOUTH MILWAUKEE
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
For the Year Ended June 30, 2016**

	Employee Benefit Trust Fund	Scholarship Trust Fund
Additions		
Contributions		
Employer	\$ 1,066,852	\$ -
Plan members	153,756	-
Donations	-	15,849
Net investment earnings	1,716	1,293
Miscellaneous	68,035	-
	1,290,359	17,142
Deductions		
Other expenses	549	-
Postemployment benefits	943,326	-
Scholarships	-	18,354
	943,875	18,354
Change in Net Position	346,484	(1,212)
Net Position, beginning of year	-	481,983
NET POSITION, end of year	\$ 346,484	\$ 480,771

See accompanying notes to the financial statements.

SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the School District of South Milwaukee conform to generally accepted accounting principles as applicable to governmental units.

A. REPORTING ENTITY

The South Milwaukee School District is organized as a common school district. The District, governed by an elected school board, operates grades K through 12 and is comprised of one taxing district. This report includes all of the funds of the School District of South Milwaukee. The reporting entity for the District consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government. This report does not contain any component units.

B. BASIS OF PRESENTATION

District-Wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. The District does not report any business-type activities.

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 that are clearly identifiable with a specific function or segment. The District does not allocate indirect expenses to functions in the Statement of Activities. 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.

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

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Internally dedicated resources are reported as general revenues rather than as program revenues.

SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 1 - Summary of Significant Accounting Policies (continued)

B. BASIS OF PRESENTATION (continued)

Fund Financial Statements

Fund Financial Statements of the reporting entity are organized into funds, each of which are considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, fund equity, revenues, and expenditures.

Funds are organized as major funds or non major funds within the governmental and fiduciary statements. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, liabilities, revenues, or expenditures of the individual governmental funds are at least 5 percent of the corresponding total for all governmental funds combined.
- c. In addition, any other governmental fund that the District believes is particularly important to financial statement users may be reported as a major fund.

Governmental Activities

Governmental funds are identified as either general, special revenue, debt service, capital projects, or permanent funds based upon the following guidelines:

General Fund

The General Fund is the general operating fund of the District and is always classified as a major fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects or expendable trusts) that are legally restricted to expenditures for specified purposes.

Debt Service Funds

Debt Service Funds are used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest, and related costs.

Capital Projects Funds

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Permanent Funds

Permanent Funds are used to account for resources legally held in trust. All resources of the fund, including any earnings on invested resources, may be used to support the organization.

SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 1 - Summary of Significant Accounting Policies (continued)

B. BASIS OF PRESENTATION (continued)

Fiduciary Funds (Not Included in District-Wide Statements)

Private-Purpose Trust Funds

Private-purpose Trust Funds are used to account for resources legally held in trust for student scholarships.

Employee Benefit Trust Funds

Employee Benefit Trust Funds are used to account for resources legally held in trust for the District's post retirement health insurance benefits.

Agency Funds

Agency Funds are used to account for assets held by the District as an agent for individuals, private organizations, and/or other governmental units.

Major Funds

The District reports the following major governmental funds:

General Fund
Debt Service Fund

Non Major Funds

The District reports the following non major funds:

Food Service Fund
Gift Fund
Community Services Fund
Vocational Education Fund
Youth Apprenticeship Fund
SWSA/SSLC Fund
Capital Projects Fund

Fiduciary Funds

The District reports the following fiduciary funds:

Private Purpose Trust Funds -
Scholarship Fund

Agency Funds -
Student Activity Fund

Employee Benefit Trust Funds -
Post Retirement Health Trust Fund

SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 1 - Summary of Significant Accounting Policies (continued)

C. BASIS OF ACCOUNTING

The district-wide Statement of Net Position and Statement of Activities are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

The modified accrual basis of accounting is followed by the governmental funds and agency funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on long-term debt, claims, judgments, compensated absences, and pension expenditures, which are recorded as a fund liability when expected to be paid with expendable available financial resources.

Property tax revenues are recognized as revenues in the fiscal year levied as the District considers the property taxes as due prior to June 30. The District considers the taxes as due on January 1 the date from which interest and penalties accrue for non-payment of a scheduled installment. Full receipt of the entire levy is assured within sixty days of the school's fiscal year end. Receipt of the balance of taxes levied within sixty days meets the requirements for availability in accordance with generally accepted accounting principles applicable to governmental entities.

Property taxes are collected by the City of South Milwaukee until July 31. Real estate tax collections after that date are made by South Milwaukee, which assumes all responsibility for delinquent real estate taxes.

The aggregate amount of property taxes to be levied for school purposes is determined according to provisions of Chapter 120 of the Wisconsin Statutes. Property taxes levied by the District are certified to the local taxing district for collection. Property taxes attach as an enforceable lien as of January 1.

Property tax calendar - 2014 tax roll:

Lien date and levy date	December 2015
Tax bills mailed	December 2015
Payment in full, or	January 31, 2016
First installment due	January 31, 2016
Second installment due	April 30, 2016
Third installment due	July 31, 2016

State general and categorical aids and other entitlements are recognized as revenues in the period the District is entitled to the resources and the amounts are available. Expenditure-driven programs currently reimbursable are recognized as revenue when the qualifying expenditures have been incurred and the amounts are available. Amounts owed to the District which are not available are recorded as receivables and deferred inflows. Amounts received prior to the entitlement period are also recorded as deferred inflows.

Revenues susceptible to accrual include property taxes, miscellaneous taxes, public charges for services, and investment income.

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 entitlements.

SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 1 - Summary of Significant Accounting Policies (continued)

C. BASIS OF ACCOUNTING (continued)

For governmental fund financial statements, deferred inflows arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred inflows also arise when resources are received before the District has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred inflows is removed from the combined balance sheet and revenue is recognized.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

D. MEASUREMENT FOCUS

On the district-wide Statement of Net Position and Statement of Activities governmental activities are presented using the economic resources measurement focus. Under this concept, revenues and expenses are matched using the accrual basis of accounting.

The measurement focus of all funds is the flow of current financial resources concept. Under this concept, sources and uses of financial resources, including capital outlays, debt proceeds and debt retirements are reflected in operations. Resources not available to finance expenditures and commitments of the current period are recognized as deferred revenue or a reservation of fund equity. Liabilities for claims, judgments, compensated absences and pension contributions which will not be currently liquidated using expendable available financial resources are included as liabilities in the district-wide and enterprise fund financial statements but are excluded from the governmental fund financial statements. The related expenditures are recognized in the governmental fund financial statements when the liabilities are liquidated.

E. INVENTORIES

Governmental fund inventories are recorded at cost based on the FIFO (first-in, first-out) method using the consumption method of accounting.

F. LONG-TERM OBLIGATIONS

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the district-wide or fund financial statements.

All long-term debt to be repaid from governmental resources are reported as liabilities in the district-wide statements. The long-term debt consists primarily of bonds payable and accrued compensated absences.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as revenue and payment of principal and interest are reported as expenditures.

In governmental funds, debt issuance premiums received are recognized in the current period. For the district-wide financial statements, these amounts are amortized over the life of the debt issue. At June 30, 2016 the District reported \$674,160 of unamortized premium.

SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 1 - Summary of Significant Accounting Policies (continued)

G. CAPITAL ASSETS

District-Wide Statements

In the district-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. The District uses a minimum capitalization limit of \$5,000.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Site Improvements	20 years
Buildings	45 years
Furniture and equipment	5-20 years
Computer and related technology	5 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets are not capitalized and related depreciation is not reported in the fund financial statements.

H. INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as "due to and from other funds." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position.

I. BUDGETS

Budgetary information is derived from the annual operating budget and is presented using the same basis of accounting for each fund as described in Note 1.C.

Operating budgets are adopted each fiscal year for all governmental funds in accordance with section 65.90 of the Wisconsin Statutes. The budgeted amounts presented include amendments adopted during the year. Transfers between functions and changes to the overall budget must be approved and amended by School Board resolution. Appropriations lapse at year-end unless specifically carried over. There were no carryovers to the following year. Budgetary expenditure control is exercised at the function level in the General Fund and at the fund level for all other funds.

J. ALLOWANCES FOR UNCOLLECTIBLE ACCOUNTS

No allowance for uncollectible accounts has been recorded as all amounts are considered collectible.

SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 1 - Summary of Significant Accounting Policies (continued)

K. COMPENSATED ABSENCES AND OTHER EMPLOYEE BENEFIT AMOUNTS

The District's policy allows certain employees to earn varying amounts of vacation pay each year depending on the total number of years employed. In some instances, the District allows carryover of these benefits. Upon retirement or termination of employment, the employee is entitled to payment in cash.

The District's policy allows certain employees to earn varying amounts of sick pay for each year employed. Upon retirement, employees are entitled to receive payment for their accumulated benefits as specified by contracts.

Vested amounts of both vacation and sick pay are reported as long-term liabilities in the statement of Net Position.

The District also allows early retirement elections. Under this program health insurance benefits are paid in future fiscal years. (See Note 14).

L. 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 district-wide financial statements as expense when the related liabilities are incurred. There were no significant claims or judgments at year end.

M. INTERFUND TRANSACTIONS

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursement to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transactions are reported as operating transfers.

N. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditures) until then.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 1 - Summary of Significant Accounting Policies (continued)

O. PENSIONS

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Wisconsin Retirement System (WRS) and additions to/deductions from WRS' fiduciary net position have been determined on the same basis as they are reported by WRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

P. EQUITY CLASSIFICATIONS

District-Wide Statements

Equity is classified as Net Position and displayed in three components:

- a. Net Investment in Capital Assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets.
- b. Restricted - Consists of net position with constraints placed on use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or 2) law through constitutional provisions or enabling legislation.
- b. Unrestricted - All other net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

It is the practice of the District to spend restricted amounts first followed by unrestricted amounts when expenditures are incurred for purposes for which amounts in any of the net position classifications could be used.

Fund Statements

Governmental fund equity is classified as fund balance. GASB 54 requires the fund balance amounts to be reported in the following categories:

- a. Nonspendable - Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- b. Restricted - Amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- c. Committed - Amounts that can be used only for the specific purposes determined by a formal action (resolution) of the School Board (the District's highest level of decision-making authority).
- d. Assigned - Amounts that are intended to be used for a particular purpose expressed by the School Board or other authorized committee or individual.
- e. Unassigned - All amounts not included in other spendable classifications.

It is the practice of the District to spend restricted amounts before unrestricted and committed amounts first followed by assigned then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the fund balance classifications could be used.

The District does not have a minimum fund balance policy but recognizes the need to maintain adequate unassigned fund balance as a safeguard.

SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 2 - Cash and Investments

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 per depositor at each financial institution. Bank accounts and the local government investment pool are also insured by the state Deposit Guarantee Fund in the amount of \$400,000. However, due to the relatively small size of the Guarantee Fund in relationship to the total deposits covered and other legal implications, recovery of material principal losses may not be significant to individual organizations.

This coverage has not been considered. At June 30, 2016, the District's uninsured deposits were \$2,314,496. Bank deposits are subject to *custodial credit risk*. *Custodial credit risk* for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned.

Fluctuating cash flows during the year due to tax collection, receipt of state aid and/or proceeds from borrowing may have resulted in temporary balances exceeding insured amounts by substantially higher amounts than reported at the balance sheet date.

Investment of District funds is restricted by state statutes. Available deposits and investments are limited to:

1. Time deposits in any credit union, bank, savings bank, trust company or savings and loan association maturing in three years or less.
2. Bonds or securities of any county, city, drainage district, technical college district, district, town, or school district of the state. Also, bonds issued by a local exposition district, a local professional baseball park district, or by the University of Wisconsin Hospitals and Clinics Authority.
3. Bonds or securities issued or guaranteed by the federal government.
4. The local government investment pool.
5. Any security maturing in seven years or less and having the highest or second highest rating category of a nationally recognized rating agency.
6. Securities of an open-end management investment company or investment trust, subject to various conditions and investment options.
7. Repurchase agreements with public depositories, with certain conditions.

At June 30, 2016 the school had the following investments:

<u>Investment Type</u>	<u>Valuation Measurement Method</u>	<u>Fair Value</u>	<u>Less Than 6 months</u>	<u>6 - 24 Months</u>
BMO Harris Bank OPEB Trust	Fair Value - Level 2	\$ 179,437	\$ -	\$ 179,437
Wisconsin Investment Series Cooperative Investment Series	Amortized Cost	108,557	108,557	-
Local Government Investment Pool	Amortized Cost	<u>9,821,335</u>	<u>9,821,335</u>	-
Total Investments		<u>\$ 10,109,329</u>	<u>\$ 9,929,892</u>	<u>\$ 179,437</u>

PMA Financial Network is the administrator for the Wisconsin Investment Series Cooperative (WISC). The investment manager for WISC is PMA Financial Network. The WISC is not registered with the Securities and Exchange Commission, but invests its funds in accordance with applicable Wisconsin statutes. The WISC values its invested funds using various fair value measurements as applicable, depending on the type of investment as shown in the table above. Measurement methods include cost, amortized cost and fair value hierarchy – level two.

SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 2 - Cash and Investments

Investments in the Local Government Investment Pool (LGIP) are covered under a surety bond issued by Financial Security Assurance, Inc.

The bond insures against losses arising from principal defaults on substantially all types of securities acquired by the Pool except U.S. Government and agency securities. The bond provides unlimited coverage on principal losses, reduced by any FDIC, State of Wisconsin Guarantee Fund Insurance. The District is exposed to market risk through its investment in the LGIP. The district's invested funds in the LGIP are valued at amortized cost.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments. *Credit risk* for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. For investments, *interest rate risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to greater risk.

