

Mequon-Thiensville School District
Mequon, Wisconsin

ANNUAL FINANCIAL REPORT

June 30, 2018

Mequon-Thiensville School District

Mequon, Wisconsin

JUNE 30, 2018

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Mequon-Thiensville School District

Mequon, Wisconsin

JUNE 30, 2018

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Independent auditors' report

To the Board of Education
Mequon-Thiensville School District
Mequon, Wisconsin

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the Mequon-Thiensville School District, Mequon, Wisconsin (the "District") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, Mequon-Thiensville Education Foundation, Inc. (the "Foundation"). Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amount included for the Foundation, is based solely on the report of the other auditors. 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. The financial statements of the Mequon-Thiensville Foundation, Inc., a discretely presented component unit of the District, were not audited in accordance with *Government Auditing Standards*. 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 amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the District'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 District'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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the District as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and the schedules relating to pensions and other postemployment benefits on pages 37 through 42 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the 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. Our opinions on the basic financial statements are not affected by this missing information.

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 supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards and schedule of expenditures of state awards are presented for purposes of additional analysis, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the *State Single Audit Guidelines* issued by the Wisconsin Department of Administration, and are also not a required part of the basic financial statements.

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

REPORT ON SUMMARIZED FINANCIAL INFORMATION

We have previously audited the District's 2017 financial statements, and our report dated November 20, 2017, expressed unmodified opinions on those respective financial statements of the governmental activities, the discretely presented component unit, each major fund and the aggregate remaining fund information. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Schenck SC". The "S" is large and stylized, and "chenck" is written in a cursive script. "SC" is written in a bold, sans-serif font.

Certified Public Accountants

Sheboygan, Wisconsin
November 27, 2018

BASIC FINANCIAL STATEMENTS

Mequon-Thiensville School District

Mequon, Wisconsin

STATEMENT OF NET POSITION

JUNE 30, 2018

WITH COMPARATIVE AMOUNTS AS OF JUNE 30, 2017

	Governmental Activities		Component Unit
	2018	2017	Mequon-Thiensville Education Foundation, Inc.
ASSETS			
Cash and investments	\$ 6,727,740	\$ 6,763,712	\$ 370,481
Receivables			
Taxes	8,226,860	8,652,776	-
Accounts	25,122	55,839	-
Pledges	-	-	378
Other	1,489	-	-
Due from other governments	366,557	449,749	-
Inventories and prepaid items	-	-	5,000
Net pension asset	4,625,943	-	-
Beneficial interest in net assets - Greater Milwaukee Foundation	-	-	726,937
Capital assets			
Nondepreciable	191,968	202,275	-
Depreciable	46,724,863	46,378,744	300
Total assets	66,890,542	62,503,095	1,103,096
DEFERRED OUTFLOWS OF RESOURCES			
Loss on advance refunding	41,060	102,652	-
Pension related amounts	7,901,874	9,372,871	-
Other postemployment related amounts	1,199,527	1,152,914	-
Total deferred outflows of resources	9,142,461	10,628,437	-
LIABILITIES			
Short-term notes payable	2,500,000	2,500,000	-
Accounts payable	199,396	198,755	174,428
Accrued and other current liabilities	938,064	941,962	-
Accrued interest payable	181,250	191,789	-
Unearned revenues	68,859	65,565	9,935
Long-term obligations			
Due in one year	1,837,227	2,540,673	-
Due in more than one year	18,904,367	20,664,294	-
Other postemployment benefits liability	10,564,937	10,874,324	-
Net pension liability	652,039	1,996,713	-
Total liabilities	35,846,139	39,974,075	184,363
DEFERRED INFLOWS OF RESOURCES			
Pension related amounts	9,146,510	4,017,997	-
Other postemployment related amounts	368,076	-	-
Total deferred inflows of resources	9,514,586	4,017,997	-
NET POSITION			
Net investment in capital assets	26,332,075	23,515,826	300
Restricted	1,185,153	1,040,269	312,632
Unrestricted	3,155,050	4,583,365	605,801
Total net position	\$ 30,672,278	\$ 29,139,460	\$ 918,733

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

Mequon-Thiensville School District

Mequon, Wisconsin

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2018

WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
GOVERNMENTAL ACTIVITIES			
Instruction	\$ 26,634,116	\$ 1,301,215	\$ 4,579,014
Support services	18,768,806	1,478,401	1,793,223
Community services	710,533	544,550	2,500
Non-program	999,811	-	-
Interest and fiscal charges	650,617	-	-
Depreciation - unallocated	1,777,123	-	-
Total governmental activities	\$ 49,541,006	\$ 3,324,166	\$ 6,374,737
Component unit			
Mequon-Thiensville Education Foundation, Inc.	\$ 354,008	\$ -	\$ 434,420
General revenues			
Property taxes			
State and federal aids not restricted to specific functions			
Interest and investment earnings			
Miscellaneous			
Total general revenues			
Change in net position			
Net position - July 1			
Net position - June 30			

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

Net (Expense) Revenue and Changes in Net Position		Component Unit
Governmental Activities		Mequon-Thiensville Education Foundation, Inc.
2018	2017	
\$ (20,753,887)	\$ (21,514,085)	\$ -
(15,497,182)	(18,095,457)	-
(163,483)	(340,564)	-
(999,811)	(1,062,409)	-
(650,617)	(692,135)	-
(1,777,123)	(1,649,400)	-
(39,842,103)	(43,354,050)	-
-	-	80,412
38,874,953	38,228,889	-
2,284,141	2,475,776	-
138,215	70,493	345
77,612	90,124	-
41,374,921	40,865,282	345
1,532,818	(2,488,768)	80,757
29,139,460	31,628,228	837,976
<u>\$ 30,672,278</u>	<u>\$ 29,139,460</u>	<u>\$ 918,733</u>

Mequon-Thiensville School District

Mequon, Wisconsin

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2018

WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2017

	General	Other Governmental Funds	Totals	
			2018	2017
ASSETS				
Cash and investments	\$ 5,166,327	\$ 1,561,413	\$ 6,727,740	\$ 6,763,712
Receivables				
Taxes	8,226,860	-	8,226,860	8,652,776
Accounts	11,587	13,535	25,122	55,839
Other	-	1,489	1,489	-
Due from other funds	-	100,000	100,000	100,000
Due from other governments	366,557	-	366,557	449,749
Total assets	<u>\$ 13,771,331</u>	<u>\$ 1,676,437</u>	<u>\$ 15,447,768</u>	<u>\$ 16,022,076</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Short-term notes payable	\$ 2,500,000	\$ -	\$ 2,500,000	\$ 2,500,000
Accounts payable	116,859	82,537	199,396	198,755
Accrued and other current liabilities	930,129	7,935	938,064	941,962
Accrued interest payable	23,750	-	23,750	18,889
Due to other funds	100,000	-	100,000	100,000
Unearned revenues	7,000	61,859	68,859	65,565
Total liabilities	<u>3,677,738</u>	<u>152,331</u>	<u>3,830,069</u>	<u>3,825,171</u>
Fund balances				
Restricted	-	1,342,653	1,342,653	1,213,169
Assigned	240,000	181,453	421,453	1,463,441
Unassigned	9,853,593	-	9,853,593	9,520,295
Total fund balances	<u>10,093,593</u>	<u>1,524,106</u>	<u>11,617,699</u>	<u>12,196,905</u>
Total liabilities and fund balances	<u>\$ 13,771,331</u>	<u>\$ 1,676,437</u>	<u>\$ 15,447,768</u>	<u>\$ 16,022,076</u>

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

Mequon-Thiensville School District

Mequon, Wisconsin

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2018

WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2017

	2018	2017
RECONCILIATION TO THE STATEMENT OF NET POSITION		
Total fund balances as shown on previous page	\$ 11,617,699	\$ 12,196,905
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	46,916,831	46,581,019
Some deferred outflows and inflows of resources reflect changes in long-term liabilities and are not reported in the funds.		
Loss on advance refunding	41,060	102,652
Deferred outflows related to pensions	7,901,874	9,372,871
Deferred inflows related to pensions	(9,146,510)	(4,017,997)
Deferred outflows related to other postemployment benefits	1,199,527	1,152,914
Deferred inflows related to other postemployment benefits	(368,076)	-
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Bonds and notes payable	(19,810,000)	(22,120,000)
Premium on debt	(774,756)	(945,193)
Compensated absences	(156,838)	(139,774)
Other postemployment benefits liability	(10,564,937)	(10,874,324)
Net pension asset (liability)	4,625,943	(1,277,618)
Pension liability	(652,039)	(719,095)
Accrued interest on long-term obligations	(157,500)	(172,900)
Net position of governmental activities as reported on the statement of net position (see page 4)	<u>\$ 30,672,278</u>	<u>\$ 29,139,460</u>

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

Mequon-Thiensville School District

Mequon, Wisconsin

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2018 WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2017

