

SCHOOL DISTRICT OF SOUTH MILWAUKEE
FINANCIAL STATEMENTS
JUNE 30, 2017

SCHOOL DISTRICT OF SOUTH MILWAUKEE

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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, 2017, 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, 2017, 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.

Emphasis of Matter

The District has implemented GASB Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pensions* and GASB #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* for the year ended June 30, 2017. Our opinions are not modified with respect to this matter.

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 December 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
December 6, 2017

**MANAGEMENT'S DISCUSSION
AND
ANALYSIS**

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2017

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 an increase of \$1,952,336.
- The General Fund (Fund 10) fund balance increased \$149,908 from \$9.1 million to \$9.3 million. The fund balance is 27% of Fund 10 expenditures including transfers.
- The Debt Service Fund (Fund 30) fund balance increased \$135,350.
- The decrease of \$3,039 in Other Governmental Funds was due to decreases in the Food Service Fund (\$18,003) and Capital Projects Fund (\$38,828) and increases in Community Service Fund (\$52,844) and the Gift Fund (\$948).
- Total revenues for Governmental Funds were \$45.3 million. This amount includes \$12.7 million of local property taxes, \$30.8 million of federal and state aid and \$1.8 million in contributions, charges for services and other miscellaneous revenue. Property taxes represent 28% of all revenue. Federal and state aid represents 68% of all revenue.
- Capital assets have been reported at \$90.7 million and accumulated depreciation of \$33.5 million for a net capital asset value of \$57.2 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, 2017.

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 2016-17 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>2017</u>	<u>2016</u>
<u>Assets and Deferred Outflows</u>		
Current Assets	\$ 13,551,668	\$ 13,455,214
Capital Assets	57,186,046	58,722,579
Other Assets and Deferred Outflows	<u>9,817,957</u>	<u>12,726,437</u>
Total Assets and Deferred Outflows	<u>\$ 80,555,671</u>	<u>\$ 84,904,230</u>
<u>Liabilities and Deferred Inflows</u>		
Current Liabilities	\$ 6,115,401	\$ 7,520,306
Non-Current Liabilities and Deferred Inflows	<u>46,559,823</u>	<u>50,202,394</u>
Total Liabilities and Deferred Inflows	<u>\$ 52,675,224</u>	<u>\$ 57,722,700</u>
<u>Net Position</u>		
Net Investment in Capital Assets	\$ 27,721,046	\$ 25,037,579
Restricted	3,027,164	2,935,532
Unrestricted	<u>(2,867,763)</u>	<u>(791,581)</u>
Total Net Position	<u>\$ 27,880,447</u>	<u>\$ 27,181,530</u>

As of June 30, 2017, the District reported total assets and deferred outflows of resources of \$80.6 million and total liabilities and deferred inflows of resources of \$52.7 million. Net Position amounts to \$27.9 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	
		2016-2017	%	2015-2016	%
Program	Charges for Services	\$ 1,512,474	3.2%	\$ 1,482,274	3.2%
	Operating Grants & Cont.	6,698,900	14.8%	6,247,197	13.8%
General	Property & Other Taxes	12,697,534	28.0%	13,609,657	30.0%
	General Aid	24,074,015	53.1%	22,547,403	49.8%
	Donations	63,759	0.1%	64,523	0.1%
	Other	<u>260,935</u>	<u>0.6%</u>	<u>324,813</u>	<u>0.7%</u>
	Total Revenue	<u>45,307,617</u>	<u>100.0%</u>	<u>44,275,867</u>	<u>100.0%</u>

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

<u>Expenses:</u>	<u>Actual 2016-2017</u>	<u>%</u>	<u>Actual 2015-2016</u>	<u>%</u>
Instruction	\$ 22,955,320	53.0%	\$ 22,934,381	52.9%
Business Administration	6,810,209	15.7%	7,267,217	16.8%
Pupil/Instr. Ser	4,287,235	9.9%	4,228,161	9.8%
Admin./Bldg. Admin	2,612,890	6.0%	2,916,929	6.7%
Other Support	5,146,347	11.9%	3,931,043	9.1%
Community Serv.	1,184,778	2.7%	1,130,431	2.6%
Debt Serv.	340,584	0.8%	1,761,933	4.1%
Loss on disposal of assets	17,918	0.0%	840,015	1.9%
Total Expense	<u>43,355,281</u>	<u>100.0%</u>	<u>45,010,110</u>	<u>103.8%</u>
Change in Net Position	1,952,336		(734,243)	
Net Position, beginning of year, as restated	<u>25,928,111</u>		<u>27,915,773</u>	
Net Position, end of year	<u>\$ 27,880,447</u>		<u>\$ 27,181,530</u>	

Revenues

- The District received \$45.3 million in revenue for the 2016-17 fiscal year. \$12.7 million (28%) of the District's total revenue came from local school property tax and prior year chargebacks. 68% of the total came from Grants and other federal and state aid. The District receives approximately 3.2% 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 \$30.8 million. Special Education Aid and General Equalization Aid are examples of these.

Expenses

- The District's total expenditure amount was \$43.4 million for fiscal year 2016-17. Pupil instruction and instructional services account for 62.9% 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 21.7% 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 0.8% and 2.7%, respectively of all District expenses.

Table 4 - Net Cost of Governmental Activities

	2017		2016	
	<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	\$ 22,955,320	\$ 17,592,800	\$ 22,934,381	\$ 18,024,891
Business Admin.	6,810,209	5,170,693	7,267,217	5,631,925
Pupil/Inst. Ser.	4,287,235	3,744,454	4,228,161	3,650,002
Admin./Bldg. Admin.	2,612,890	2,612,890	2,916,929	2,916,929
Other Support	5,146,347	5,091,282	3,931,043	3,919,470
Community Serv.	1,184,778	573,286	1,130,431	535,474
Debt Serv.	340,584	340,584	1,761,933	1,761,933
Loss on asset disposal	17,918	17,918	840,015	840,015
Total	\$ 43,355,281	\$ 35,143,907	\$ 45,010,110	\$ 37,280,639

- The total cost of all governmental activities was \$43.4 million. (Table 4)
- The net cost of governmental activities was \$35.1 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 2016-17 show a surplus of \$149,908.
- The budget to actual variance is minimal accounting for approximately .0043% of total expenses. One source of variance is coming in under budget on our utility expenses; which is primarily due to our strong energy efficiency measures that have been implemented.

Fund Balances

- The District shows a total for all fund balances of \$11.9 million as of June 30, 2017. (See Note 7 in the financial statements for the detail of total governmental fund balances).
- \$9.3 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.
- \$878,668 is in the Debt Service Fund (Fund 30), which is reserved for future debt payments.
- \$634,513 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 \$587,482, Gift Fund in the amount of \$142,873 and the Capital Projects fund of \$377,638.