Note 3 - Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance 7/1/15	Additions	Deletions	Balance 6/30/16
Capital assets not being depreciated				
Sites	\$ 2,343,180	\$ -	\$ -	\$ 2,343,180
Total Capital Assets Not Being Depreciated	2,343,180	-	-	2,343,180
Capital assets being depreciated				
Buildings and improvements	79,675,633	730,107	93,039	80,312,701
Equipment	11,163,852	390,276	4,005,515	7,548,613
Total Capital Assets Being Depreciated	90,839,485	1,120,383	4,098,554	87,861,314
Total Capital Assets	93,182,665	1,120,383	4,098,554	90,204,494
Less Accumulated Depreciation	32,687,674	2,041,479	3,247,238	31,481,915
Net Capital Assets	<u>\$60,494,991</u>	<u>\$ (921,096)</u>	<u>\$ (851,316)</u>	<u>\$58,722,579</u>

SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 3 - Capital Assets (continued)

Depreciation expense was charged to functions as follows:

Instruction	
Regular	\$ 166,978
Support services	
General administration services	167,057
Building administration services	34,114
Business administration services	39,296
Unallocated/general	<u>1,634,034</u>
Total Depreciation Expense	<u>\$2,041,479</u>

Note 4 - Long-Term Obligations

A. Long-term liability activity for the year ended June 30, 2016 was as follows:

	Balance 7/1/2015	Additions	Reductions	Balance 6/30/2016	Due Within One Year
Bonds and Notes Payable					
Notes payable	\$ 7,105,000	\$ -	\$ -	\$ 7,105,000	\$ -
Bonds payable	30,775,000	22,360,000	(26,555,000)	26,580,000	4,220,000
Plus refunding premium	60,126	614,459	(425)	674,160	-
Total Bond and Notes Payable	<u>37,940,126</u>	<u>22,974,459</u>	<u>(26,555,425)</u>	<u>34,359,160</u>	<u>4,220,000</u>
Other Liabilities					
Accrued compensated absences - vacation	35,780	181,985	(177,692)	40,073	40,073
Other postemployment benefits	13,701,340	1,028,477	(1,110,892)	13,618,925	1,000,000
Total Other Liabilities	<u>13,737,120</u>	<u>1,210,462</u>	<u>(1,288,584)</u>	<u>13,658,998</u>	<u>1,040,073</u>
Total Long-term Liabilities	<u>\$ 51,677,246</u>	<u>\$ 24,184,921</u>	<u>\$ (27,844,009)</u>	<u>\$ 48,018,158</u>	<u>\$ 5,260,073</u>

Interest expense paid and incurred on long-term general obligation debt was \$1,698,389 and \$1,662,763 respectively, for the year ended June 30, 2016.

B. All general obligation debt is backed by the full faith and credit of the District and will be retired by future property tax levies and transfers from the general fund.

Type	Date of Issue	Date of Maturity	Interest Rate	Principal Payable	Interest Payable	Original Amount	Balance Outstanding 6/30/2016
Bonds	6/8/2004	10/1/2022	2.0 - 4.0%	4/1	4/1, 10/1	22,360,000	\$ 22,360,000
Bonds	9/5/2012	10/1/2026	0.50 - 3.2%	4/1	4/1, 10/1	4,595,000	4,220,000
Promissory Note	4/1/2014	10/1/2024	2.50%	4/1	4/1, 10/1	7,105,000	7,105,000
							<u>\$ 33,685,000</u>

SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 4 - Long-Term Obligations (continued)

C. Debt service requirements to maturity on general obligation debt are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$4,220,000	\$669,366	\$4,889,366
2018	4,295,000	714,183	5,009,183
2019	4,390,000	629,158	5,019,158
2020	3,795,000	541,358	4,336,358
2021	3,915,000	397,258	4,312,258
2022-2026	<u>13,070,000</u>	<u>739,813</u>	<u>13,809,813</u>
Totals	<u>\$33,685,000</u>	<u>\$3,691,136</u>	<u>\$37,376,136</u>

D. The 2015 equalized valuation of the District as certified by the Wisconsin Department of Revenue is \$1,090,382,100. 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 \$1,090,382,100)	\$109,038,210
Deduct: Long-term debt applicable to debt margin	<u>(33,685,000)</u>
Margin of indebtedness	<u>\$ 75,353,210</u>

Note 5 - Pension Plan – Wisconsin Retirement System

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.

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.

**SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

Note 5 - Pension Plan – Wisconsin Retirement System (continued)

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

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

During the reporting period, the WRS recognized \$1,401,235 in contributions from the employer.

**SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

Note 5 - Pension Plan – Wisconsin Retirement System (continued)

Contribution rates as of June 30, 2016 are:

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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2016, the South Milwaukee School District reported a liability of \$2,390,242 for its proportionate share of the net pension asset. The net pension asset was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014 rolled forward to December 31, 2015. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The South Milwaukee School District's proportion of the net pension asset was based on the South Milwaukee School District's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2015, the South Milwaukee School District's proportion was .147%, which was a decrease of .001% as its proportion measured as of December 31, 2014.

For the year ended June 30, 2016, the South Milwaukee School District recognized pension expense of \$2,875,237.

At June 30, 2016, the South Milwaukee 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	\$ 407,938	\$ 5,030,223
Changes in assumptions	1,672,317	-
Net differences between projected and actual earnings on pension plan investments	9,797,945	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	23,844
Employer contributions subsequent to the measurement date	848,237	-
Total	\$12,726,437	\$5,054,067

SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 5 - Pension Plan – Wisconsin Retirement System (continued)

\$848,237 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 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	\$3,085,028	\$1,223,918
2017	3,085,028	1,223,918
2018	3,085,028	1,223,918
2019	2,569,614	1,221,115
Thereafter	\$ 53,502	\$161,198

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

Actuarial Valuation Date:	December 31, 2014
Measurement Date of Net Pension Liability (Asset)	December 31, 2015
Actuarial Cost Method:	Entry Age
Asset Valuation Method:	Fair Market Value
Long-Term Expected Rate of Return:	7.2%
Discount Rate:	7.2%
Salary Increases:	
Inflation	3.2%
Seniority/Merit	0.2% - 5.8%
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.

SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 5 - Pension Plan – Wisconsin Retirement System (continued)

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:

Core Fund Asset Class	Current Asset Allocation	Destination Target Asset Allocation %	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %
US Equities	27.0%	23%	7.5%	4.7%
International Equities	24.5	22%	8.5	5.6%
Fixed Income	27.5	37%	4.4	1.6%
Inflation Sensitive Assets	10.0	20%	4.2	1.4%
Real Estate	7.0	7%	6.5	3.6%
Private Equity/Debt	7.0	7%	9.4	6.5%
Multi-Asset	4.0	4%	6.7	3.8%
Total Core Fund	107.0-%	120%	7.4%	4.5%
Variable Fund Asset Class				
U. S Equities	70%	70%	7.6%	4.7%
International Equities	30%	30%	8.5%	5.6%
Total Core Fund	100.0-%	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.

**SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

Note 5 - Pension Plan – Wisconsin Retirement System (continued)

Sensitivity of the South Milwaukee School District's proportionate share of the net pension liability (asset) to changes in the discount rate. The following presents the South Milwaukee 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 South Milwaukee School District's proportionate share of the net pension 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%)
South Milwaukee School District's proportionate share of the net pension liability (asset)	16,765,202	2,390,242	(8,836,858)

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

Note 6 - Governmental Activities Net Position

Governmental activities Net Position reported on the Government Wide Statement of Net Position at June 30, 2016 includes the following:

Governmental Activities

Net Investment in Capital Assets	
Capital assets, net of accumulated depreciation	\$58,722,579
Less: related long-term debt outstanding	<u>(33,685,000)</u>
Net Investment in Capital Assets	25,037,579
Restricted	2,935,532
Unrestricted	<u>(791,581)</u>
Total Governmental Activities Net Position	<u><u>\$27,181,530</u></u>

SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 7 - Governmental Fund Balances

Governmental fund balances reported on the fund financial statements at June 30, 2016 include the following:

Nonspendable	
General Fund	
Inventory	\$ 34,427
Prepaid expenses	304,408
Community Service Fund	<u>5,210</u>
Total Nonspendable	<u>344,045</u>
Restricted	
Debt Service Fund	743,318
Community Service Fund - Community Service Programs	576,459
Capital Projects Fund	416,466
Food Service Fund - Special Milk Programs	605,485
Gift Fund – Donations	141,925
General Fund – Self-insurance	<u>451,879</u>
Total Restricted Fund Balance	<u>2,935,532</u>
Unassigned	
General Fund	<u>8,336,751</u>
Total Governmental Fund Balances	<u><u>\$11,616,328</u></u>

Note 8 - Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Statement of Net Position

Capital and other assets used in governmental funds are not financial resources and, therefore, are not reported in the funds.