	General	Other Governmental Funds	Totals	
			2018	2017
REVENUES				
Property taxes	\$ 35,621,624	\$ 3,253,329	\$ 38,874,953	\$ 38,228,889
Other local sources	1,356,562	1,844,902	3,201,464	3,117,870
Interdistrict sources	1,198,657	-	1,198,657	1,162,681
Intermediate sources	3,391	-	3,391	-
State sources	5,754,954	13,522	5,768,476	5,318,856
Federal sources	1,062,892	320,104	1,382,996	1,445,662
Other sources	111,756	2,263	114,019	188,043
Total revenues	45,109,836	5,434,120	50,543,956	49,462,001
EXPENDITURES				
Instruction				
Regular instruction	17,937,082	138,613	18,075,695	17,481,800
Vocational instruction	371,494	-	371,494	470,736
Special education instruction	4,901,428	-	4,901,428	4,849,563
Other instruction	2,292,719	35,990	2,328,709	2,285,637
Total instruction	25,502,723	174,603	25,677,326	25,087,736
Support services				
Pupil services	2,978,079	-	2,978,079	3,017,346
Instructional staff services	2,393,906	43,833	2,437,739	2,246,447
General administration services	708,160	-	708,160	866,067
School administration services	2,551,454	51,543	2,602,997	2,644,882
Business services	595,205	-	595,205	496,245
Operations and maintenance of plant	6,032,279	54,870	6,087,149	15,113,586
Pupil transportation services	2,225,520	-	2,225,520	2,104,519
Food services	-	1,308,347	1,308,347	1,282,830
Central services	1,321,496	-	1,321,496	1,270,542
Insurance	314,046	-	314,046	292,838
Other support services	84,786	-	84,786	127,500
Total support services	19,204,931	1,458,593	20,663,524	29,462,802
Debt service				
Principal	-	2,310,000	2,310,000	2,265,000
Interest and fiscal charges	36,013	738,849	774,862	816,080
Total debt service	36,013	3,048,849	3,084,862	3,081,080
Community service	-	704,579	704,579	898,849
Non-program				
General tuition payments	519,268	-	519,268	482,269
Special education tuition payments	346,691	-	346,691	482,580
Adjustments and refunds	1,966	-	1,966	3,438
Voucher payments	131,886	-	131,886	94,122
Total non-program	999,811	-	999,811	1,062,409
Total expenditures	45,743,478	5,386,624	51,130,102	59,592,876
Excess of revenues over (under) expenditures	(633,642)	47,496	(586,146)	(10,130,875)
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	6,940	-	6,940	16,453
Transfers in	-	100,000	100,000	100,000
Transfers out	(100,000)	-	(100,000)	(100,000)
Total other financing sources (uses)	(93,060)	100,000	6,940	16,453
Net change in fund balances	(726,702)	147,496	(579,206)	(10,114,422)
Fund balances - July 1	10,820,295	1,376,610	12,196,905	22,311,327
Fund balances - June 30	\$ 10,093,593	\$ 1,524,106	\$ 11,617,699	\$ 12,196,905

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

Mequon-Thiensville School District

Mequon, Wisconsin

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2018 WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2017

	2018	2017
RECONCILIATION TO THE STATEMENT OF ACTIVITIES		
Net change in fund balances as shown on previous page	\$ (579,206)	\$ (10,114,422)
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 and reported as depreciation expense.		
Capital assets reported as capital outlay reported in governmental fund statements	2,112,935	8,689,449
Depreciation expense reported in the statement of activities	(1,777,123)	(1,649,400)
Debt issued provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
Principal repaid	2,310,000	2,265,000
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 the governmental funds:		
Accrued interest on long-term debt	15,400	15,100
Amortization of premiums, discounts and loss on advance refunding	108,845	108,845
Compensated absences	(17,064)	(20,223)
Pension liability (asset)	5,970,617	1,228,159
Deferred outflows of resources related to pensions	(1,470,997)	(4,157,332)
Deferred inflows of resources related to pensions	(5,128,513)	1,255,368
Other postemployment benefits	309,387	(199,308)
Deferred outflows of resources related to other postemployment benefits	46,613	89,996
Deferred inflows of resources related to other postemployment benefits	(368,076)	-
Change in net position of governmental activities as reported in the statement of activities (see pages 5 - 6)	<u>\$ 1,532,818</u>	<u>\$ (2,488,768)</u>

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

Mequon-Thiensville School District

Mequon, Wisconsin

STATEMENT OF NET POSITION

FIDUCIARY FUNDS

JUNE 30, 2018

WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2017

	Private Purpose Trust	Employee Benefit Trust	Agency Pupil Activity	Totals	
				2018	2017
ASSETS					
Cash and investments	\$ 6,321	\$ 1,212,786	\$ 38,513	\$ 1,257,620	\$ 1,181,892
Accounts receivable	-	8,126	-	8,126	9,561
Total assets	6,321	1,220,912	38,513	1,265,746	1,191,453
LIABILITIES					
Due to student organizations	-	-	38,513	38,513	45,186
NET POSITION					
Restricted	\$ 6,321	\$ 1,220,912	\$ -	\$ 1,227,233	\$ 1,146,267

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

Mequon-Thiensville School District

Mequon, Wisconsin

STATEMENT OF CHANGES IN NET POSITION

FIDUCIARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2018

WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2017

	Private Purpose Trust	Employee Benefit Trust	Totals	
			2018	2017
ADDITIONS				
Other local sources	\$ 94	\$ 11,872	\$ 11,966	\$ 7,557
Contributions				
Employer	-	1,179,353	1,179,353	1,152,913
Plan members	-	110,491	110,491	92,561
Total additions	<u>94</u>	<u>1,301,716</u>	<u>1,301,810</u>	<u>1,253,031</u>
DEDUCTIONS				
Trust fund disbursements	<u>6,000</u>	<u>1,214,844</u>	<u>1,220,844</u>	<u>1,170,474</u>
Change in net position	(5,906)	86,872	80,966	82,557
Net position - July 1	<u>12,227</u>	<u>1,134,040</u>	<u>1,146,267</u>	<u>1,063,710</u>
Net position - June 30	<u>\$ 6,321</u>	<u>\$ 1,220,912</u>	<u>\$ 1,227,233</u>	<u>\$ 1,146,267</u>

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

Mequon-Thiensville School District

Mequon, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

The District is organized as a common school district. The District, governed by an elected seven member board, operates grades K through 12 and is comprised of all or parts of three taxing districts. In accordance with GAAP, the basic financial statements are required to include the District and any separate component units that have a significant operational or financial relationship with the District. The District has identified the following component unit that is required to be included in the basic financial statements in accordance with standards established by GASB Statement No. 61.

Mequon-Thiensville Education Foundation, Inc.

The component unit column in the district-wide financial statements provides the financial data for the Mequon-Thiensville Education Foundation, Inc. The component unit is reported in a separate column to emphasize that it is legally separate from the District.

The Mequon-Thiensville Education Foundation, Inc. exists for the purpose of raising money and generating contributions from the members of the Mequon-Thiensville community to enhance student educational opportunities. The Mequon-Thiensville Education Foundation, Inc. is reported as a component unit because it raises and holds economic resources almost entirely for the direct benefit of the District or its constituents. Complete financial statements for the component unit can be obtained from the Mequon-Thiensville Education Foundation, Inc., P.O. Box 514, Mequon, WI 53092.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The district-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for services. The District has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. 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. Governmental funds include general, special revenue, debt service and capital projects funds. The District has no proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following major governmental fund:

General Fund

This is the District's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

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Additionally, the District reports the following fund types:

- ▶ The *private purpose trust fund* is used to account for resources legally held in trust for scholarship awards. Only earnings on the invested resources may be used to support the scholarships.
- ▶ The *employee benefit trust fund* is used to account for resources legally held in trust for other postemployment benefits.
- ▶ The District accounts for assets held as an agent for various student and parent organizations in an *agency fund*.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

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

Property taxes are recognized as revenue in the fiscal year for which taxes have been levied. Tuition, grants, fees and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when the cash is received by the District.

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

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, and fees and fines, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources, as they are needed.

D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION OR FUND BALANCE

1. Cash and Investments

Cash and investments are combined in the financial statements. Cash deposits consist of demand and time deposits with financial institutions and are carried at cost. Investments are stated at fair value. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

Mequon-Thiensville School District

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2. Property Taxes

The aggregate District tax levy is apportioned and certified in November of the current fiscal year for collection to comprising municipalities based on the immediate past October 1 full or "equalized" taxable property values. As permitted by a collecting municipality's ordinance, taxes must be paid in full or in two or more installments with the first installment payable the subsequent January 31 and a final payment no later than the following July 31. On or before January 15, and by the 20th of each subsequent month thereafter, the District is paid by the collecting municipalities its proportionate share of tax collections received through the last day of the preceding month. On or before August 20, the county treasurer makes full settlement to the District for any remaining balance.