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, 2017. The District reported \$665,111 in capital asset additions and \$2.2 million in depreciation expense in fiscal 2017.

Long Term Debt

- As of June 30, 2017 the District had \$30.1 million in long-term notes, general obligation bonds, and accrued compensated absences. (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 2017-19 Wisconsin biennial budget included a \$0 revenue limit per pupil adjustment for the 2017-18 and 2018-19 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 does include a categorical per pupil ongoing increase of \$200 for 2017-18, and \$180 for 2018-19. These increases are important to continue services, but challenge our ability to enhance services. The State of Wisconsin has also decided that the categorical per pupil aid is the preferred method of providing additional funding for public schools. Utilizing the categorical per pupil aid is disequalizing and does not acknowledge a Districts ability to pay. In terms of state funding, the result is an over funding of affluent Districts and an underfunding of impoverished Districts. 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. The 2017-19 Wisconsin biennial budget seems to be the first time in several years that our legislators are feeling the need to invest in public education, however they are clearly doing it on their terms.

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, 2017

ASSETS

Current Assets

Cash and investments	\$ 9,375,494
Restricted investments	417,689
Accounts receivable	2,003,304
Prepaid expenses	210,530
Due from other governments	1,511,229
Inventories	33,422
Total Current Assets	13,551,668

Noncurrent Assets

Capital assets, net of accumulated depreciation	57,186,046
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Deferred Outflows of Resources

Deferred outflows of resources from OPEB	2,752
Deferred outflows of resources from pensions	9,815,205
Total Deferred Outflows of Resources	9,817,957

Total Assets and Deferred Outflows of Resources	\$ 80,555,671
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LIABILITIES

Current Liabilities

Accounts payable and accrued expenses	\$ 1,729,326
Current portion of long-term obligations	4,261,529
Other current liabilities	124,546
Total Current Liabilities	6,115,401

Non-Current Liabilities

Non-current portion of long-term obligations	25,810,974
Net OPEB liability	14,570,966
Pension liability	1,201,481
Total Non-Current Liabilities	41,583,421

Deferred Inflows of Resources

Deferred inflows of resources from OPEB	2,320
Deferred inflows of resources from pensions	4,974,082
Total Deferred Inflows of Resources	4,976,402

Total Liabilities and Deferred Inflows of Resources	52,675,224
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NET POSITION

Net investment in capital assets	27,721,046
Restricted	3,027,164
Unrestricted	(2,867,763)
Total Net Position	27,880,447

Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 80,555,671
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See accompanying notes to the financial statements.

SCHOOL DISTRICT OF SOUTH MILWAUKEE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes In Net Assets
		Charges for Services	Operating Grants and Contributions	
Instruction				
Regular	\$ 15,526,046	\$ 303,602	\$ 2,742,652	\$ (12,479,792)
Special education	4,568,288	31,595	1,989,997	(2,546,696)
Vocational	1,377,982	89,552	-	(1,288,430)
Physical	821,742	-	113,512	(708,230)
Other	661,262	-	91,610	(569,652)
Total Instruction	22,955,320	424,749	4,937,771	(17,592,800)
Support Services				
Pupil services	1,680,660	-	157,268	(1,523,392)
Instructional support services	2,606,575	-	385,513	(2,221,062)
General administrative services	703,762	-	-	(703,762)
Building administrative services	1,909,128	-	-	(1,909,128)
Business administrative services	6,810,209	550,202	1,089,314	(5,170,693)
Central services	865,020	-	49,497	(815,523)
Insurance and judgments	339,945	-	-	(339,945)
Debt service	340,584	-	-	(340,584)
Other support services	2,233,853	-	5,568	(2,228,285)
Unallocated depreciation *	1,707,529	-	-	(1,707,529)
Total Support Services	19,197,265	550,202	1,687,160	(16,959,903)
Community Service	1,184,778	537,523	73,969	(573,286)
Total Activities	\$ 43,337,363	\$ 1,512,474	\$ 6,698,900	(35,125,989)
General Revenues				
Property taxes				12,697,534
State and Federal aids not restricted to specific functions				24,074,015
Donations				63,759
Other revenue				217,007
Loss on asset disposal				(17,918)
Investment income				43,928
Total General Revenues				37,078,325
Change in Net Position				1,952,336
Net Position, beginning of year, as restated				25,928,111
NET POSITION, end of year				\$ 27,880,447

* 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, 2017**

	<u>General Fund</u>	<u>Debt Service Funds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and investments	\$ 7,155,156	\$ 878,668	\$ 1,341,670	\$ 9,375,494
Restricted investments	-	-	417,689	417,689
Accounts receivable	1,994,194	-	9,110	2,003,304
Prepaid expenses	203,047	-	7,483	210,530
Due from other governments	1,350,670	-	160,560	1,511,230
Inventories	33,422	-	-	33,422
Total Assets	<u>\$ 10,736,489</u>	<u>\$ 878,668</u>	<u>\$ 1,936,512</u>	<u>\$ 13,551,669</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 193,646	\$ -	\$ 27,357	\$ 221,003
Accrued salaries and wages	269,169	-	46,049	315,218
Other accrued liabilities	992,350	-	-	992,350
Unearned revenue	3,951	-	120,600	124,551
Total Liabilities	<u>1,459,116</u>	<u>-</u>	<u>194,006</u>	<u>1,653,122</u>
Fund Balances				
Nonspendable	236,469	-	7,483	243,952
Restricted	413,473	878,668	1,735,023	3,027,164
Unassigned	8,627,431	-	-	8,627,431
Total Fund Balances	<u>9,277,373</u>	<u>878,668</u>	<u>1,742,506</u>	<u>11,898,547</u>
Total Liabilities and Fund Balances	<u>\$ 10,736,489</u>	<u>\$ 878,668</u>	<u>\$ 1,936,512</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.	67,004,003
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.	<u>(51,022,103)</u>
Net Position of Governmental Activities	<u>\$ 27,880,447</u>