Capital assets, net of accumulated depreciation	\$ 58,722,579
Deferred outflows of resources from pensions	<u>12,726,437</u>
	<u><u>\$ 71,449,016</u></u>

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the Statement of Net Position.

Bonds and notes payable	\$(33,685,000)
Bond insurance premium	(674,160)
Accrued compensated absences	(40,073)
Accrued interest	(421,345)
Deferred inflows of resources from pensions	(5,054,067)
Pension liability	(2,390,242)
OPEB liability	<u>(13,618,927)</u>
Combined Adjustment	<u><u>\$(55,883,814)</u></u>

SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 9 - Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Statement of Activities

Under the modified accrual basis of accounting used in the governmental funds, expenditures are recognized for transactions that are normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported when the liability is incurred. Interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. Payments to early retirees under the District's OPEB plan is recorded on a pay-as-you-go basis in the fund statements. In the Statement of Activities, OPEB is reported on the accrual basis based on an actuarial valuation. These adjustments are a combination of the following items:

Other postemployment benefits	\$82,415
Pension liability	(1,501,856)
Compensated absences	(4,293)
Accrued interest	<u>35,622</u>
	<u><u>\$(1,388,112)</u></u>

Capital related difference includes (1) the difference between proceeds for the sale of capital assets reported on governmental fund statements and the gain or loss on the sale of assets as reported on the Statement of Activities, and (2) the difference between recording an expenditure for the purchase of capital items in the governmental fund statements, and capitalization and recording depreciation expense on those items as recorded in the statement of activities. This adjustment is a combination of the following items:

Depreciation expense	\$(2,041,479)
Proceeds from sale of capital assets	(11,300)
Loss on asset disposal	(840,015)
Capital expenditures	<u>1,120,382</u>
	<u><u>\$(1,772,412)</u></u>

Long-term debt transaction differences occur because long-term debt proceeds are recorded as revenues and principal payments are recorded as expenditures in the governmental fund statements. In the Statement of Activities, long-term debt proceeds are recorded as a liability and principal payments are recorded as a reduction of liabilities. This adjustment is as follows:

Amortization of premiums received	\$ 425
Bond premium	(614,459)
Principal payments on long-term debt	<u>4,195,000</u>
	<u><u>\$3,580,966</u></u>

Note 10 - Risk Management

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

SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 11 - Commitments and Contingencies

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

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

Note 12 - Limitation of School District Revenues

Wisconsin Statutes limit the amount of revenues that school districts may derive from general school aid and property taxes. The annual revenue increase from these sources is limited to an allowable per member increase which is determined by the legislature.

This limitation does not apply to revenues needed for the payment of any general obligation debt service (including refinanced debt) authorized by either of the following:

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

Note 13 – Other Postemployment Benefits

The District follows GASB Statement #45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension, which allows the District to report its liability for other postemployment benefits consistent with established generally accepted accounting principles and to reflect an actuarially determined liability for the present value of projected future benefits for retired and active employees on the financial statements.

Plan Description. The District operates a single-employer retiree benefit plan that provides postemployment medical insurance benefits to eligible employees and their spouses. There are 308 active and 110 retired members in the plan as of the June 30, 2016 actuarial valuation. Benefits and eligibility for teachers and food service workers are established and amended through collective bargaining with the recognized bargaining agent for each group; benefits and eligibility for administrators, secretaries and general support staff are established and amended by the governing body.

The District has \$346,484 of invested plan assets accumulated for payment of future benefits. The employer makes all contributions on a pay-as-you-go basis. The District paid \$1,110,891 of benefits for the year ended June 30, 2016.

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 Statement 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 shows the components of the District's annual OPEB cost for the year, the amount actually paid from the plan, and changes in the District's net OPEB obligation.

SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 13 – Other Postemployment Benefits (continued)

	Government Activities
Annual required contribution	\$ 1,242,298
Adjustment to ARC	(761,875)
Interest on net OPEB	548,054
Annual OPEB cost (expense)	1,028,477
OPEB payments made	(1,110,892)
Change in net OPEB obligation	(82,415)
OPEB obligation at beginning of year	13,701,340
Net OPEB obligation – end of year	<u>\$ 13,618,925</u>

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015 and the preceding two years was:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed/Paid	Net OPEB Obligation
6/30/2016	\$1,028,477	108%	\$13,618,925
6/30/2015	\$2,405,808	39%	\$13,701,340
6/30/2014	\$2,405,808	35%	\$12,245,725

Funded Status and Funding Progress. As of July 1, 2017, the most recent actuarial valuation date, the District's unfunded actuarial accrued liability (UAAL) was \$15,925,828. The annual payroll for active employees covered by the plan in the actuarial valuation dated July 1, 2017 fiscal year was \$18,903,960 for a ratio of the UAAL to covered payroll of 84%.

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 revision as actuarial results are compared with past experience and new estimates are made about the future. The schedule of funding progress, presented as required supplementary 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 (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used 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.

**SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

Note 13 – Other Postemployment Benefits (continued)

In the June 30, 2016 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 8.0% reduced by decrements to an ultimate rate of 5.0%. The UAAL is being amortized as a level dollar of projected payrolls. The remaining amortization period at June 30, 2016 was 30 years.

Note 14 - Operating Leases

The District has entered into lease agreements for Xerox and Apple equipment expiring through December 2018. The District is obligated to make future minimum lease payments as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 57,760
2018	57,760
2019	28,880
	<u>\$144,400</u>

Total lease expense for the year ended June 30, 2015 was \$57,760.

Note 15 - Subsequent Events

Management has evaluated subsequent events for possible recognition or disclosure through the date the financial statements were available to be distributed January 6, 2017.

Note 16 - Interfund Activity

The District made the following transfers to the debt service fund and the capital projects for the year ended June 30, 2016.

<u>Transfer To</u>	<u>Transfer from General Fund</u>
Debt service	\$388,611

The District reported no receivable or payables due from or to other funds at June 30, 2016.

Note 17 - Excess Expenditures Over Appropriations

The following functional expenditure categories reported an excess of actual costs over budget:

<u>General Fund</u>	
Regular Instruction	\$167,746
Building Administrative Services	\$58,928
Business Administrative Services	\$411,459
Other Support Services	\$129,825
 <u>Special Education Fund</u>	
Instructional support services	\$18,324

**SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

Note 18 - Self-funded Insurance Program

The District provides self-funded health benefits for its employees. An administrator is responsible for the approval, processing and payment of claims, after which the District is billed for reimbursement. The District is also responsible for a monthly administrative fee. The Plan reports on a fiscal year ending June 30.

The Plan is registered with the Wisconsin Office of the Commissioner of Insurance as an employee welfare plan. Accounting and budgeting requirements for the Plan are established by the Wisconsin Department of Public Instruction.