Property taxes are recognized as revenue in the fiscal year levied as they are considered due as of January 1, the date from which interest and penalties accrue for non-payment of a scheduled installment, and full receipt of the entire levy is assured within sixty days of fiscal year end, meeting the availability criteria necessary for property tax revenue recognition by accounting principles generally accepted in the United States of America.

3. Accounts Receivable

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

4. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" in the fund financial statements.

5. Prepaid Items

Payments made to vendors that will benefit periods beyond the end of the current fiscal year are recorded as prepaid items and are accounted for on the consumption method.

Prepaid items of governmental funds in the fund financial statements are offset by nonspendable fund balance to indicate that they do not represent spendable available financial resources.

6. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the in the district-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of \$5,000 or higher and an estimated useful life in excess of a year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

Assets	Governmental Activities	Component Unit
	Years	
Land improvements	20	-
Buildings and improvements	25 - 50	-
Machinery and equipment	5 - 20	5 - 7

7. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation and sick leave benefits in accordance with employee handbook policies and/or bargaining unit agreements. All vacation and sick leave is accrued when incurred in the district-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds in the fund financial statements only if they have matured, for example, as a result of employee resignations and retirements.

8. Deferred Outflows/Inflows of Resources

Deferred outflows of resources are a consumption of net position by the government that is applicable to a future reporting period. Deferred inflows of resources are an acquisition of net position by the government that is applicable to a future reporting period. The recognition of those outflows and inflows as expenses or expenditures and revenues are deferred until the future periods to which the outflows and inflows are applicable.

9. Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

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

10. Pensions

Wisconsin Retirement System

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.

Supplemental Pension Plan

Qualifying teachers and administrators are provided with a supplemental pension. The supplemental pension is a single employer defined benefit plan administered by the District. For purposes of measuring the supplemental pension liability, related deferred outflows and inflows and pension expense, the District has used values provided by their actuary. Benefit payments are recognized when due and payable in accordance with the benefit terms.

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11. Other Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's Other Postemployment Benefit Plan (the "Plan") and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

12. Fund Equity

Governmental Fund Financial Statements

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- ▶ **Nonspendable fund balance.** Amounts that are not in spendable form (such as inventory, prepaid items, or long-term receivables) or are legally or contractually required to remain intact.
- ▶ **Restricted fund balance.** Amounts that are constrained for specific purposes by external parties (such as grantor or bondholders), through constitutional provisions, or by enabling legislation.
- ▶ **Committed fund balance.** Amounts that are constrained for specific purposes by action of the Board of Education. These constraints can only be removed or changed by the Board of Education using the same action that was used to create them.
- ▶ **Assigned fund balance.** Amounts that are constrained for specific purposes by action of District management. The Board of Education has authorized the Superintendent or designee to assign fund balance. Residual amounts in any governmental fund, other than the General Fund, are also reported as assigned.
- ▶ **Unassigned fund balance.** Amounts that are available for any purpose. Positive unassigned amounts are only reported in the General Fund.

District-wide Statements

Equity is classified as net position and displayed in three components:

- ▶ **Net investment in capital assets.** Amount of capital assets, net of accumulated depreciation, and capital related deferred outflows of resources less outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets and any capital related deferred inflows of resources.
- ▶ **Restricted net position.** Amount of net position that is subject to restrictions that are imposed 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.
- ▶ **Unrestricted net position.** Net position that is neither classified as restricted nor as net investment in capital assets.

E. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

F. PRIOR YEAR INFORMATION

Comparative amounts for the prior year have been presented in the basic financial statements to provide an understanding of changes in the District's financial position and operations. The comparative amounts may be summarized in total and not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

G. RECLASSIFICATIONS

Certain amounts in the prior year financial statements have been reclassified to conform with the presentation in the current year financial statements with no change in previously reported net position, changes in net position, fund balance or changes in fund balance.

NOTE 2: DETAILED NOTES ON ALL FUNDS

A. CASH AND INVESTMENTS

The debt service funds account for their transactions through separate and distinct bank and investment accounts as required by State Statutes. In addition, the agency fund uses separate and distinct accounts. All other funds share in common bank and investment accounts.

Invested cash consists of deposits and investments that are restricted by Wisconsin Statutes to the following:

Time deposits; repurchase agreements; securities issued by federal, state and local governmental entities; statutorily authorized commercial paper and corporate securities; and the Wisconsin local government investment pool. Investments in the private-purpose trust fund may be invested in other types of investments as authorized under Wisconsin Statute 881.01, "Uniform Prudent Investor Act".

The carrying amount of the District's cash and investments totaled \$7,985,360 on June 30, 2018 as summarized below:

Primary government:

Deposits with financial institutions	\$ 266,828
Investments	
Wisconsin Investment Series Cooperative	7,718,532
	<u>\$ 7,985,360</u>

Component unit:

Deposits with financial institutions	<u>\$ 370,481</u>
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Reconciliation to the basic financial statements:

Government-wide statement of net position

Cash and investments	\$ 6,727,740
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Fiduciary fund statement of net position

Private purpose trust	6,321
Employee benefit trust	1,212,786
Agency fund	38,513
	<u>\$ 7,985,360</u>

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Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant observable inputs; Level 3 inputs are significant unobservable inputs. The District's investment in the WISC limited duration series of \$1,323,709 is considered a level 2 investment.

Deposits and investments of the District are subject to various risks. Presented below is a discussion of the District's deposits and investments and the related risks.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Wisconsin statutes require repurchase agreements to be fully collateralized by bonds or securities issued or guaranteed by the federal government or its instrumentalities. The District does not have an additional custodial credit policy.

Deposits with financial institutions within the State of Wisconsin are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$250,000 for the combined amount of all time and savings deposits and \$250,000 for interest-bearing and noninterest-bearing demand deposits per official custodian per insured depository institution. Deposits with financial institutions located outside the State of Wisconsin are insured by the FDIC in the amount of \$250,000 for the combined amount of all deposit accounts per official custodian per depository institution. Deposits with credit unions are insured by the National Credit Union Share Insurance Fund (NCUSIF) in the amount of \$250,000 per credit union member. Also, the State of Wisconsin has a State Guarantee Fund which provides a maximum of \$400,000 per public depository above the amount provided by an agency of the U.S. Government. However, due to the relatively small size of the State Guarantee Fund in relation to the Fund's total coverage, total recovery of insured losses may not be available. This coverage has been considered in determining custodial credit risk.

As of June 30, 2018, \$363,577 of the District's deposits with financial institutions were in excess of federal and state depository insurance limits. \$363,577 was collateralized with securities held by the pledging financial institution or its trust department or agent, but not in the District's name.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Wisconsin statutes limit investment in securities to the top two ratings assigned by nationally recognized statistical rating organizations. Presented below is the actual rating as of the year-end for each investment type.

Investment Type	Amount	Exempt from Disclosure	AAA	Aa	Not Rated
WISC					
Cash management series	\$ 76,103	\$ -	\$ 76,103	\$ -	\$ -
Investment management series	6,318,720	-	6,318,720	-	-
Limited term duration series	1,323,709	-	-	1,323,709	-
Totals	<u>\$ 7,718,532</u>	<u>\$ -</u>	<u>\$ 6,394,823</u>	<u>\$ 1,323,709</u>	<u>\$ -</u>

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Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer. At June 30, 2018, the District had no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

Investment Type	Amount	Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
WISC					
Cash management series	\$ 76,103	\$ 76,103	\$ -	\$ -	\$ -
Investment management series	6,318,720	6,318,720	-	-	-
Limited term duration series	1,323,709	1,323,709	-	-	-
Totals	<u>\$ 7,718,532</u>	<u>\$ 7,718,532</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Investment in Wisconsin Investment Series Cooperation

The District has investments in the Wisconsin Investment Series Cooperative (WISC) of \$7,718,532 at year-end consisting of \$76,103 invested in the Cash Management Series, \$6,318,720 invested in the Investment Series, and \$1,323,709 invested in the limited term duration series. The Cash Management Series has no minimum investment period, allows check writing privileges, and the average dollar weighted maturity is ninety (90) days or less. The Investment Series requires a 14 day minimum investment period and one business day withdrawal notice, and the average dollar weighted maturity is one hundred twenty (120) days or less. The limited term duration series invests in high quality fixed income investments with short term maturities that are compliant with Wisconsin Statutes.

WISC is organized by and operated exclusively for Wisconsin public schools, technical colleges, and municipal entities. WISC is not registered with the Securities and Exchange Commission, but operates under Wisconsin International Cooperative Statute, Wisconsin Statute, Section 66.031. WISC is governed by the Wisconsin Investment Series Cooperative Commission in accordance with the terms of the Intergovernmental Cooperation Agreement. WISC invests District funds in accordance with Wisconsin law. WISC investments are valued at amortized cost, which approximates market value.