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, 2017

	General Fund	Debt Service Funds	Other Governmental Funds	Total Governmental Funds
Revenues				
Local	\$ 7,507,742	\$ 4,878,009	\$ 1,916,361	\$ 14,302,112
Interdistrict	2,627,389	-	123,945	2,751,334
Intermediate	14,429	-	-	14,429
State	25,359,733	-	61,815	25,421,548
Federal	1,597,686	-	1,157,761	2,755,447
Other	61,708	-	1,040	62,748
Total Revenues	37,168,687	4,878,009	3,260,922	45,307,618
Expenditures				
Current				
Instruction				
Regular	14,929,011	-	5,437	14,934,448
Physical	787,968	-	-	787,968
Special education	4,382,075	-	-	4,382,075
Vocational	1,265,504	-	63,875	1,329,379
Other	635,934	-	800	636,734
Total Instruction	22,000,492	-	70,112	22,070,604
Support Services				
Pupil services	1,613,681	-	-	1,613,681
Instructional support services	2,453,752	-	70,884	2,524,636
General administrative services	642,160	-	86,145	728,305
Building administrative services	1,973,922	-	-	1,973,922
Building and operations	4,850,125	-	1,814,241	6,664,366
Central services	806,972	-	37,800	844,772
Insurance and judgments	339,945	-	-	339,945
Other support services	1,674	-	-	1,674
Debt service				
Principal	-	4,220,000	-	4,220,000
Interest and fees	-	669,366	-	669,366
Total Support Services	12,682,231	4,889,366	2,009,070	19,580,667
Community Services	-	-	1,184,779	1,184,779
Non-Program				
General tuition payments	2,072,451	-	-	2,072,451
Other non-program	119,598	-	-	119,598
Total Non-Program	2,192,049	-	-	2,192,049
Total Expenditures	36,874,772	4,889,366	3,263,961	45,028,099
Excess (deficiency) of revenues over expenditures	293,915	(11,357)	(3,039)	279,519
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	2,700	-	-	2,700
Operating transfers in	-	146,707	-	146,707
Operating transfers out	(146,707)	-	-	(146,707)
Net Change in Fund Balance	149,908	135,350	(3,039)	282,219
Fund Balances, beginning of year	9,127,465	743,318	1,745,545	11,616,328
FUND BALANCES, end of year	\$ 9,277,373	\$ 878,668	\$ 1,742,506	\$ 11,898,547

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, 2017

Net Change in Fund Balances - Total Governmental Funds \$ 282,219

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	665,111	
Proceeds from sale of capital assets	(2,700)	
Loss on asset disposal	(17,918)	
Depreciation expense reported in the statement of activities	<u>(2,181,026)</u>	(1,536,533)

Payments to early retirees under the District's OPEB plan 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. 301,811

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. 108,186

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 repayments exceeded repayments. 4,220,000

Net differences between pension system contributions recognized in the fund statement of revenues, expenditures, and changes in fund balances and the statement of activities which reports on the accrual basis. (1,642,486)

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. 219,139

Change in Net Position of Governmental Activities \$ 1,952,336

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, 2017

	Budgeted Amounts		Actual	Variance
	Original	Final		with Final Budget
Revenues				
Local	\$ 7,423,352	\$ 7,431,064	\$ 7,507,742	\$ 76,678
Interdistrict	2,500,000	2,500,000	2,537,837	37,837
State	24,024,737	24,035,301	24,086,690	51,389
Federal	648,395	788,366	788,731	365
Other	75,000	75,000	61,708	(13,292)
Total Revenues	34,671,484	34,829,731	34,982,708	152,977
Expenditures				
Current				
Instruction				
Regular	14,989,258	15,102,390	14,929,011	173,379
Physical	758,602	758,602	787,968	(29,366)
Vocational	1,254,456	1,262,127	1,264,072	(1,945)
Other	635,641	649,692	635,934	13,758
Total Instruction	17,637,957	17,772,811	17,616,985	155,826
Support Services				
Pupil services	1,024,996	1,028,396	968,694	59,702
Instructional support services	2,223,855	2,237,548	2,225,715	11,833
General administrative services	644,056	644,056	642,160	1,896
Building administrative services	2,000,963	2,000,963	1,973,922	27,041
Business administrative services	4,395,342	4,395,642	4,706,212	(310,570)
Central services	701,033	701,033	806,972	(105,939)
Insurance and judgments	346,500	346,500	339,945	6,555
Other support services	2,000	8,000	1,674	6,326
Debt service				
Interest and fees	10,000	10,000	-	10,000
Total Support Services	11,348,745	11,372,138	11,665,294	(293,156)
Non-Program				
General tuition payments	1,661,907	1,661,907	1,919,957	(258,050)
Other non-program	244,108	244,108	118,619	125,489
Total Non-Program	1,906,015	1,906,015	2,038,576	(132,561)
Total Expenditures	30,892,717	31,050,964	31,320,855	(269,891)
Excess of revenues over expenditures	3,778,767	3,778,767	3,661,853	(116,914)
Other Financing Uses				
Proceeds from sale of capital assets	-	-	2,700	2,700
Operating transfers out	(3,778,767)	(3,778,767)	(3,514,645)	264,122
Total Other Financing Sources (Uses)	(3,778,767)	(3,778,767)	(3,511,945)	266,822
Net Change in Fund Balances	-	-	149,908	149,908
Fund Balances, beginning of year	9,127,465	9,127,465	9,127,465	-
FUND BALANCES, end of year	\$ 9,127,465	\$ 9,127,465	\$ 9,277,373	\$ 149,908

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, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>with Final Budget</u>
Revenues				
Interdistrict	\$ 80,000	\$ 80,000	\$ 89,552	\$ 9,552
Intermediate	-	-	14,429	14,429
State	1,100,000	1,110,000	1,273,043	163,043
Federal	792,001	893,028	808,955	(84,073)
Total Revenues	<u>1,972,001</u>	<u>2,083,028</u>	<u>2,185,979</u>	<u>102,951</u>
Expenditures				
Current				
Instruction				
Special Education	4,436,158	4,434,335	4,382,075	52,260
Vocational	-	1,950	1,432	518
Total Instruction	<u>4,436,158</u>	<u>4,436,285</u>	<u>4,383,507</u>	<u>52,778</u>
Support Services				
Pupil services	640,521	646,121	644,987	1,134
Instructional support services	205,982	233,482	228,037	5,445
Business administrative services	181,000	181,300	143,913	37,387
Central services	-	9,000	-	9,000
Total Support Services	<u>1,027,503</u>	<u>1,069,903</u>	<u>1,016,937</u>	<u>52,966</u>
Non-Program				
General tuition payments	150,400	208,900	152,494	56,406
Other non-program	-	-	979	(979)
Total Non-Program	<u>150,400</u>	<u>208,900</u>	<u>153,473</u>	<u>55,427</u>
Total Expenditures	<u>5,614,061</u>	<u>5,715,088</u>	<u>5,553,917</u>	<u>161,171</u>
Deficiency of revenues over expenditures	(3,642,060)	(3,632,060)	(3,367,938)	264,122
Other Financing Sources				
Operating transfers in	<u>3,642,060</u>	<u>3,632,060</u>	<u>3,367,938</u>	<u>(264,122)</u>
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, 2017**

	Employee Benefit Trust Fund	Scholarship Trust Fund	Agency
ASSETS			
Cash	\$ 153,781	\$ -	\$ -
Investments	384,348	487,374	211,725
Total Assets	\$ 538,129	\$ 487,374	\$ 211,725
LIABILITIES			
Due to student organizations	\$ -	\$ -	\$ 211,725
NET POSITION			
Restricted for postemployment benefits other than pensions	538,129	-	-
Restricted for scholarships	-	487,374	-
Total Net Position	538,129	487,374	-
Total Liabilities and Net Position	\$ 538,129	\$ 487,374	\$ 211,725

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, 2017

	Employee Benefit Trust Fund	Scholarship Trust Fund
Additions		
Contributions		
Employer	\$ 1,122,506	\$ -
Plan members	213,264	-
Donations	-	18,881
Investment income:		
Net increase in fair market value of investments	11,144	
Interest	3,688	2,547
Net investment income	14,832	2,547
Total Additions	1,350,602	21,428
Deductions		
Other expenses	1,446	-
Postemployment benefits	1,157,511	-
Scholarships	-	14,825
Total Deductions	1,158,957	14,825
Change in Net Position	191,645	6,603
Net Position, beginning of year	346,484	480,771
NET POSITION, end of year	\$ 538,129	\$ 487,374

See accompanying notes to the financial statements.

SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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, 2017

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, 2017

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, 2017

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 - 2015 tax roll:

Lien date and levy date	December 2016
Tax bills mailed	December 2016
Payment in full, or	January 31, 2017
First installment due	January 31, 2017
Second installment due	April 30, 2017
Third installment due	July 31, 2017

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, 2017

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, 2017

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, 2017

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, 2017

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.

**SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

Note 1 - Summary of Significant Accounting Policies (continued)

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

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, 2017, the District's uninsured deposits were \$2,734,073. 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, 2017 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	\$ 384,349	\$ -	\$ 384,349
Wisconsin Investment Series Cooperative Investment Series	Amortized Cost	109,237	109,237	-
Local Government Investment Pool	Amortized Cost	<u>9,461,648</u>	<u>9,461,648</u>	<u>-</u>
 Total Investments		 <u>\$ 9,955,234</u>	 <u>\$ 9,570,885</u>	 <u>\$ 384,349</u>

SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 2 - Cash and Investments (continued)

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.

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, 2017 was as follows:

	<u>Balance 7/1/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2017</u>
Capital assets not being depreciated				
Sites	\$ 2,343,180	\$ -	\$ -	\$ 2,343,180
Total Capital Assets Not Being Depreciated	<u>2,343,180</u>	<u>-</u>	<u>-</u>	<u>2,343,180</u>
Capital assets being depreciated				
Buildings and improvements	80,312,701	127,676	-	80,440,377
Equipment	7,548,613	537,435	120,635	7,965,413
Total Capital Assets Being Depreciated	<u>87,861,314</u>	<u>665,111</u>	<u>120,635</u>	<u>88,405,790</u>
Total Capital Assets	90,204,494	665,111	120,635	90,748,970
Less Accumulated Depreciation	<u>31,481,915</u>	<u>2,181,026</u>	<u>100,017</u>	<u>33,562,924</u>
Net Capital Assets	<u>\$ 58,722,579</u>	<u>\$(1,515,915)</u>	<u>\$(20,618)</u>	<u>\$ 57,186,046</u>

SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 3 - Capital Assets (continued)

Depreciation expense was charged to functions as follows:

Instruction		
Regular		\$ 110,925
Support services		
General administration services		150,102
Building administration services		40,168
Business administration services		38,676
Unallocated/general		<u>1,841,155</u>
Total Depreciation Expense		<u><u>\$ 2,181,026</u></u>

Note 4 - Long-Term Obligations

A. Long-term liability activity for the year ended June 30, 2017 was as follows:

	<u>Balance</u> <u>7/1/2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2017</u>	<u>Due Within</u> <u>One Year</u>
Bonds and Notes Payable					
Notes payable	\$ 7,105,000	\$ -	\$ -	\$ 7,105,000	\$ -
Bonds payable	26,580,000	-	4,220,000	22,360,000	4,220,000
Plus refunding premium	674,160	-	108,186	565,974	-
Total Bond and Notes Payable	<u>34,359,160</u>	<u>-</u>	<u>4,328,186</u>	<u>30,030,974</u>	<u>4,220,000</u>
Other Liabilities					
Accrued compensated absences - vacation	40,073	196,248	194,792	41,529	41,539
Total Long-term Liabilities	<u>\$ 34,399,233</u>	<u>\$ 196,248</u>	<u>\$ 4,522,978</u>	<u>\$ 30,072,503</u>	<u>\$ 4,261,539</u>

Interest expense paid and incurred on long-term general obligation debt was \$669,366 and \$889,962 respectively, for the year ended June 30, 2017.

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.

<u>Type</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Interest Rate</u>	<u>Principal Payable</u>	<u>Interest Payable</u>	<u>Original Amount</u>	<u>Balance Outstanding</u> <u>6/30/2017</u>
Bonds	6/8/2004	10/1/2022	2.0 - 4.0%	4/1	4/1, 10/1	22,360,000	\$ 18,475,000
Bonds	9/5/2012	10/1/2026	0.50 - 3.2%	4/1	4/1, 10/1	4,595,000	3,885,000
Promissory Note	4/1/2014	10/1/2024	2.50%	4/1	4/1, 10/1	7,105,000	7,105,000
							<u><u>\$ 29,465,000</u></u>

SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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	\$ 4,295,000	\$ 714,183	\$ 5,009,183
2018	4,390,000	629,158	5,019,158
2019	3,795,000	541,358	4,336,358
2020	3,915,000	397,258	4,312,258
2021	4,005,000	318,158	4,323,158
2022-2026	9,065,000	421,655	9,486,655
Totals	<u>\$ 29,465,000</u>	<u>\$ 3,021,770</u>	<u>\$ 32,486,770</u>

D. The 2016 equalized valuation of the District as certified by the Wisconsin Department of Revenue is \$1,127,175,000. The legal debt limit and margin of indebtedness as of June 30, 2017 in accordance with Section 67.03(1)(b) of the Wisconsin Statutes follows:

Debt limit (10% of \$1,127,175,000)	\$112,717,500
Deduct: Long-term debt applicable to debt margin	<u>(29,465,000)</u>
Margin of indebtedness	<u>\$ 83,252,500</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, 2017

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
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
2016	0.5	(5.0)

Contributions. Required contributions are determined by an annual actuarial valuation in accordance with Chapter 40 of the Wisconsin Statutes. The employee required contribution is one-half of the actuarially determined contribution rate for general category employees, including teachers, and Executives and Elected Officials. Starting on January 1, 2016, the Executives and Elected Officials category was merged into the General Employee Category. Required contributions for protective employees are the same rate as 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 \$1,382,919 in contributions from the employer

**SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

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

Contribution rates as of June 30, 2017 are:

Employee Category	Employee	Employer
General (including teachers, executives, and elected officials)	6.6%	6.6%
Protective with Social Security	6.6%	9.4%
Protective without Social Security	6.6%	13.2%

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2017, the South Milwaukee School District reported a liability of \$1,201,481 for its proportionate share of the net pension asset. The net pension asset was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015 rolled forward to December 31, 2016. 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, 2016, the South Milwaukee School District's proportion was .146%, which was a decrease of .001% as its proportion measured as of December 31, 2015.