As part of the medical care coverage of the Plan, the District purchased specific stop-loss insurance for claims in excess of \$100,000 per individual. The District's aggregate stop-loss coverage for medical is \$6,152,248. The District has no stop-loss insurance for the Plan's dental or vision care coverage.

At June 30, 2016, the District has reported a liability of \$998,047 and restricted fund balance, which represents estimated unreported claims which were incurred on or before June 30, 2016.

Changes for this liability amount for the years ended June 30, 2016 and 2015 were as follows:

<u>Year</u>	<u>Balance Beginning of Year</u>	<u>Current Changes</u>	<u>Claim Payments</u>	<u>Balance End of Year</u>
2016	\$1,443,027	\$5,830,246	\$6,123,336	\$998,047
2015	\$1,284,731	\$5,462,755	\$5,304,459	\$1,443,027

Note 19 - Recently Issued Accounting Standards

The Governmental Accounting Standards Board (GASB) recently approved the following statements which were not implemented for these financial statements:

The GASB issued Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* in June 2015. The requirements of the related Statement are effective for financial Statement periods beginning after June 15, 2016.

The GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension plans* in June 2015. This Statement is meant to improve the usefulness of information about postemployment benefits other than pensions, and replaces Statement No. 43 and No. 57. The requirements of the related Statement are effective for financial Statement periods beginning after June 15, 2016.

The GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* in June 2015. This Statement is meant to improve the usefulness of information about postemployment benefits other than pensions, and replaces Statement No. 45 and No. 57. The requirements of the related Statement are effective for financial Statement periods beginning after June 15, 2017.

The GASB issued Statement No. 76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* in June 2015. This Statement is meant to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The requirements of the related Statement are effective for financial Statement periods beginning after June 15, 2015.

SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 19 – Recently Issued Accounting Standards

The GASB issued Statement No. 77 *Tax Abatement Disclosures* in August 2015. This Statement is meant to define tax abatements and identify the related disclosures that governments should provide. The requirements of the related Statement are effective for financial Statement periods beginning after December 15, 2015.

The GASB issued Statement No. 78 *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* in December 2015. Amends the scope and applicability of Statement 68 to exclude pensions provided to employees or state or local governmental employers through a cost-sharing multiple-employer defined benefit plan under certain circumstances. The requirements of the related Statement are effective for financial Statement periods beginning after December 15, 2015.

The GASB issued Statement No. 79 *Certain External Investment Pools and Pool Participants* in December 2015. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. The requirements of the related Statement are effective for financial Statement periods beginning after December 15, 2015.

The GASB issued Statement No. 80 *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14* in January 2016. This Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The requirements of the related Statement are effective for financial Statement periods beginning after June 15, 2016.

The GASB issued Statement No. 81 *Irrevocable Split-Interest Agreements* in March 2016. This Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of the related Statement are effective for financial Statement periods beginning after December 15, 2016.

The GASB issued Statement No. 82 *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73* in March 2016. This Statement is address certain issues that have been raised with respect to Statements No. 67, No. 68, and No. 73, relating to the presentation of payroll-related measures in required supplementary information. The requirements of the related Statement are effective for financial Statement periods beginning after June 15, 2017

The effect these standards may have on future financial statements is not determinable at this time.

Note 20 - Change in Accounting Principle

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. In addition, due to an update to the prior year actuarial valuation, beginning net position has been restated as follows:

Net position as previously reported on July 1, 2015	\$27,915,973
Change in beginning net pension asset	(1,002)
Change in beginning deferred outflows	<u>802</u>
Net position, as restated	<u><u>\$27,915,773</u></u>

REQUIRED SUPPLEMENTAL INFORMATION

**SCHOOL DISTRICT OF SOUTH MILWAUKEE
Required Supplemental Information
Schedule of Funding Progress for
Postemployment Benefit Plan**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage Of Covered Payroll ((b-a)/c)
<u>Other Postemployment Benefits</u>						
7/01/2016	346,484	16,272,312	15,925,828	2.1%	18,903,960	84%
7/01/2014	0	14,861,072	14,861,072	0.0%	17,940,147	83%
7/01/2011	0	22,812,051	22,812,051	0.0%	17,766,903	128%

SCHOOL DISTRICT OF SOUTH MILWAUKEE
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability (Asset)
Wisconsin Retirement System
Last 10 Fiscal Years* (which may be built prospectively)

2015	
South Milwaukee School District's proportion of the net pension liability (asset)	14.71%
South Milwaukee School District's proportionate share of the net pension liability (asset)	\$2,390,242
South Milwaukee School District's covered-employee payroll	\$20,589,535
Plan fiduciary net position as a percentage of the total pension liability (asset)	98.2%

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

(See Note 5 and Notes to Required Supplementary Information)

SCHOOL DISTRICT OF SOUTH MILWAUKEE
Required Supplementary Information
Schedule of Contributions
Wisconsin Retirement System
Last 10 Fiscal Years* (which may be built prospectively)

Contractually required contributions	\$1,401,235
Contributions in relation to the contractually required contributions	(\$1,401,235)
Contribution deficiency (excess)	\$ -
South Milwaukee School District's covered-employee payroll	\$20,589,535
Contributions as a percentage of covered-employee payroll	6.81%

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

(See Note 5 Notes to Required Supplementary Information)

**SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
Year Ended June 30, 2014**

Note 1 - Funding Progress Data

The data presented in the Schedule of Funding Progress was taken from the reports issued by the actuary.

The District is required to present information for the retiree benefit plan for the three most recent actuarial studies. Duplicate data for intervening years have not been presented.

Note 2 – Wisconsin Retirement System (WRS) Pension Data

The data presented in the Schedule of Proportionate share of net pension liability (asset) and the Schedule of Contributions is derived from data provided by the Wisconsin Department of Employee Trust Funds.

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.

SUPPLEMENTAL FINANCIAL INFORMATION

SCHOOL DISTRICT OF SOUTH MILWAUKEE
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2016

	Gift Fund	Food Service Fund	Capital Projects Fund	Community Services Fund	Vocational Education Fund	Youth Apprenticeship Fund	SWSA/ SSLC Fund	Total Nonmajor Governmental Funds
ASSETS								
Cash and investments	\$ 141,925	\$ 608,591	\$ 1,003	\$ 672,789	\$ (94,746)	\$ -	\$ 74,102	\$ 1,403,664
Restricted investments			415,463					415,463
Accounts receivable	-	-	-	5,456	-	-	-	5,456
Prepaid expenses	-	-	-	5,210	-	-	-	5,210
Due from other governments	-	31,732	-	-	94,746	-	1,000	127,478
Total Assets	<u>\$ 141,925</u>	<u>\$ 640,323</u>	<u>\$ 416,466</u>	<u>\$ 683,455</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 75,102</u>	<u>\$ 1,957,271</u>
LIABILITIES AND FUND BALANCES								
Liabilities								
Accounts payable	\$ -	\$ 3,693	\$ -	\$ 15,652	\$ -	\$ -	\$ 10,267	\$ 29,612
Accrued salaries and wages	-	7,121	-	33,855	-	-	-	40,976
Unearned revenue	-	24,024	-	52,279	-	-	64,835	141,138
Total Liabilities	<u>-</u>	<u>34,838</u>	<u>-</u>	<u>101,786</u>	<u>-</u>	<u>-</u>	<u>75,102</u>	<u>211,726</u>
Fund Balances								
Nonspendable	-	-		5,210	-	-	-	5,210
Restricted	141,925	605,485	416,466	576,459	-	-	-	1,740,335
Total Fund Balances	<u>141,925</u>	<u>605,485</u>	<u>416,466</u>	<u>581,669</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,745,545</u>
Total Liabilities and Fund Balances	<u>\$ 141,925</u>	<u>\$ 640,323</u>	<u>\$ 416,466</u>	<u>\$ 683,455</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 75,102</u>	<u>\$ 1,957,271</u>

See accompanying notes to the financial statements.