Component Unit – Beneficial Interest in Net Assets Held by Greater Milwaukee Foundation

Beneficial interest in net assets held by the Greater Milwaukee Foundation represent amounts held at the Greater Milwaukee Foundation for the Mequon-Thiensville Education Foundation. These investments are the legal assets of the Greater Milwaukee Foundation with the restriction that the assets are held on behalf of the Mequon-Thiensville Education Foundation in accordance with the agreement governing the assets.

Mequon-Thiensville School District

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NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

B. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, nondepreciable:				
Land	\$ 167,438	\$ -	\$ -	\$ 167,438
Construction in progress	34,837	24,530	34,837	24,530
Total capital assets, nondepreciable	<u>202,275</u>	<u>24,530</u>	<u>34,837</u>	<u>191,968</u>
Capital assets, depreciable:				
Land improvements	3,047,203	23,910	-	3,071,113
Buildings and improvements	72,451,675	1,863,874	-	74,315,549
Machinery and equipment	3,777,279	235,458	-	4,012,737
Subtotals	<u>79,276,157</u>	<u>2,123,242</u>	<u>-</u>	<u>81,399,399</u>
Less accumulated depreciation for:				
Land improvements	1,655,067	114,774	-	1,769,841
Buildings and improvements	28,260,774	1,480,013	-	29,740,787
Machinery and equipment	2,981,572	182,336	-	3,163,908
Subtotals	<u>32,897,413</u>	<u>1,777,123</u>	<u>-</u>	<u>34,674,536</u>
Total capital assets, depreciable, net	<u>46,378,744</u>	<u>346,119</u>	<u>-</u>	<u>46,724,863</u>
Governmental activities capital assets, net	<u>\$ 46,581,019</u>	<u>\$ 370,649</u>	<u>\$ 34,837</u>	<u>46,916,831</u>
Less: Capital related debt				<u>20,584,756</u>
Net investment in capital assets				<u>\$ 26,332,075</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Component unit:				
Capital assets, depreciable:				
Machinery and equipment	\$ 1,492	\$ -	\$ -	\$ 1,492
Less accumulated depreciation for:				
Machinery and equipment	894	298	-	1,192
Total capital assets, depreciable, net	<u>598</u>	<u>(298)</u>	<u>-</u>	<u>300</u>
Component unit capital assets, net	<u>\$ 598</u>	<u>\$ (298)</u>	<u>\$ -</u>	<u>\$ 300</u>

The District's capital assets are shared by many governmental functions. Accordingly, it was not considered practical to allocate depreciation expense.

Mequon-Thiensville School District

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NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

C. INTERFUND RECEIVABLE, PAYABLES, AND TRANSFERS

Interfund receivables and payables between individual funds of the District, as reported in the fund financial statements, as of June 30, 2018 are detailed below:

	Interfund Receivables	Interfund Payables
Governmental funds		
General	\$ -	\$ 100,000
Capital improvement trust	100,000	-
Totals	<u>\$ 100,000</u>	<u>\$ 100,000</u>

The purpose of these interfunds is to account for the time lag between the dates transactions are recorded in the accounting system and payments between funds are made.

Interfund transfers for the year ended June 30, 2018 were as follows:

Fund	Transfer In	Transfer Out
General fund	\$ -	\$ 100,000
Capital improvement trust	100,000	-
	<u>\$ 100,000</u>	<u>\$ 100,000</u>

Interfund transfers were made for the following purposes:

To transfer unrestricted revenues collected in the General Fund to the Capital Improvement Trust fund for future capital improvements.	<u>\$ 100,000</u>
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D. SHORT-TERM OBLIGATIONS

The District issued tax and revenue anticipation promissory notes in advance of property tax collections. The notes are needed because District expenses for the year begin in July whereas tax collections are not received until January. Short-term debt activity for the year ended June 30, 2018 was as follows:

	Outstanding 7/1/17	Issued	Retired	Outstanding 6/30/18
Tax and revenue anticipation notes	<u>\$ 2,500,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,500,000</u>

Short-term notes payable at June 30, 2018 of \$2,500,000 consist of the following tax and revenue anticipation promissory notes:

	Date of Issue	Final Maturity	Interest Rates	Original Indebtedness	Balance 6/30/18
BOK Financial Securities, Inc.	9/28/17	9/6/18	1.50%	\$ 2,500,000	<u>\$ 2,500,000</u>

Total interest paid for the year on short-term debt totaled \$36,013.

Mequon-Thiensville School District

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NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

E. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations of the District for the year ended June 30, 2018:

	Beginning Balance	Issued	Retired	Ending Balance	Due Within One Year
Governmental activities:					
General obligation debt					
Bonds	\$ 22,120,000	\$ -	\$ 2,310,000	\$ 19,810,000	\$ 1,610,000
Debt premium	945,193	-	170,437	774,756	170,437
Compensated absences	139,774	93,022	75,958	156,838	56,790
Governmental activities					
Long-term obligations	<u>\$ 23,204,967</u>	<u>\$ 93,022</u>	<u>\$ 2,556,395</u>	<u>\$ 20,741,594</u>	<u>\$ 1,837,227</u>

Total interest paid during the year on long-term debt totaled \$738,849.

General Obligation Debt

General obligation debt currently outstanding is detailed as follows:

	Date of Issue	Final Maturity	Interest Rates	Original Indebtedness	Balance 6/30/18
General obligation bonds	12/3/12	3/1/19	2.00 - 3.00%	\$ 12,640,000	\$ 1,610,000
General obligation bonds	6/8/15	9/1/30	3.125 - 4.00%	18,200,000	<u>18,200,000</u>

Total outstanding general obligation debt \$ 19,810,000

Annual principal and interest maturities of the outstanding general obligation debt of \$19,810,000 on June 30, 2018 are detailed below:

Year Ended June 30,	Governmental Activities		
	Principal	Interest	Total
2019	\$ 1,610,000	\$ 692,649	\$ 2,302,649
2020	1,355,000	660,449	2,015,449
2021	1,410,000	606,249	2,016,249
2022	1,470,000	549,849	2,019,849
2023	1,525,000	491,049	2,016,049
2024 - 2028	8,590,000	1,506,094	10,096,094
2029 - 2030	3,850,000	184,339	4,034,339
	<u>\$ 19,810,000</u>	<u>\$ 4,690,678</u>	<u>\$ 24,500,678</u>

For governmental activities, the other long-term liabilities are generally funded by the General Fund.

Mequon-Thiensville School District

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NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

Legal Margin for New Debt

The District's legal margin for creation of additional general obligation debt on June 30, 2018 was \$473,388,878 as follows:

Equalized valuation of the District		\$ 4,930,483,277
Statutory limitation percentage		(x) 10%
General obligation debt limitation, per Section 67.03 of the Wisconsin Statutes		493,048,328
Total outstanding general obligation debt applicable to debt limitation	\$ 19,810,000	
Less: Amounts available for financing general obligation debt		
Debt service fund (1)	150,550	
Net outstanding general obligation debt applicable to debt limitation		19,659,450
Legal margin for new debt		<u>\$ 473,388,878</u>

(1) - Debt service funds less \$346,324 of interest payments due in 2018.

F. OPERATING LEASES

The District leases office space and various equipment under long-term operating leases. Following is a schedule, by years, of future minimum rental payments required under long-term operating leases:

Year Ending June 30,	Amount
2019	\$ 202,000
2020	94,000
2021	94,000
2022	94,000
2023	46,000
Total minimum payments required	<u>\$ 530,000</u>

Rent expense under all operating leases for the year ended June 30, 2018 amounted to \$155,935.

G. PENSION PLANS

The District reports pension related balances at June 30, 2018, as summarized below:

	Pension Asset	Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources
Wisconsin Retirement System (WRS)	\$ 4,625,943	\$ -	\$ 7,821,874	\$ 9,133,431
Supplemental or stipend pension plan	-	652,039	80,000	13,079
Total	<u>\$ 4,625,943</u>	<u>\$ 652,039</u>	<u>\$ 7,901,874</u>	<u>\$ 9,146,510</u>

1. WRS Pension 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.

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

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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.

Employees who retire at or after age 65 (54 for protective occupation employees, 62 for elected officials and executive service retirement plan participants if hired on or before December 31, 2016) are entitled to a retirement benefit based on a formula factor, their final average earnings, and creditable service. 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 annual earnings periods. Creditable service includes current service and prior service for which a participant received earnings and made contributions as required. Creditable service also includes creditable military service. The retirement benefit will be calculated as a money purchase benefit based on the employee's contributions plus matching employer's contributions, with interest, if that benefit is higher than the formula benefit.

Vested participants may retire at or after age 55 (50 for protective occupation employees) and receive an actuarially-reduced benefit. Participants terminating covered employment prior to eligibility for an annuity may either receive employee-required contributions plus interest as a separation benefit or leave contributions on deposit and defer application until eligible to receive a retirement benefit.