For the year ended June 30, 2017, the South Milwaukee School District recognized pension expense of \$3,025,405.

At June 30, 2017, 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	\$ 458,125	\$ 3,778,554
Changes in assumptions	1,256,195	-
Net differences between projected and actual earnings on pension plan investments	7,165,222	1,184,630
Changes in proportion and differences between employer contributions and proportionate share of contributions	43,914	10,898
Employer contributions subsequent to the measurement date	891,749	-
Total	\$9,815,205	\$4,974,082

SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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

\$891,749 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year ended June 30:	Deferred Outflow of Resources	Deferred Inflows of Resources
2017	\$3,107,934	\$1,507,082
2018	3,107,933	1,507,082
2019	2,601,641	1,504,279
2020	103,554	455,638
Thereafter	2,394	-

Actuarial assumptions. The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date:	December 31, 2015
Measurement Date of Net Pension Liability (Asset)	December 31, 2016
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 2015 using experience from 2012 – 2014. The total pension liability for December 31, 2016 is based upon a roll-forward of the liability calculated from the December 31, 2015 actuarial valuation.

SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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 %
Global Equities	50.0%	45.0%	8.3%	5.4%
Fixed Income	24.5	37.0	4.2	1.4
Inflation Sensitive Assets	15.5	20.0	4.3	1.5
Real Estate	8.0	7.0	6.5	3.6
Private Equity/Debt	8.0	7.0	9.4	6.5
Multi-Asset	4.0	4.0	6.6	3.7
Total Core Fund	110.0	120.0	7.4	4.5
Variable Fund Asset Class				
U. S Equities	70.0	70.0	7.6	4.7
International Equities	30.0	30.0	8.5	5.6
Total Core Fund	100.0	100.0	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, 2017

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)	15,806,255	1,201,481	(10,044,856)

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, 2017 includes the following:

Governmental Activities

Net Investment in Capital Assets	
Capital assets, net of accumulated depreciation	\$57,186,046
Less: related long-term debt outstanding	<u>(29,465,000)</u>
Net Investment in Capital Assets	27,721,046
Restricted	3,027,164
Unrestricted	<u>(2,867,763)</u>
Total Governmental Activities Net Position	<u>\$27,880,447</u>

SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 7 - Governmental Fund Balances

Governmental fund balances reported on the fund financial statements at June 30, 2017 include the following:

Nonspendable	
General Fund	
Inventory	\$ 33,422
Prepaid expenses	203,047
Community Service Fund	<u>7,483</u>
Total Nonspendable	<u>243,952</u>
Restricted	
Debt Service Fund	878,668
Community Service Fund - Community Service Programs	627,030
Capital Projects Fund	377,638
Food Service Fund - Special Milk Programs	587,482
Gift Fund – Donations	142,873
General Fund – Self-insurance	<u>413,473</u>
Total Restricted Fund Balance	<u>3,027,164</u>
Unassigned	
General Fund	<u>8,627,431</u>
Total Governmental Fund Balances	<u><u>\$11,898,547</u></u>

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

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

Capital assets, net of accumulated depreciation	\$ 57,186,046
Deferred outflows of resources from pensions	<u>9,815,205</u>
	<u><u>\$ 67,001,251</u></u>

Long-term liabilities and deferred inflows of resources 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 and deferred inflows, both current and long-term, are reported in the Statement of Net Position.

Bonds and notes payable	\$(29,465,000)
Bond insurance premium	(565,974)
Accrued compensated absences	(41,529)
Accrued interest	(200,749)
Deferred inflows of resources from pensions	(4,974,082)
Pension liability	(1,201,481)
OPEB liability	<u>(14,570,966)</u>
Combined Adjustment	<u><u>\$(51,019,781)</u></u>

SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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	\$ 3011,379
Pension liability	(1,642,486)
Compensated absences	(1,457)
Accrued interest	<u>220,596</u>
	<u><u>\$(1,121,968)</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	\$(2,181,026)
Proceeds from sale of capital assets	(2,700)
Loss on asset disposal	(17,918)
Capital expenditures	<u>665,111</u>
	<u><u>\$(1,536,533)</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	\$ 108,186
Principal payments on long-term debt	<u>4,220,000</u>
	<u><u>\$4,328,186</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, 2017**

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 implemented GASB #74, *Financial Reporting for Postemployment Benefit plans Other than Pensions* and GASB #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* during the year ended June 30, 2017.

Plan Description

Plan Description. The District operates a post-employment benefit trust, single-employer retiree benefit plan that provides postemployment medical insurance benefits to eligible employees and their spouses.

Plan Membership. There are 308 active and 110 retired members in the plan as of the June 30, 2017 actuarial valuation.

Benefit Provided. 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.

Investment Policy

Investment management of the Trust assets shall be in accordance with the following asset allocation guidelines:

<u>Asset Class</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Preferred</u>
Domestic Equity	20%	40%	30%
International Equity	5%	25%	15%
Inflation Sensitive	0%	15%	4%
Fixed Income - Investment Guide	25%	45%	35%
Fixed Income - Other	5%	25%	15%
Cash Equivalents	0%	20%	1%

**SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

Note 13 – Other Postemployment Benefits (continued)

Contributions. The District makes contributions to the Trust and requires retirees to contribute an amount for health insurance.

For the year ended June 30, 2017 the District contributed \$1,122,506 to the Trust and retiree plan members contributed \$213,264.

Funding Policy. The District has \$538,129 of invested plan assets accumulated for payment of future benefits (see Notes and also).

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. At June 30, 2017, the School District of South Milwaukee reported a liability of \$14,570,966 for its net OPEB liability (asset). The net OPEB liability (asset) was measured as of June 30, 2017. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date.

For the year ended June 30, 2017, the School District of South Milwaukee recognized OPEB expense of \$1,047,779. The OPEB expense is made up of certain changes in the Total OPEB Liability and amortization of Deferred Outflows (Inflows). At June 30, 2017, the School District of South Milwaukee reported the following outflows of resources and deferred inflows of resources related to OPEB:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$26,883	\$ -
Changes in assumptions	-	22,665
Total	\$26,883	\$22,665

Year ended June 30,	Deferred Outflows of Resources	Deferred Inflows of Resources
2017	\$2,752	\$2,320
2018	\$2,752	\$2,320
2019	\$2,752	\$2,320
2020	\$2,752	\$2,320
2021	\$2,752	\$2,320
Thereafter	\$13,125	\$11,065

Deferred inflow resulted from decrease in discount rate from 4.0% to 3.96%. Deferred outflow resulted from difference between expected and actual experience.