SCHOOL DISTRICT OF SOUTH MILWAUKEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016

	Gift Fund	Food Service Fund	Capital Projects Fund	Community Services Fund	Vocational Education Fund	Youth Apprenticeship Fund	SWSA/ SSLC Fund	Total Nonmajor Governmental Funds
REVENUES								
Local	\$ 64,718	\$ 507,746	\$ 1,913	\$ 1,295,037	\$ -	\$ -	\$ -	\$ 1,869,414
Interdistrict	-	-	-	-	-	-	109,107	109,107
State	-	29,939	-	-	-	23,208	-	53,147
Federal	-	1,093,996	-	-	94,746	-	-	1,188,742
Other	-	-	-	2,688	-	-	-	2,688
Total Revenues	<u>64,718</u>	<u>1,631,681</u>	<u>1,913</u>	<u>1,297,725</u>	<u>94,746</u>	<u>23,208</u>	<u>109,107</u>	<u>3,223,098</u>
EXPENDITURES								
Current								
Instruction								
Regular	4,482	-	-	-	-	-	-	4,482
Vocational	39,673	-	-	-	52,162	-	-	91,835
Total Instruction	<u>44,155</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>52,162</u>	<u>-</u>	<u>-</u>	<u>96,317</u>
Support Services								
Instructional Support Services	2,137	-	-	-	42,584	23,208	-	67,929
General Administration Services	-	-	-	-	-	-	74,219	74,219
Building and Operations	-	1,808,376	485,190	93,995	-	-	-	2,387,561
Central Services	-	-	-	-	-	-	34,888	34,888
Other support services	-	-	-	-	-	-	-	-
Total Support Services	<u>2,137</u>	<u>1,808,376</u>	<u>485,190</u>	<u>93,995</u>	<u>42,584</u>	<u>23,208</u>	<u>109,107</u>	<u>2,564,597</u>
Community Services	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,130,431</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,130,431</u>
Total Expenditures	<u>46,292</u>	<u>1,808,376</u>	<u>485,190</u>	<u>1,224,426</u>	<u>94,746</u>	<u>23,208</u>	<u>109,107</u>	<u>3,791,345</u>
Net Change in Fund Balances	18,426	(176,695)	(483,277)	73,299	-	-	-	(568,247)
Fund Balances, beginning of year	<u>123,499</u>	<u>782,180</u>	<u>899,743</u>	<u>508,370</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,313,792</u>
FUND BALANCES, end of year	<u>\$ 141,925</u>	<u>\$ 605,485</u>	<u>\$ 416,466</u>	<u>\$ 581,669</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,745,545</u>

See accompanying notes to the financial statements .

**SCHOOL DISTRICT OF SOUTH MILWAUKEE
SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
For the Year Ended June 30, 2016**

	<u>Balance 7/1/2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 6/30/2016</u>
ASSETS				
Cash and investments - High School	\$ 172,784	\$ 339,266	\$ 340,507	\$ 171,543
Cash and investments - Middle School	45,680	74,555	80,151	40,084
	<u>\$ 218,464</u>	<u>\$ 413,821</u>	<u>\$ 420,658</u>	<u>\$ 211,627</u>
LIABILITIES				
Due to student organizations - High School	\$ 172,784	\$ 339,266	\$ 340,507	\$ 171,543
Due to student organizations - Middle School	45,680	74,555	80,151	40,084
	<u>\$ 218,464</u>	<u>\$ 413,821</u>	<u>\$ 420,658</u>	<u>\$ 211,627</u>

See accompanying notes to the financial statements.

SINGLE AUDIT SECTION

**SCHOOL DISTRICT OF SOUTH MILWAUKEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2016**

<u>Awarding Agency/Pass-Through Agency/Award Description</u>	<u>Federal Catalog Number</u>	<u>Program or Award Amount</u>	<u>Pass-through Entity Identification Number</u>	<u>Accrued Receivable 7/1/2015</u>	<u>Expenditures Grantor</u>	<u>Revenues Grantor Reimbursements</u>	<u>Accrued Receivable 6/30/2016</u>
U.S. DEPARTMENT OF EDUCATION							
State of Wisconsin							
Wisconsin Department of Public Instruction							
IDEA Cluster							
IDEA Flow Through							
July 1, 2014 - June 30, 2015	84.027	692,753	A341-00000-405439	\$ 255,740	\$ -	\$ 255,740	\$ -
July 1, 2015 - June 30, 2016		690,237		-	625,701	450,824	174,877
High Cost Special Education							
July 1, 2015 - June 30, 2016	84.027	12,480	A341-00000-405439	-	12,480	12,480	-
IDEA Preschool Entitlement							
July 1, 2014 - June 30, 2015	84.173	26,271	A347-00000-405439	10,075	-	10,075	-
July 1, 2015 - June 30, 2016		27,364		-	21,134	14,423	6,711
Total IDEA Cluster				<u>265,815</u>	<u>659,315</u>	<u>743,542</u>	<u>181,588</u>
IASA Title I							
July 1, 2014 - June 30, 2015	84.010	632,024	A141-00000-405439	141,244	-	141,244	-
July 1, 2015 - June 30, 2016		661,339		-	616,269	252,111	364,158
Vocational Education - Carl Perkins							
July 1, 2014 - June 30, 2015	84.048	94,521	A400-00000-405439	94,521	-	94,521	-
July 1, 2015 - June 30, 2016		94,746		-	94,746	-	94,746
Title II A Class Size Reduction							
July 1, 2014 - June 30, 2015	84.367	91,530	A365-00000-405439	6,237	-	6,237	-
July 1, 2015 - June 30, 2016		84,496		-	91,631	45,215	46,416
ESEA Title III - A Acquisition Grants							
July 1, 2014 - June 30, 2015	84.365	24,035	A391-00000-405439	16,416	-	16,416	-
July 1, 2015 - June 30, 2016		17,159		-	14,070	7,228	6,842
Total U.S. Department of Education				<u>524,233</u>	<u>1,476,031</u>	<u>1,306,514</u>	<u>693,750</u>
U.S. DEPARTMENT OF HEALTH AND FAMILY SERVICES							
Medicaid Reimbursement							
July 1, 2014 - June 30, 2015	93.778	-	N/A	-	50,807	50,807	-
July 1, 2015 - June 30, 2016		-		-	89,249	79,442	9,807
Total U.S. Department of Health and Family Services				<u>-</u>	<u>140,056</u>	<u>130,249</u>	<u>9,807</u>
U.S. DEPARTMENT OF AGRICULTURE							
State of Wisconsin							
Wisconsin Department of Public Instruction							
National, School Food Program Cluster							
National Summer School Food Service							
July 1, 2015 - June 30, 2016	10.559	-	A586-00000-405439	-	31,467	31,467	-
Food Distribution (Commodities)							
July 1, 2015 - June 30, 2016	10.555	-	A001-00000-405439	-	90,657	90,657	-
National School Breakfast Program							
July 1, 2014 - June 30, 2015	10.553	-	A546-00000-405439	14,921	-	14,921	-
July 1, 2015 - June 30, 2016		-		-	305,952	294,283	11,669
National School Lunch Program							
July 1, 2014 - June 30, 2015	10.555	-	A547-00000-405439	27,839	-	27,839	-
July 1, 2015 - June 30, 2016		-		-	665,920	645,858	20,062
Total National School Food Program Cluster				<u>42,760</u>	<u>1,093,996</u>	<u>1,105,025</u>	<u>31,731</u>
Total U.S. Department of Agriculture				<u>42,760</u>	<u>1,093,996</u>	<u>1,105,025</u>	<u>31,731</u>
Totals				<u>\$ 566,993</u>	<u>\$ 2,710,083</u>	<u>\$ 2,541,788</u>	<u>\$ 735,288</u>

See accompanying Notes to Schedules of Expenditures of Federal and State Awards.