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%	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)
2017	2.0	4

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NOTES TO BASIC FINANCIAL STATEMENTS

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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 ending December 31, 2017, the WRS recognized \$1,563,207 in contributions from the District.

Contribution rates for the reporting period are:

Employee Category	Employee	Employer
General (including teachers, executives and elected officials)	6.8%	6.8%
Protective with Social Security	6.8%	10.6%
Protective without Social Security	6.8%	14.9%

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

At June 30, 2018, the District reported an asset of \$4,625,943 for its proportionate share of the net pension asset. The net pension asset was measured as of December 31, 2017, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2016 rolled forward to December 31, 2017. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The District's proportion of the net pension asset was based on the District's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2017, the District's proportion was 0.15580190%, which was an increase of 0.00079614% from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$2,031,437.

At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 5,877,376	\$ 2,749,241
Net differences between projected and actual earnings on pension plan investments	-	6,357,929
Changes in assumptions	913,996	26,261
Changes in proportion and differences between employer contributions and proportionate share of contributions	52,848	-
Employer contributions subsequent to the measurement date	977,654	-
Total	\$ 7,821,874	\$ 9,133,431

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\$977,654 reported as deferred outflows related to pension resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ended June 30, 2019. 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,	Expense
2018	\$ 525,337
2019	(27,484)
2020	(1,591,314)
2021	(1,206,795)
2022	11,045
Total	<u>\$ (2,289,211)</u>

Actuarial Assumptions

The total pension liability in the December 31, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date:	December 31, 2016
Measurement date of net pension liability (asset):	December 31, 2017
Actuarial cost method:	Entry Age
Asset valuation method:	Fair Value
Long-term expected rate of return:	7.2%
Discount rate:	7.2%
Salary increases:	
Inflation	3.2%
Seniority/Merit	0.2% - 5.6%
Mortality	Wisconsin 2012 Mortality Table
Post-retirement adjustments*	2.1%

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

Actuarial assumptions are based upon an experience study conducted in 2015 using experience from 2012 - 2014. The total pension liability for December 31, 2017 is based upon a roll-forward of the liability calculated from the December 31, 2016 actuarial valuation.

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

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	Current Asset Allocation %	Long-term Expected Nominal Rate of Return %	Long-term Expected Real Rate of Return %
Core Fund Asset Class			
Global equities	50%	8.2%	5.3%
Fixed income	24.5%	4.2%	1.4%
Inflation sensitive assets	15.5%	3.8%	1.0%
Real estate	8%	6.5%	3.6%
Private equity/debt	8%	9.4%	6.5%
Multi-asset	4%	6.5%	3.6%
Total Core Fund	110%	7.3%	4.4%
Variable Fund Asset Class			
U.S. equities	70%	7.5%	4.6%
International equities	30%	7.8%	4.9%
Total Variable Fund	100%	7.9%	5.0%

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

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

Single Discount Rate. A single discount rate of 7.20% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.20% and a long-term bond rate of 3.31%. 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 members 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.

Sensitivity of the District's proportionate share of the net pension liability (asset) to changes in the discount rate. The following presents the District's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.2 percent, as well as what the District's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.20 percent) or 1-percentage-point higher (8.20 percent) than the current rate:

	1% Decrease to Discount Rate (6.20%)	Current Discount Rate (7.20%)	1% Increase to Discount Rate (8.20%)
District's proportionate share of the net pension liability (asset)	\$ 11,968,894	\$ (4,625,943)	\$ (17,238,533)

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>.

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NOTES TO BASIC FINANCIAL STATEMENTS

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Payable to the Pension Plan

At June 30, 2018, the District reported a payable of \$614,491 for the outstanding amount of contributions to the pension plan for the year ended June 30, 2018.

2. Supplemental Pension Plan

Pension Description

The plan, a single-employer pension plan, is a defined benefit pension plan established to provide a cash stipend to some retirees. The plan is administered by the District. The plan does not issue separate financial statements.

Benefits Provided

A summary of eligibility requirements and plan benefits follows:

<u>Pension</u>	<u>Eligibility Requirements Age</u>	<u>Service</u>	<u>Benefit Duration</u>	<u>Plan Benefit</u>
Administrators	55	10	Lump Sum	\$20,000 upon retirement
Teachers	58	20	Lump Sum	\$10,000 upon retirement

Employees Covered by Benefit Terms

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	13
Active employees	286
	<u>299</u>

Funding Policy

The entire cost of these benefits is paid by the District. Benefits are currently funded on a pay-as-you-go basis and no assets exist to prefund retiree benefits.

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

<u>Component</u>	<u>Amount</u>
Total pension liability at July 1, 2016	\$ 719,095
Changes for the year:	
Service cost	53,824
Interest	20,468
Changes of assumptions or other input	(13,848)
Benefit payments	(127,500)
Net changes	(67,056)
Total pension liability at June 30, 2017	<u>\$ 652,039</u>

For the year ended June 30, 2018, the District recognized pension expense of \$73,523.

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At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net differences between projected and actual earnings on pension plan investments	-	-
Changes in assumptions	-	13,079
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	-
Employer contributions subsequent to the measurement date	80,000	-
Total	<u>\$ 80,000</u>	<u>\$ 13,079</u>

\$80,000 reported as deferred outflows related to pension resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the pension liability in the year ended June 30, 2019. 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,	Expense
2018	\$ (769)
2019	(769)
2020	(769)
2021	(769)
2022	(769)
Thereafter	(9,234)
Total	<u>\$ (13,079)</u>

Actuarial Assumptions

The District's total pension liability was measured as of July 1, 2017 and rolled forward to June 30, 2018.

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation date	June 30, 2016
Actuarial cost method	Entry age normal
Amortization method	Level percentage of salary
Actuarial assumptions:	
Discount rate	3.50%
Inflation	2.50%

Single Discount Rate. A single discount rate of 3.50% was used to measure the total pension liability. This single discount rate was based on the 20 year tax exempt AA muni bond rates.

Mequon-Thiensville School District

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NOTES TO BASIC FINANCIAL STATEMENTS

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Sensitivity of the District's total pension liability to changes in the discount rate. The following presents the District's total pension liability at June 30, 2017 calculated using the discount rate of 3.50%, as well as what the District's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.50%) or 1-percentage-point higher (4.50%) than the current rate.

	1% Decrease to Discount Rate (2.50%)	Current Discount Rate (3.50%)	1% Increase to Discount Rate (4.50%)
Total pension liability	\$ 679,753	\$ 652,039	\$ 624,515

The sensitivity of the District's total pension liability was determined based on the actuarial date while the total pension liability of \$652,039 was based on the District's fiscal year ended June 30, 2017, as rolled forward by the District's actuary. Sensitivity information as of June 30, 2018 was not available.

Payable to the Supplemental Pension Plan

At June 30, 2018, the District reported a payable of \$0 for the outstanding amount of contributions to the Plan required for the year ended June 30, 2018.

H. OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The Plan is a single-employer defined benefit postemployment health plan that covers retired employees of the District. Eligible retired employees have access to group medical coverage through the District's group plan. District paid medical benefits are paid for as indicated below. All employees of the District are eligible for the Plan if they meet the following age and service requirements below.

Benefits Provided

The District shall make contributions for retiree premiums.

Employees Covered by Benefit Terms

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	50
Active employees	354
	<u>404</u>

Contributions

Contributions are made for administrators, teachers, and educational support staff in the following manner:

The District will contribute 89% of medical premiums and 100% dental premiums until age 65 for administrators and management confidential employees who are 55 years of age with 10 years of service to the district.

The District will contribute 89% of medical premiums and 100% of dental premiums frozen at the amount at the time of the retirement for teachers, psychologists, and social worker employees who are 58 years of age with 20 years of service to the district.

The District will contribute via the implicit rate subsidy only for education support staff of their unused sick leave accumulated and converted to the retiree's final per diem rate may be used towards premiums on the District's group medical plan. Educational support staff are eligible if they are 58 years of age and 20 years of service to the district.

Mequon-Thiensville School District

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NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016.

Actuarial Assumptions. The total OPEB liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation:	2.50%
Salary increases:	3.0%
Investment rate of return:	3.50%
Healthcare cost trend rates:	7.5% decreasing by 0.50% per year down to 6.5%, then by 0.10% percent per year down to 5.0%, and level thereafter

Mortality rates are the same as those used in the December 2012 Wisconsin Retirement System's annual report.

The actuarial assumptions used in the June 30, 2016 valuation were based on the "Wisconsin Retirement System 2009 - 2011 Experience Study".

The long-term expected rate of return on OPEB plan investments was valued at 3.50%. A blend of expected earnings on District funds and the current yield for 20 year tax-exempt AA Municipal bond rate or higher as of the measurement date was used for all years of benefit payments.