Recognition period of deferred outflows of resources and deferred inflows of resources is 9.77 years

Changes in the liability resulting from differences between expected and actual experience due to economic or demographic factors or changes of assumptions about future economic or demographic factors or other inputs are recognized over a closed period equal to the average of the expected remaining service lives of all employees provided with benefits through OPEB plan.

Changes in the liability resulting from benefit plan changes are recognized immediately.

SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 13 – Other Postemployment Benefits (continued)

Actuarial Assumptions. The total OPEB liability was determined by an actuarial valuation as of June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Valuation Date:	July 1, 2016
Measurement Date of Net Pension Liability (Asset)	June 30, 2017
Actuarial Cost Method:	Entry Age
Asset Valuation Method:	Fair Market Value
Annual Healthcare cost trend rate:	
Initial rate	8.00%
Ultimate rate	8.00%
Grading period	8 years
Discount Rate:	3.96%
Salary increases:	3.00%
Demographics:	
Spousal age difference	Same age
Percent electing healthcare coverage:	75%
Mortality:	WI Retirement System 2009-2011 Experience Rates

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.

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.

Sensitivity of the net OPEB liability (asset) to changes in the discount rate. The following presents the District's net OPEB liability (asset) calculated using the discount rate of 3.96 percent, as well as what the net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (2.96 percent) or 1-percentage-point higher (4.96 percent) than the current rate:

	1% Decrease to Discount Rate (2.96%)	Current Discount Rate (3.96%)	1% Increase To Discount Rate (4.96%)
Net OPEB liability (asset)	15,144,825	14,570,966	14,011,966

Sensitivity of the net OPEB liability (asset) to changes in the healthcare cost trend rates. The following presents the District's net OPEB liability (asset) calculated using the healthcare cost trend rate of 8.00 percent, as well as what the net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00 percent) or 1-percentage-point higher (9.00 percent) than the current rate.

	1% Decrease (7% decreasing to 4%) Healthcare Cost Trend Rate	Current (8% decreasing to 5%) Healthcare Cost Trend Rate	1% Increase (9% decreasing to 6%) Healthcare Cost Trend Rate
Net OPEB liability (asset)	14,466,029	14,570,966	14,679,843

**SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

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>
2018	\$ 58,012
2019	<u>29,006</u>
	<u>\$ 87,018</u>

Total lease expense for the year ended June 30, 2017 was \$58,012.

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 December 6, 2017.

Note 16 - Interfund Activity

The District made the following transfers to the debt service fund for the year ended June 30, 2017.

<u>Transfer To</u>	<u>Transfer from General Fund</u>
Debt service	\$146,707

The District reported no receivable or payables due from or to other funds at June 30, 2017.

Note 17 - Excess Expenditures Over Appropriations

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

<u>General Fund</u>	
Physical Instruction	\$29,366
Vocational Instruction	\$1,945
Business Administrative Services	\$310,570
Central Services	\$105,939
General Tuition	\$258,050
Other Non-program	\$118,619
 <u>Special Education Fund</u>	
Other Non-program	\$979

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.

SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 18 - Self-funded Insurance Program (continued)

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, 2017, the District has reported a liability of \$928,891 and restricted fund balance, which represents estimated unreported claims which were incurred on or before June 30, 2017.

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>
2017	\$998,047	\$5,573,531	\$5,642,687	\$928,891
2016	\$1,443,027	\$5,830,246	\$6,123,336	\$998,047

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. 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.

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.

SCHOOL DISTRICT OF SOUTH MILWAUKEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 19 - Recently Issued Accounting Standards (continued)

The GASB issued Statement No. 83 *Certain Asset Retirement Obligations* in November 2016. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for Asset Retirement Obligations. The requirements of the related Statement are effective for financial Statement periods beginning after June 15, 2018.

The GASB issued Statement No. 84 *Fiduciary Activities* in January 2017. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The requirements of the related Statement are effective for financial Statement periods beginning after December 15, 2018.

The GASB issued Statement No. 85 *Omnibus 2017* in March 2017. This statement is to address practice issues that have been identified during implementation of other GASB Statements. The requirements of the related Statement are effective for financial Statement periods beginning after June 15, 2017.

The GASB issued Statement No. 86 *Certain Debt Extinguishment Issues* in May 2017. This statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. The requirements of the related Statement are effective for financial Statement periods beginning after June 15, 2017.

The GASB issued Statement No. 87 *Leases* in June 2017. This statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The requirements of the related Statement are effective for financial Statement periods beginning after December 15, 2019.

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

Note 20 – Change in Accounting Principle

The district implemented GASB #74, Financial Reporting for Postemployment Benefits Other Than Pensions and GASB #75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions during the year ended June 30, 2017. As a result, beginning of year net position has been restated as follows:

Net position as previously reported on July 1, 2016	\$27,181,530
Beginning net OPEB liability adjustment	<u>(1,253,419)</u>
Net position as restated	<u><u>\$25,928,111</u></u>

REQUIRED SUPPLEMENTAL INFORMATION

**SCHOOL DISTRICT OF SOUTH MILWAUKEE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN OPEB LIABILITY (ASSET)
OTHER POSTEMPLOYMENT BENEFITS PLAN
Last 10 Fiscal Years (which may be built prospectively)**

	Total OPEB Liability (a)	Plan Fiduciary Position (b)	Net OPEB Liability (a) - (b)
Balances at 6/30/2016	<u>\$ 15,218,828</u>	<u>\$ 346,484</u>	<u>\$ 14,872,344</u>
Changes for the Year			
Service Cost	454,261	-	454,261
Interest	597,736	-	597,736
Changes of benefit terms	-	-	-
Differences between expected and actual experience	(26,883)	-	(26,883)
Changes of assumptions or other inputs	22,665	-	22,665
Contributions - employer	-	1,335,771	(1,335,771)
Net investment income	-	13,387	(13,387)
Benefit payments	<u>(1,157,512)</u>	<u>(1,157,512)</u>	<u>-</u>
Net Changes	<u>(109,733)</u>	<u>191,645</u>	<u>(301,378)</u>
Balances at 6/30/2017	<u><u>\$ 15,109,095</u></u>	<u><u>\$ 538,129</u></u>	<u><u>\$ 14,570,966</u></u>

**SCHOOL DISTRICT OF SOUTH MILWAUKEE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TOTAL OPEB LIABILITY (ASSET) AS PERCENTAGE OF
COVERED-EMPLOYEE PAYROLL
OTHER POSTEMPLOYMENT BENEFITS PLAN
Last 10 Fiscal Years (which may be built prospectively)**

	2017
Total OPEB liability (asset)	\$14,570,966
Covered-employee payroll	\$19,163,699
Total OPEB liability (asset) as a percentage of the covered-employee payroll	76%

(See Notes 13 and 23 and Notes to Required Supplementary Information)

**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	2016	2017
South Milwaukee School District's proportion of the net pension liability (asset)	14.84%	14.71%	14.5%
South Milwaukee School District's proportionate share of the net pension liability (asset)	\$3,644,976	\$2,390,242	\$1,201,481
South Milwaukee School District's covered-employee payroll	\$20,601,595	\$20,589,535	\$20,809,042
Plan fiduciary net position as a percentage of the total pension liability (asset)	102.74%	98.2%	99.12%

*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)**

	2015	2016	2017
Contractually required contributions	\$1,442,992	\$1,401,235	\$1,382,919
Contributions in relation to the contractually required contributions	\$(1,442,992)	\$(1,401,235)	\$(1,382,919)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
South Milwaukee School District's covered-employee payroll	\$20,601,595	\$20,589,535	\$20,809,042
Contributions as a percentage of covered-employee payroll	7%	6.81%	6.65%

*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, 2017

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.