SCHOOL DISTRICT OF SOUTH MILWAUKEE
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Year Ended June 30, 2016

<u>Awarding Agency/Pass-Through Agency/Award Description</u>	<u>State ID Number</u>	<u>Pass-through Entity Identification Number</u>	<u>Accrued Receivable 7/1/2015</u>	<u>Revenue/ Expenditures</u>	<u>State Reimbursements</u>	<u>Accrued Receivable 6/30/2016</u>
WISCONSIN DEPARTMENT OF PUBLIC INSTRUCTION						
Entitlement Programs						
Major State Programs						
Per Pupil Adjustment Aid	255.945	405439-113	\$ -	\$ 459,150	\$ -	\$ 459,150
Integration Aid - Non-resident	255.204	405439-106	-	267,619	269,619	-
General Equalization	255.201	405439-116	365,133	22,195,128	22,189,707	370,554
Total Major Programs			<u>365,133</u>	<u>22,921,897</u>	<u>22,459,326</u>	<u>829,704</u>
WISCONSIN DEPARTMENT OF PUBLIC INSTRUCTION						
Nonmajor State Programs						
Youth Apprenticeship Grant	445.107	N/A	\$ 31,500	\$ 23,208	\$ 54,708	\$ -
Common School Library Fund	255.103	405439-104	-	121,591	121,591	-
Handicapped Pupils and School Age Parents	255.101	405439-100	-	1,122,485	1,122,485	-
Student Achievement Guarantee in Education	255.504	405439-160	-	273,631	273,631	-
High Cost Special Education	255.210	405439-119	-	18,349	18,349	-
Educator Effectiveness Grant	255.940	405439-154	-	19,680	19,680	-
High Poverty Aid	255.926	405439-121	-	203,001	203,001	-
Mentoring Grants	255.301	405439-141	-	13,150	13,150	-
Career and Technical Education Grant	255.950	405439-151	-	28,216	28,216	-
School Breakfast Program	255.344	405439-108	-	15,545	15,545	-
State Lunch Aid	255.102	405439-107	-	14,394	14,394	-
Bilingual/Bicultural Aid	255.107	405439-101	-	5,814	5,814	-
			<u>31,500</u>	<u>1,859,064</u>	<u>1,890,564</u>	<u>-</u>
WISCONSIN DEPARTMENT OF REVENUE						
Exempt Computer Aid		N/A	209,962	114,504	209,962	114,504
Total Nonmajor Programs			<u>241,462</u>	<u>1,973,568</u>	<u>2,100,526</u>	<u>114,504</u>
Totals			<u>\$ 606,595</u>	<u>\$ 24,895,465</u>	<u>\$ 24,559,852</u>	<u>\$ 944,208</u>

See accompanying Notes to Schedules of Expenditures of Federal and State Awards.

SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS
June 30, 2016

Note 1 - Basis of Presentation

The accompanying schedules of expenditures of federal and state awards (the "Schedules") include the federal and state award activity of the School District of South Milwaukee ("the District") under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and the Wisconsin State Single Audit guidelines. Because the Schedules present only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net changes, or cash flows of the District.'

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedules are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87 *Cost Principles for State, Local and Indian Tribal Governments* (codified in 2 CFR Part 225), or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the Wisconsin Single Audit Guidelines, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement.

The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance Section 200.414 *Indirect (F & A) Costs*.

Note 3 - Oversight Agencies

The District's federal oversight agency for audit is the U.S. Department of Education. The District's state cognizant agency is the Wisconsin Department of Public Instruction.

Note 4 - Eligible Costs for Special Education

Eligible costs for special education under project 011 were \$4,684,816 for the year ended June 30, 2016.

**INDEPENDENT AUDITOR'S 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**

Board of Education
School District of South Milwaukee
Milwaukee County, Wisconsin

We have audited, in accordance with the auditing standards generally accept 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 School District of South Milwaukee (the "District") as of and for the year ended June 30, 2016, and have issued our report thereon dated January 6, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency. Finding 2016-1.

Compliance and Other Matters

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

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 over 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. This report is intended for the information of the Board of Education, management, federal and state awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

FELD, SCHUMACHER & COMPANY, LLP

Feld, Schumacher & Company, LLP

West Allis, Wisconsin

January 6, 2017

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH THE UNIFORM GUIDANCE AND THE
STATE SINGLE AUDIT GUIDELINES**

Board of Education
School District of South Milwaukee
Milwaukee County, Wisconsin

Report on Compliance for Each Major Federal and State Program

We have audited the compliance of the School District of South Milwaukee (the "District") with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016. We have also audited the compliance of the District with the types of compliance requirements described in the State Single Audit Guidelines issued by the Wisconsin Department of Administration and the Wisconsin Public School District Audit Manual, issued by the Wisconsin Department of Public Instruction that are applicable to each of its major state programs for the year ended June 30, 2016. The District's major federal and state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 (CFR) 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 and the *Wisconsin Public School District Audit Manual*, issued by the Wisconsin Department of Public Instruction. Those standards, the 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 types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program have occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Basis for Qualified Opinion on Medicaid School Based Services Program

As described in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding 93.778 Medicaid School Based Services Program as described in **Finding 2016-02** for Eligibility.

Qualified Opinion of Medicaid School Based Services Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on Medicaid School Based Services Program for the year ended June 30, 2016.

Unmodified Opinion on Each of the Other Major Federal and State Programs

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs identified in the summary of auditor's results section of the accompanying schedules of findings and questioned costs for the year ended June 30, 2016

Other Matters

The District's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

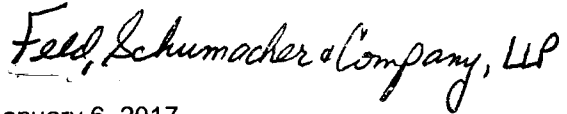
Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal or state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major 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 the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a 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.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of 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.

FELD, SCHUMACHER & COMPANY, LLP

Handwritten signature of Feld, Schumacher & Company, LLP in cursive script.