Discount Rate. The discount rate used to measure the total OPEB liability was 3.50%. The projection of cash flows used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at July 1, 2016	\$ 11,925,909	\$ 1,051,584	\$ 10,874,325
Changes for the year:			
Service cost	892,377	-	892,377
Interest	354,994	-	354,994
Changes of assumptions or other input	(396,390)	-	(396,390)
Contributions - employer	-	1,152,913	(1,152,913)
Net investment income	-	7,456	(7,456)
Benefit payments	(1,077,913)	(1,077,913)	-
Net changes	(226,932)	82,456	(309,388)
Balance at June 30, 2017	\$ 11,698,977	\$ 1,134,040	\$ 10,564,937

Mequon-Thiensville School District

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Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.50%) or 1-percentage-point higher (4.50%) than the current rate:

	1% Decrease to Discount Rate (2.5%)	Current Discount Rate (3.5%)	1% Increase to Discount Rate (4.5%)
Net OPEB liability	\$ 11,261,213	\$ 10,564,937	\$ 9,896,561

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (6.5% decreasing to 4.0%) or 1-percentage-point higher (8.5% decreasing to 6.0%) than the current healthcare cost trend rates:

	1% Decrease (6.5% decreasing to 4.0%)	Healthcare Cost Trend Rates (7.5% decreasing to 5.0%)	1% Increase (8.5% decreasing to 6.0%)
Net OPEB liability	\$ 9,513,918	\$ 10,564,937	\$ 11,788,750

OPEB plan fiduciary net position. Information about the OPEB plan's fiduciary net position is presented in the Employee Benefit Trust Fund in these financial statements.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of \$1,191,427. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	368,076
Net difference between projected and actual earnings on OPEB plan investments	20,174	-
District contributions subsequent to the measurement date	1,179,353	-
Total	<u>\$ 1,199,527</u>	<u>\$ 368,076</u>

Mequon-Thiensville School District

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NOTES TO BASIC FINANCIAL STATEMENTS

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\$1,179,353 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2018, and reported in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in other postemployment benefits expense as follows:

Year Ended	
June 30,	Expense
2018	\$ 23,271
2019	23,271
2020	23,271
2021	23,269
2022	28,314
Thereafter	226,506
Total	\$ 347,902

Payable to the OPEB Plan

At June 30, 2018, the District reported a payable of \$0 for the outstanding amount of contribution to the Plan required for the year ended June 30, 2018.

I. FUND EQUITY

Restricted Fund Balance

In the fund financial statements, portions of governmental fund balances are not available for appropriation or are legally restricted for use for a specific purpose. At June 30, 2018, restricted fund balance was as follows:

Special Revenue Funds

Restricted for	
Donor intent	\$ 203,573
Food service	354,654

Debt Service Funds

Restricted for	
Retirement of long-term debt	496,874

Capital Projects Fund

Restricted for	
Capital improvements	287,552

Total restricted fund balance	<u>\$ 1,342,653</u>
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Restricted Fiduciary Fund Balance

In the fund financial statements, portions of fiduciary fund balances are not available for appropriation or are legally restricted for use for a specific purpose. At June 30, 2018, restricted fiduciary fund balance was as follows:

Fiduciary Funds

Restricted for	
Scholarships	\$ 6,321
Postemployment benefits	1,220,912

Total restricted fiduciary fund balance	<u>\$ 1,227,233</u>
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Mequon-Thiensville School District

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NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

Assigned Fund Balance

Portions of governmental fund balances have been assigned to represent tentative management plans that are subject to change. At June 30, 2018, fund balance was assigned as follows:

General Fund	
Assigned for	
Capital projects	\$ 240,000
Special Revenue Funds	
Assigned for	
Community service	181,453
Total	<u>\$ 421,453</u>

Net Position

The District reports restricted net position at June 30, 2018 as follows:

Governmental activities	
Restricted for	
Donor intent	\$ 203,573
Food service	354,654
Debt service	339,374
Capital improvement trust	287,552
Total governmental activities restricted net position	<u>\$ 1,185,153</u>
Component unit	
Temporarily restricted	
Foundation activities	\$ 98,269
Unappropriated endowment earnings	74,798
Permanantly restricted	
Endowment	139,565
Total restricted net position	<u>\$ 312,632</u>

NOTE 3: OTHER INFORMATION

A. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. The District completes an annual review of its insurance coverage to ensure adequate coverage.

Mequon-Thiensville School District

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NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

B. CONTINGENCIES

The District participates in a number of federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Accordingly, the District's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

From time to time, the District is party to other various pending claims and legal proceedings. Although the outcome of such matters cannot be forecast with certainty, it is the opinion of management and the 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 or results of operations.

C. LIMITATION ON SCHOOL DISTRICT REVENUES

Wisconsin Statutes limit the amount of revenues a school district may derive from general school aids and property taxes unless a higher amount is approved by a referendum.

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

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

D. UPCOMING ACCOUNTING PRONOUNCEMENTS

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The statement establishes criteria for identifying fiduciary activities and addresses financial reporting for these activities. This statement is effective for reporting periods beginning after December 15, 2018. The District is currently evaluating the impact this standard will have on the financial statements when adopted.

In June 2017, the GASB issued Statement No. 87, *Leases*. The statement establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. This statement is effective for reporting periods beginning after December 15, 2019. The District is currently evaluating the impact this standard will have on the financial statements when adopted.

REQUIRED SUPPLEMENTARY INFORMATION

Mequon-Thiensville School District

Mequon, Wisconsin

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL - GENERAL FUND - BUDGETARY BASIS FOR THE YEAR ENDED JUNE 30, 2018

	Budget		Actual	Variance Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 35,310,321	\$ 35,621,624	\$ 35,621,624	\$ -
Other local sources	1,202,582	1,293,582	1,356,562	62,980
Interdistrict sources	1,128,677	1,105,824	1,146,862	41,038
State sources	3,707,472	4,098,252	4,126,929	28,677
Federal sources	303,526	287,157	285,456	(1,701)
Other sources	55,000	67,000	68,409	1,409
Total revenues	41,707,578	42,473,439	42,605,842	132,403
EXPENDITURES				
Instruction				
Regular instruction	17,580,202	17,906,940	17,937,082	(30,142)
Vocational instruction	353,918	356,318	371,494	(15,176)
Other instruction	2,252,210	2,271,010	2,292,719	(21,709)
Total instruction	20,186,330	20,534,268	20,601,295	(67,027)
Support services				
Pupil services	1,974,731	1,975,521	2,058,140	(82,619)
Instructional staff services	1,890,339	2,018,494	2,035,582	(17,088)
General administration services	793,473	782,473	704,137	78,336
School administration services	2,664,887	2,662,587	2,551,454	111,133
Business services	457,243	580,660	595,205	(14,545)
Operations and maintenance of plant	5,988,631	6,145,031	6,032,077	112,954
Pupil transportation services	1,834,188	1,823,660	1,750,064	73,596
Central services	1,329,750	1,329,750	1,321,496	8,254
Insurance	308,446	308,446	313,831	(5,385)
Other support services	883,651	890,101	84,786	805,315
Total support services	18,125,339	18,516,723	17,446,772	1,069,951
Debt service				
Principal	114,478	-	-	-
Interest and fiscal charges	45,012	43,612	36,013	7,599
Total debt service	159,490	43,612	36,013	7,599
Non-program				
General tuition payments	465,472	525,125	519,268	5,857
Adjustments and refunds	5,000	5,000	1,966	3,034
Voucher payments	94,122	131,886	131,886	-
Total non-program	564,594	662,011	653,120	8,891
Total expenditures	39,035,753	39,756,614	38,737,200	1,019,414
Excess of revenues over expenditures	2,671,825	2,716,825	3,868,642	1,151,817
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	2,000	2,000	6,940	4,940
Transfers out	(4,473,825)	(4,518,825)	(4,602,284)	(83,459)
Total other financing sources (uses)	(4,471,825)	(4,516,825)	(4,595,344)	(78,519)
Net change in fund balance	(1,800,000)	(1,800,000)	(726,702)	1,073,298
Fund balance - July 1	10,820,295	10,820,295	10,820,295	-
Fund balance - June 30	\$ 9,020,295	\$ 9,020,295	\$ 10,093,593	\$ 1,073,298

See notes to required supplementary information.