Note 3 – Other Postemployment Benefit Plan

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, 2017

	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	\$ 142,873	\$ 594,677	\$ (40,051)	\$ 744,550	\$ (6,554)	\$ (31,500)	\$ (62,325)	\$ 1,341,670
Restricted investments			417,689					417,689
Accounts receivable	-	5,175	-	3,935	-	-	-	9,110
Prepaid expenses	-	-	-	7,483	-	-	-	7,483
Due from other governments	-	24,760	-	-	6,554	31,500	97,746	160,560
Total Assets	<u>\$ 142,873</u>	<u>\$ 624,612</u>	<u>\$ 377,638</u>	<u>\$ 755,968</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,421</u>	<u>\$ 1,936,512</u>
LIABILITIES AND FUND BALANCES								
Liabilities								
Accounts payable	\$ -	\$ 519	\$ -	\$ 15,227	\$ -	\$ -	\$ 11,611	\$ 27,357
Accrued salaries and wages	-	9,285	-	36,764	-	-	-	46,049
Unearned revenue	-	27,326	-	69,464	-	-	23,810	120,600
Total Liabilities	<u>-</u>	<u>37,130</u>	<u>-</u>	<u>121,455</u>	<u>-</u>	<u>-</u>	<u>35,421</u>	<u>194,006</u>
Fund Balances								
Nonspendable	-	-		7,483	-	-	-	7,483
Restricted	142,873	587,482	377,638	627,030	-	-	-	1,735,023
Total Fund Balances	<u>142,873</u>	<u>587,482</u>	<u>377,638</u>	<u>634,513</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,742,506</u>
Total Liabilities and Fund Balances	<u>\$ 142,873</u>	<u>\$ 624,612</u>	<u>\$ 377,638</u>	<u>\$ 755,968</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,421</u>	<u>\$ 1,936,512</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, 2017

	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	\$ 39,144	\$ 548,224	2,231	\$ 1,326,762	\$ -	\$ -	\$ -	\$ 1,916,361
Interdistrict	-	-	-	-	-	-	123,945	123,945
State	-	30,315	-	-	-	31,500	-	61,815
Federal	-	1,056,461	-	-	101,300	-	-	1,157,761
Other	-	-	-	1,040	-	-	-	1,040
Total Revenues	39,144	1,635,000	2,231	1,327,802	101,300	31,500	123,945	3,260,922
EXPENDITURES								
Current								
Instruction								
Regular	5,437	-	-	-	-	-	-	5,437
Vocational	1,959	-	-	-	58,916	3,000	-	63,875
Other	800	-	-	-	-	-	-	800
Total Instruction	8,196	-	-	-	58,916	3,000	-	70,112
Support Services								
Instructional Support Services	-	-	-	-	42,384	28,500	-	70,884
General Administration Services	-	-	-	-	-	-	86,145	86,145
Building and Operations	30,000	1,653,003	41,059	90,179	-	-	-	1,814,241
Central Services	-	-	-	-	-	-	37,800	37,800
Total Support Services	30,000	1,653,003	41,059	90,179	42,384	28,500	123,945	2,009,070
Community Services	-	-	-	1,184,779	-	-	-	1,184,779
Total Expenditures	38,196	1,653,003	41,059	1,274,958	101,300	31,500	123,945	3,263,961
Net Change in Fund Balances	948	(18,003)	(38,828)	52,844	-	-	-	(3,039)
Fund Balances, beginning of year	141,925	605,485	416,466	581,669	-	-	-	1,745,545
FUND BALANCES, end of year	\$ 142,873	\$ 587,482	\$ 377,638	\$ 634,513	\$ -	\$ -	\$ -	\$ 1,742,506

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, 2017**

	Balance 7/1/2016	Additions	Deductions	Balance 6/30/2017
ASSETS				
Cash and investments - High School	\$ 171,543	\$ 393,394	\$ 389,000	\$ 175,937
Cash and investments - Middle School	40,084	75,847	80,143	35,788
	\$ 211,627	\$ 469,241	\$ 469,143	\$ 211,725
LIABILITIES				
Due to student organizations - High School	\$ 171,543	\$ 393,394	\$ 389,000	\$ 175,937
Due to student organizations - Middle School	40,084	75,847	80,143	35,788
	\$ 211,627	\$ 469,241	\$ 469,143	\$ 211,725