January 6, 2017
West Allis, Wisconsin

**SCHOOL DISTRICT OF SOUTH MILWAUKEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016**

Section I: Summary of Auditors' Results

Financial Statements

Type of auditor's report issued	Unmodified	
Internal control over financial reporting		
Material weakness(es) identified?	___ yes	_X_ no
Significant deficiencies identified not considered to be material weaknesses?	_X_ yes	___ no
Noncompliance material to financial statements noted?	___ yes	_X_ no

Federal Awards

Internal control over major programs		
Material weakness(es) identified?	___ yes	_X_ no
Significant deficiencies identified not considered to be material weaknesses?	_X_ yes	___ no
Type of auditor's report issued on compliance for major programs	Qualified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	_X_ yes	___ no

Identification of major programs

CFDA NUMBER(S)

93.778
10.559, 10.555, 10.553, 10.555

Name of Federal Program or Cluster

Medicaid Reimbursement
National School Food Program Cluster

Dollar threshold used to distinguish between Type A & Type B programs \$750,000

Auditee qualified as low-risk auditee? ___ yes _X_ no

**SCHOOL DISTRICT OF SOUTH MILWAUKEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016
(continued)**

State Awards

Internal control over major programs
 Material weakness(es) identified? yes no
 Significant deficiencies identified not considered to be material weaknesses? yes no

Type of auditor's report issued on compliance for Handicapped Pupils and School Aged Parents Unmodified

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

Any audit findings disclosed that are required in accordance with Circular A-133 Section .510(1)? yes no

Identification of major state programs

<u>State Identification Number</u>	<u>Name of State Program or Cluster</u>
255.201	General Equalization
255.201	Per Pupil Adjustment Aid
255.204	Integration Aid

Section II: Financial Statement Findings

Finding 2016-1

Criteria – *Government Auditing Standards* considers the inability to report financial data reliably in accordance with accounting principles generally accepted in the United States (GAAP) to be an internal control deficiency.

Condition – The District's internal control over financial reporting extends through completion of the general ledger, but not to preparation of financial statements and notes. As auditors, we were requested to draft the financial statements including adjustments required under GASB 34 and the accompanying notes to the financial statements. The auditors believe, in the auditors' judgment, the District does possess the necessary expertise to prepare the financial statements, but has chosen to hire the auditor's to perform this service.

Effect – As a result of not having an individual on staff to prepare GAAP basic financial statements, the District has an internal control deficiency.

Cause – Management and those charged with governance have accepted this condition because of cost.

Recommendation – We recommend that management and those charged with governance continue to oversee and accept responsibility of the financial statement preparation services.

Corrective Action Plan – The District does not have the resources and staff to prepare the financial statements and notes but will continue to oversee the auditor's services and review and approve the financial statements and notes, and accept responsibility for them.

**SCHOOL DISTRICT OF SOUTH MILWAUKEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016
(continued)**

Section III: Federal and State Awards Findings and Questioned Costs

Federal

Finding 2016-2: Medicaid School Based Services Program – Significant Deficiency: Compliance and Internal Control

Criteria – Following a Department of Public Instruction (DPI) Directive 7-02, all local education agencies (LEAs) that are Medicaid-certified SBS providers are required to have a signed and dated “Consent to Bill Wisconsin Medicaid for Medically Related Special Education and Related Services,” DPI form M-5, from the parent or guardian of a student with an IEP before claims for BadgerCare Plus services can be submitted.

Condition – The district was missing the DPI M-5 consent to bill Medicaid form for 1 out of 15 students.

Effect – If not corrected, the services would not be reimbursed by Medicaid.

Cause – Student left district before M-5 form was obtained. New procedures were implemented as part of the prior year audit after the student left. At times it has been more difficult to get parents of younger students to understand and sign the M-5 form (Consent to Bill Wisconsin Medicaid) when students are first determined eligible for services in the district, due to the parents’ apprehension of what the form means or if giving consent will reduce services that the student may receive in another setting.

Recommendation – We recommend that the District implement additional internal control procedures specifically designed for newly enrolled students.

Corrective Action Plan – The District reviewed their internal procedures to ensure that M-5 forms (Consent to Bill Wisconsin Medicaid) are included as part of every IEP Team meeting. They also added a verification step for personnel who complete and submit Medicaid claims to ensure that M-5 forms are on file for all Medicaid-eligible students for whom we bill. In addition, they introduced an additional step in their process to try to obtain Consent to Bill Wisconsin Medicaid forms from the parents of our early childhood students.

Special education teachers and related service providers will continue to try to obtain consent at the initial evaluation/IEP meetings and will add a follow-up step to contact those parents who do not give billing consent within 6 to 8 weeks of giving consent for placement. This will allow parents to gain a better understanding of how special education services are delivered and what the M-5 form grants regarding billing Wisconsin Medicaid.

State

There were no findings or questioned costs for state awards.

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? Yes No N/A

2. Does the audit report show audit issues (i.e., material non-compliance, non-material non-compliance, questioned costs, material weakness, significant deficiencies, management letter comment, excess revenue or excess reserve) related to grants/contracts with funding agencies that require audits to be in accordance with the *State Single Audit Guidelines*:

Department of Health Services	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No	<input type="checkbox"/> N/A
Department of Workforce Development	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No	<input type="checkbox"/> N/A
Department of Corrections	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No	<input type="checkbox"/> N/A

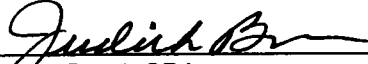
**SCHOOL DISTRICT OF SOUTH MILWAUKEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016
(continued)**

Section IV: Other issues (continued)

3. Was a Management letter or other document conveying audit comments issued as a result of this audit?

_____ Yes No _____ N/A

4. Name and signature of partner



Judith A. Bruni, CPA

Date of report

January 6, 2017

**SCHOOL DISTRICT OF SOUTH MILWAUKEE
CORRECTIVE ACTION PLAN
Year Ended June 30, 2016**

Federal

Finding 2016-2: Medicaid School Based Services Program – Missing M-5 Consent to Bill Form

Concur – The District reviewed their internal procedures to ensure that M-5 forms (Consent to Bill Wisconsin Medicaid) are included as part of every IEP Team meeting. They also added a verification step for personnel who complete and submit Medicaid claims to ensure that M-5 forms are on file for all Medicaid-eligible students for whom we bill. In addition, they introduced an additional step in their process to try to obtain Consent to Bill Wisconsin Medicaid forms from the parents of our early childhood students.

The corrective action has been implemented.

Contact Person: Blaise Paul, Director of Business Services (414)766-5020

Financial Statement

Finding 2016-1: Inability to Report Financial Data

Concur - The District does not have the resources and staff to prepare the financial statements and notes, but will continue to oversee the auditor's services and review and approve the financial statements and notes, and accept responsibility for them.

**SCHOOL DISTRICT OF SOUTH MILWAUKEE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2016**

Federal – Medicaid School Board Based Services Program

Finding No. 2015.-1 Material Weaknesses in Internal Control and Material Non-Compliance Finding – Services not identified in IEP

The District immediately put procedures in place and no exceptions were identified in 2015-2016.

Contact Person: Blaise Paul
414-766-5027

Federal – Medicaid School Based Services Program

Finding No. 2015.-2 Material Weaknesses in Internal Control and Material Non-Compliance Finding – Missing M-5 Consent to bill form

The District immediately put procedures in place and no exceptions were identified after that date. One exception, finding 2016-2 was identified prior to implementing the new procedures.

Contact Person: Blaise Paul
414-766-5027

Financial Statements

Finding No. 2015.-3 Inability to report financial data

Director of Business Services reviews and approves the financial statements and notes, and accepts responsibility for them.