Mequon-Thiensville School District

Mequon, Wisconsin

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL - SPECIAL EDUCATION SPECIAL REVENUE FUND - BUDGETARY BASIS FOR THE YEAR ENDED JUNE 30, 2018

	Budget			Variance Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Interdistrict sources	\$ 56,000	\$ 56,000	\$ 51,795	\$ (4,205)
Intermediate sources	15,000	15,000	3,391	(11,609)
State sources	1,651,946	1,593,792	1,628,025	34,233
Federal sources	680,185	890,370	777,436	(112,934)
Other sources	-	-	43,347	43,347
Total revenues	2,403,131	2,555,162	2,503,994	(51,168)
EXPENDITURES				
Instruction				
Special education instruction	4,811,028	4,973,059	4,901,428	71,631
Support services				
Pupil services	1,003,031	973,031	919,939	53,092
Instructional staff services	319,955	319,955	358,324	(38,369)
General administration services	20,000	20,000	4,023	15,977
Operations and maintenance of plant	942	942	202	740
Pupil transportation services	391,000	456,000	475,456	(19,456)
Insurance	10,000	10,000	215	9,785
Total support services	1,744,928	1,779,928	1,758,159	21,769
Non-program				
Special education tuition payments	321,000	321,000	346,691	(25,691)
Total expenditures	6,876,956	7,073,987	7,006,278	67,709
Excess of revenues under expenditures	(4,473,825)	(4,518,825)	(4,502,284)	16,541
OTHER FINANCING SOURCES				
Transfers in	4,473,825	4,518,825	4,502,284	(16,541)
Net change in fund balance	-	-	-	-
Fund balance - July 1	-	-	-	-
Fund balance - June 30	\$ -	\$ -	\$ -	\$ -

See notes to required supplementary information.

Mequon-Thiensville School District

Mequon, Wisconsin

SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS LAST 10 FISCAL YEARS *

	2017	2016
Total OPEB liability		
Service cost	\$ 892,377	\$ 892,377
Interest	354,994	348,020
Changes of assumptions	(396,390)	-
Benefit payments	(1,077,913)	(987,918)
Net change in total OPEB liability	(226,932)	252,479
Total OPEB liability - beginning	11,925,909	11,673,430
Total OPEB liability - ending (a)	<u>\$ 11,698,977</u>	<u>\$ 11,925,909</u>
Plan fiduciary net position		
Contributions - employer	\$ 1,152,913	\$ 1,062,918
Net investment income	7,456	2,884
Benefit payments	(1,077,913)	(987,918)
Net change in plan fiduciary net position	82,456	77,884
Plan fiduciary net position - beginning	1,051,584	973,700
Plan fiduciary net position - ending (b)	<u>\$ 1,134,040</u>	<u>\$ 1,051,584</u>
District's net OPEB liability - ending (a) - (b)	<u>\$ 10,564,937</u>	<u>\$ 10,874,325</u>
Plan fiduciary net position as a percentage of the total OPEB liability	9.69%	8.82%
Covered-employee payroll	\$ 20,712,252	\$ 20,712,252
District's net OPEB liability as a percentage of covered-employee payroll	51.01%	52.50%

* The amounts presented for each fiscal year were determined as of the current fiscal year end. Amounts for prior years were not available.

See notes to required supplementary information.

Mequon-Thiensville School District

Mequon, Wisconsin

SCHEDULE OF EMPLOYER CONTRIBUTIONS OTHER POSTEMPLOYMENT BENEFIT PLAN LAST 10 FISCAL YEARS *

	2017	2016
Actuarially determined contribution (ADC)	\$ 1,471,397	\$ 1,193,305
Contributions in relation to the ADC	1,152,913	1,062,918
Contribution deficiency (excess)	<u>\$ 318,484</u>	<u>\$ 130,387</u>
Covered-employee payroll	\$ 20,712,252	\$ 20,712,252
Contributions as a percentage of covered-employee payroll	5.57%	5.13%

Key Methods and Assumption Used to Calculate ADC

Actuarial cost method	Entry Age Normal	Entry Age Normal
Asset valuation method	Market Value	Market Value
Amortization method	30 year Level Dollar	30 year Level Dollar
Discount rate	3.00%	5.00%
Inflation	2.50%	3.00%

* The amounts presented for each fiscal year were determined as of the current fiscal year end.
Amounts for prior years were not available.

See notes to required supplementary information.

Mequon-Thiensville School District

Mequon, Wisconsin

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) WISCONSIN RETIREMENT SYSTEM LAST 10 FISCAL YEARS

Plan Fiscal Year Ending	Proportion of the Net Pension Liability (Asset)	Proportionate Share of the Net Pension Liability (Asset)	Covered-Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)
12/31/14	0.15563939%	\$ (3,822,929)	\$ 21,251,265	17.99%	102.74%
12/31/15	0.15420350%	2,505,777	21,942,337	11.42%	98.20%
12/31/16	0.15500576%	1,277,618	22,776,327	5.61%	99.12%
12/31/17	0.15580190%	(4,625,943)	22,988,253	20.12%	102.93%

SCHEDULE OF CONTRIBUTIONS WISCONSIN RETIREMENT SYSTEM LAST 10 FISCAL YEARS

District Fiscal Year Ending	Contractually Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
6/30/15	\$ 1,478,176	\$ 1,478,176	\$ -	\$ 21,509,297	6.87%
6/30/16	1,501,641	1,501,641	-	22,503,513	6.67%
6/30/17	1,537,688	1,537,688	-	22,862,394	6.73%
6/30/18	1,560,109	1,560,109	-	23,156,805	6.74%

See notes to required supplementary information.

Mequon-Thiensville School District

Mequon, Wisconsin

SCHEDULE OF CHANGES IN PENSION LIABILITY AND RELATED RATIOS SUPPLEMENTAL PENSION LAST 10 FISCAL YEARS *

	2017	2016
Total pension liability		
Service cost	\$ 53,824	\$ 53,824
Interest	20,468	20,889
Changes in assumptions	(13,848)	-
Benefit payments	(127,500)	(50,000)
Net change in total pension liability	(67,056)	24,713
Total pension liability - beginning	719,095	694,382
Total pension liability - ending	<u>\$ 652,039</u>	<u>\$ 719,095</u>
Covered-employee payroll	\$ 18,691,519	\$ 18,691,519
District's total pension liability as a percentage of covered-employee payroll	3.49%	3.85%

* The amounts presented for each fiscal year were determined as of the current fiscal year end. Amounts for prior years were not available.

See notes to required supplementary information.

Mequon-Theinsville School District

Mequon, Wisconsin

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

A. WISCONSIN RETIREMENT SYSTEM

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

The amounts reported for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year. The District is required to present the last ten fiscal years of data; however accounting standards allow the presentation of as many years as are available until ten fiscal years are presented.

B. BUDGETS AND BUDGETARY ACCOUNTING

Operating budgets are adopted each fiscal year for all governmental funds in accordance with Section 65.90 of the Wisconsin Statutes. Budgetary expenditure control is exercised at the function level. Reported budget amounts are as originally adopted or as amended by Board of Education resolution.

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

- ▶ Based upon requests from District staff, District administration recommends budget proposals to the Board of Education.
- ▶ The Board of Education prepares a proposed budget including proposed expenditures and the means of financing them for the July 1 through June 30 fiscal year.
- ▶ A public notice is published containing a summary of the budget and identifying the time and place where a public hearing will be held on the proposed budget.
- ▶ Pursuant to the public budget hearing, the Board of Education may make alterations to the proposed budget.
- ▶ Once the Board of Education (following the public hearing) adopts the budget, no changes may be made in the amount of tax to be levied or in the amount of the various appropriations and the purposes of such appropriations unless authorized by a 2/3 vote of the entire Board of Education.
- ▶ Appropriations lapse at year end unless authorized as a carryover by the Board of Education. The portion of fund balance representing carryover appropriations is reported as a committed or assigned fund balance in the fund financial statements.
- ▶ Encumbrance accounting is used by the District as an extension of formal budgetary control during the year.
- ▶ The DPI requires the District to separate special education revenues and expenditures from other General Fund amounts.

The District did not have any material violation of legal or contractual provisions for the fiscal year ended June 30, 2018.