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, 2017

<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 7/1/2016</u>	<u>Expenditures Grantor</u>	<u>Revenues Grantor Reimbursements</u>	<u>Accrued Receivable 6/30/2017</u>
U.S. DEPARTMENT OF EDUCATION							
State of Wisconsin							
Wisconsin Department of Public Instruction							
<u>IDEA Cluster</u>							
<u>IDEA Flow Through</u>							
July 1, 2015 - June 30, 2016	84.027	692,753	A341-00000-405439	\$ 174,877	\$ -	\$ 174,877	\$ -
July 1, 2016 - June 30, 2017		690,237		-	644,574	243,307	401,267
<u>High Cost Special Education</u>							
July 1, 2016 - June 30, 2017	84.027	12,480	A341-00000-405439	-	13,197	13,197	-
<u>IDEA Preschool Entitlement</u>							
July 1, 2015 - June 30, 2016	84.173	26,271	A347-00000-405439	6,711	-	6,711	-
July 1, 2016 - June 30, 2017		27,364		-	45,118	12,381	32,737
Total IDEA Cluster				181,588	702,889	450,473	434,004
<u>IASA Title I</u>							
July 1, 2015 - June 30, 2016	84.010	632,024	A141-00000-405439	364,158	-	364,158	-
July 1, 2016 - June 30, 2017		661,339		-	630,169	312,378	317,791
<u>Vocational Education - Carl Perkins</u>							
July 1, 2015 - June 30, 2016	84.048	94,521	A400-00000-405439	94,746	-	94,746	-
July 1, 2016 - June 30, 2017		94,746		-	101,300	-	101,300
<u>Title II A Class Size Reduction</u>							
July 1, 2015 - June 30, 2016	84.367	91,530	A365-00000-405439	46,416	-	46,416	-
July 1, 2016 - June 30, 2017		84,496		-	90,470	46,948	43,522
<u>ESEA Title III - A Acquisition Grants</u>							
July 1, 2015 - June 30, 2016	84.365	24,035	A391-00000-405439	6,842	-	6,842	-
July 1, 2016 - June 30, 2017		17,159		-	8,061	5,769	2,292
Total U.S. Department of Education				693,750	1,532,889	1,327,730	898,909
U.S. DEPARTMENT OF HEALTH AND FAMILY SERVICES							
Medicaid Reimbursement							
July 1, 2015 - June 30, 2016	93.778	-	N/A	9,807	60,032	69,840	-
July 1, 2016 - June 30, 2017		-		-	106,067	106,067	-
Total U.S. Department of Health and Family Services				9,807	166,099	175,907	-
U.S. DEPARTMENT OF AGRICULTURE							
State of Wisconsin							
Wisconsin Department of Public Instruction							
<u>National School Food Program Cluster</u>							
<u>National Summer School Food Service</u>							
July 1, 2016 - June 30, 2017	10.559	-	A586-00000-405439	-	31,413	31,413	-
<u>Food Distribution (Commodities)</u>							
July 1, 2016 - June 30, 2017	10.555	-	A001-00000-405439	-	111,538	111,538	-
<u>National School Breakfast Program</u>							
July 1, 2015 - June 30, 2016	10.553	-	A546-00000-405439	11,669	-	11,669	-
July 1, 2016 - June 30, 2017		-		-	279,976	271,194	8,782
<u>National School Lunch Program</u>							
July 1, 2015 - June 30, 2016	10.555	-	A547-00000-405439	20,063	-	20,063	-
July 1, 2016 - June 30, 2017		-		-	633,535	617,557	15,978
Total National School Food Program Cluster				31,732	1,056,462	1,063,434	24,760
Total U.S. Department of Agriculture				31,732	1,056,462	1,063,434	24,760
Totals				\$ 735,289	\$ 2,755,450	\$ 2,567,071	\$ 923,669

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, 2017**

<u>Awarding Agency/Pass-Through Agency/Award Description</u>	<u>State ID Number</u>	<u>Pass-through Entity Identification Number</u>	<u>Accrued Receivable 7/1/2016</u>	<u>Revenue/ Expenditures</u>	<u>State Reimbursements</u>	<u>Accrued Receivable 6/30/2017</u>
WISCONSIN DEPARTMENT OF PUBLIC INSTRUCTION						
Entitlement Programs						
Major State Programs						
Per Pupil Adjustment Aid	255.945	405439-113	\$ 459,150	\$ 764,500	\$ 1,223,650	\$ -
Integration Aid - Non-resident	255.204	405439-106	-	222,363	222,363	-
High Poverty Aid	255.926	405439-121	-	203,001	203,001	-
General Equalization	255.201	405439-116	370,554	23,117,877	23,105,850	382,581
Total Major Programs			<u>829,704</u>	<u>24,307,741</u>	<u>24,754,864</u>	<u>382,581</u>
WISCONSIN DEPARTMENT OF PUBLIC INSTRUCTION						
Nonmajor State Programs						
Youth Apprenticeship Grant	445.107	N/A	\$ -	\$ 31,500	\$ 31,500	\$ -
Common School Library Fund	255.103	405439-104	-	104,528	104,528	-
Handicapped Pupils and School Age Parents	255.101	405439-100	-	1,227,119	1,227,119	-
Student Achievement Guarantee in Education	255.504	405439-160	-	261,845	261,845	-
High Cost Special Education	255.210	405439-119	-	45,924	45,924	-
Educator Effectiveness Grant	255.940	405439-154	-	19,920	19,920	-
Mentoring Grants	255.301	405439-141	-	5,177	5,177	-
Career and Technical Education Grant	255.950	405439-151	-	31,397	31,397	-
School Breakfast Program	255.344	405439-108	-	15,307	15,307	-
State Lunch Aid	255.102	405439-107	-	15,008	15,008	-
			-	1,757,725	1,757,725	-
WISCONSIN DEPARTMENT OF REVENUE						
Exempt Computer Aid		N/A	114,504	67,522	114,504	67,522
Total Nonmajor Programs			<u>114,504</u>	<u>1,825,247</u>	<u>1,872,229</u>	<u>67,522</u>
Totals			<u>\$ 944,208</u>	<u>\$ 26,132,988</u>	<u>\$ 26,627,093</u>	<u>\$ 450,103</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, 2017

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, 2017. 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 \$4,689,576 for the year ended June 30, 2017.

**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, 2017, and have issued our report thereon dated December 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 2017-1.**

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

A handwritten signature in cursive script that reads "Feld, Schumacher & Company, LLP".

West Allis, Wisconsin
December 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, 2017. 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, 2017. 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.

Opinion on Each 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 schedule of findings and questioned costs for the year ended June 30, 2017.

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.

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

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

Feld, Schumacher & Company, LLP

December 6, 2017
West Allis, Wisconsin

**SCHOOL DISTRICT OF SOUTH MILWAUKEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017**

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	<u> X </u> no
Significant deficiencies identified not considered to be material weaknesses?	<u> X </u> yes	___ no
Noncompliance material to financial statements noted?	___ yes	<u> X </u> no

Federal Awards

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

Identification of major programs

CFDA NUMBER(S)

84.027
84.027
84.173
84.010

Name of Federal Program or Cluster

IDEA Cluster:
 IDEA Flow Through
 High Cost Special Education
 IDEA Preschool
Title 1

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, 2017
(continued)**

State Awards

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

Identification of major state programs

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

Section II: Financial Statement Findings

Finding 2017-1

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, 2017
(continued)**

Section III: Federal and State Awards Findings and Questioned Costs

Federal

There were no findings or questioned costs for federal awards.

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 X 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	<u> </u> Yes	<u> X </u> No	<u> </u> N/A
Department of Workforce Development	<u> </u> Yes	<u> X </u> No	<u> </u> N/A
Department of Corrections	<u> </u> Yes	<u> X </u> No	<u> </u> N/A

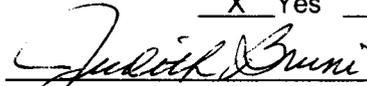
**SCHOOL DISTRICT OF SOUTH MILWAUKEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017
(continued)**

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

December 6, 2017

**SCHOOL DISTRICT OF SOUTH MILWAUKEE
CORRECTIVE ACTION PLAN
Year Ended June 30, 2017**

Financial Statement

Finding 2017-1: 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.

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
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2017**

Federal – Medicaid School Based Services Program

**Finding No. 2016.-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.

Finding is corrected.

Contact Person: Blaise Paul
414-766-5027

Financial Statements

Finding No. 2016.1 Inability to report financial data

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

Contact Person: Blaise Paul
414-766-5027