Mequon-Theinsville School District

Mequon, Wisconsin

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2018

Budgetary Information

Budgetary information is derived from the annual operating budget and is presented in accordance with generally accepted accounting principles, except the District adopts a budget for the special education special revenue fund. An explanation of the differences between Revenues, Expenditures, and Other Financing Sources (Uses) for budgetary funds on budgetary fund basis and a GAAP General Fund basis is summarized below:

	General	Special Education Fund
Revenues		
Actual amounts (budgetary basis)	\$ 42,605,842	\$ 2,503,994
Reclassification of special education fund	2,503,994	(2,503,994)
Total revenues	<u>45,109,836</u>	<u>-</u>
Expenditures		
Actual amounts (budgetary basis)	38,737,200	7,006,278
Reclassification of special education fund	7,006,278	(7,006,278)
Total expenditures	<u>45,743,478</u>	<u>-</u>
Excess of revenues over (under) expenditures		
Actual amounts (budgetary basis)	3,868,642	(4,502,284)
Reclassification of special education fund	(4,502,284)	4,502,284
Excess of revenues over (under) expenditures	<u>(633,642)</u>	<u>-</u>
Other financing sources (uses)		
Actual amounts (budgetary basis)	(4,595,344)	4,502,284
Reclassification of special education fund	4,502,284	(4,502,284)
Total other financing sources (uses)	<u>(93,060)</u>	<u>-</u>
Net change in fund balance		
Actual amounts (budgetary basis)	<u>(726,702)</u>	<u>-</u>
Fund balance - July 1		
Actual amounts (budgetary basis)	<u>10,820,295</u>	<u>-</u>
Fund balance - June 30		
Actual amounts (budgetary basis)	<u>\$ 10,093,593</u>	<u>\$ -</u>

SUPPLEMENTARY INFORMATION

Mequon-Thiensville School District

Mequon, Wisconsin

COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS JUNE 30, 2018

	Special Revenue			Debt Service
	Trust	Food Service	Community Service	Referendum Debt Service
ASSETS				
Cash and investments	\$ 190,175	\$ 497,461	\$ 190,840	\$ 496,874
Receivables				
Accounts	13,398	137	-	-
Other	-	-	-	-
Due from other funds	-	-	-	-
Total assets	<u>\$ 203,573</u>	<u>\$ 497,598</u>	<u>\$ 190,840</u>	<u>\$ 496,874</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ -	\$ 81,085	\$ 1,452	\$ -
Accrued and other current liabilities	-	-	7,935	-
Unearned revenues	-	61,859	-	-
Total liabilities	<u>-</u>	<u>142,944</u>	<u>9,387</u>	<u>-</u>
Fund balances				
Restricted	203,573	354,654	-	496,874
Assigned	-	-	181,453	-
Total fund balances	<u>203,573</u>	<u>354,654</u>	<u>181,453</u>	<u>496,874</u>
Total liabilities and fund balances	<u>\$ 203,573</u>	<u>\$ 497,598</u>	<u>\$ 190,840</u>	<u>\$ 496,874</u>

<u>Capital Projects</u>	
<u>Capital Improvement Trust</u>	<u>Total</u>
\$ 186,063	\$ 1,561,413
-	13,535
1,489	1,489
<u>100,000</u>	<u>100,000</u>
<u>\$ 287,552</u>	<u>\$ 1,676,437</u>
\$ -	\$ 82,537
-	7,935
<u>-</u>	<u>61,859</u>
<u>-</u>	<u>152,331</u>
287,552	1,342,653
<u>-</u>	<u>181,453</u>
<u>287,552</u>	<u>1,524,106</u>
<u>\$ 287,552</u>	<u>\$ 1,676,437</u>

Mequon-Thiensville School District

Mequon, Wisconsin

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2018

	Special Revenue			Debt Service
	Trust	Food Service	Community Service	Referendum Debt Service
REVENUES				
Property taxes	\$ -	\$ -	\$ 227,580	\$ 3,025,749
Other local sources	280,015	1,003,422	549,881	9,592
State sources	-	13,522	-	-
Federal sources	-	320,104	-	-
Other sources	-	2,263	-	-
Total revenues	280,015	1,339,311	777,461	3,035,341
EXPENDITURES				
Instruction				
Regular instruction	138,613	-	-	-
Other instruction	35,990	-	-	-
Total instruction	174,603	-	-	-
Support services				
Instructional staff services	43,833	-	-	-
School administration services	51,543	-	-	-
Operations and maintenance of plant	-	-	54,870	-
Food services	-	1,308,347	-	-
Total support services	95,376	1,308,347	54,870	-
Debt service				
Principal	-	-	-	2,310,000
Interest and fiscal charges	-	-	-	738,849
Total debt service	-	-	-	3,048,849
Community service	-	-	704,579	-
Total expenditures	269,979	1,308,347	759,449	3,048,849
Excess of revenues over (under) expenditures	10,036	30,964	18,012	(13,508)
OTHER FINANCING SOURCES				
Transfers in	-	-	-	-
Net change in fund balances	10,036	30,964	18,012	(13,508)
Fund balances - July 1	193,537	323,690	163,441	510,382
Fund balances - June 30	\$ 203,573	\$ 354,654	\$ 181,453	\$ 496,874

<u>Capital Projects</u>	
<u>Capital Improvement Trust</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ 3,253,329
1,992	1,844,902
-	13,522
-	320,104
-	2,263
<u>1,992</u>	<u>5,434,120</u>
-	138,613
-	35,990
-	<u>174,603</u>
-	43,833
-	51,543
-	54,870
-	1,308,347
-	<u>1,458,593</u>
-	2,310,000
-	738,849
-	<u>3,048,849</u>
-	<u>704,579</u>
-	5,386,624
<u>1,992</u>	<u>47,496</u>
<u>100,000</u>	<u>100,000</u>
101,992	147,496
<u>185,560</u>	<u>1,376,610</u>
<u>\$ 287,552</u>	<u>\$ 1,524,106</u>

Mequon-Thiensville School District

Mequon, Wisconsin

SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES PUPIL ACTIVITY FUND FOR THE YEAR ENDED JUNE 30, 2018

	<u>Balance 7/1/2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2018</u>
ASSETS				
Cash	\$ 35,771	\$ 163,636	\$ 160,894	\$ 38,513
Accounts receivable	9,415	-	9,415	-
Total assets	<u>\$ 45,186</u>	<u>\$ 163,636</u>	<u>\$ 170,309</u>	<u>\$ 38,513</u>
LIABILITIES				
Due to student organizations				
Homestead High School	\$ 24,136	\$ 130,129	\$ 138,731	\$ 15,534
Lake Shore Middle School	9,333	9,581	6,962	11,952
Steffen Middle School	10,378	13,625	14,169	9,834
Donges Bay Elementary School	275	283	283	275
Oriole Lane Elementary School	353	4,309	4,301	361
Wilson Elementary School	711	5,709	5,863	557
Total liabilities	<u>\$ 45,186</u>	<u>\$ 163,636</u>	<u>\$ 170,309</u>	<u>\$ 38,513</u>

ADDITIONAL INDEPENDENT AUDITORS' REPORT
FOR BASIC FINANCIAL STATEMENTS

Independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*

To the Board of Education
Mequon-Thiensville School District
Mequon, Wisconsin

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Mequon-Thiensville School District, Mequon, Wisconsin (the "District") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 27, 2018. Our report includes a reference to other auditors who audited the financial statements of the Mequon-Thiensville Education Foundation, Inc., as described in our report on the Mequon-Thiensville School District's financial statements. The financial statements of the Mequon-Thiensville Education Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a significant deficiency.

COMPLIANCE AND OTHER MATTERS

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

MEQUON-THIENSVILLE SCHOOL DISTRICT'S RESPONSE TO FINDING

The District's response to the finding identified in our audit is described in the accompanying schedule of prior year audit findings and corrective action plan. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

PURPOSE OF THIS REPORT

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

A handwritten signature in black ink that reads "Schenk SC". The "S" is large and stylized, and "C" is at the end.

Certified Public Accountants

Sheboygan, Wisconsin
November 27, 2018

FEDERAL AND STATE AWARDS

Independent auditors' report on compliance for each major federal and state program and on internal control over compliance required by the Uniform Guidance and the *State Single Audit Guidelines*

To the Board of Education
Mequon-Thiensville School District
Mequon, Wisconsin

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL AND STATE PROGRAM

We have audited Mequon Thiensville School District's (the "District's") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* and the *State Single Audit Guidelines* issued by the Wisconsin Department of Administration that could have a direct and material effect on each of the District's major federal and state programs for the year ended June 30, 2018. 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 federal and state statutes, regulations, and the terms and conditions of its federal and state awards applicable to its federal and state programs.

AUDITORS' 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* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the *State Single Audit Guidelines* issued by the Wisconsin Department of Administration. Those standards, Uniform Guidance and the *State Single Audit Guidelines* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

OPINION ON EACH MAJOR FEDERAL AND STATE PROGRAM

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended June 30, 2018.

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 each major federal or state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with the Uniform Guidance and the *State Single Audit Guidelines*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

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.



Certified Public Accountants

Sheboygan, Wisconsin
November 27, 2018

Mequon-Thiensville School District

Mequon, Wisconsin

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2018

Grantor Agency/Federal Program Title	CFDA Number	Pass-Through Agency	Pass-Through Entity Identifying Number	(Accrued) Deferred Revenue 7/1/17	Value or Cash Received (Refunded)	Accrued (Deferred) Revenue 6/30/18	Total Expenditures	Subrecipient Payments
U.S. DEPARTMENT OF AGRICULTURE								
<i>Child Nutrition Cluster</i>								
School Breakfast Program	10.553	WI DPI	2018-453479-SB-546	\$ -	\$ 36,889	\$ -	\$ 36,889	\$ -
National School Lunch Program	10.555	WI DPI	2018-453479-NSL-547	-	208,270	-	208,270	-
Donated Commodities 17-18	10.555	WI DPI	Unknown	-	74,945	-	74,945	-
Total National School Lunch Program				-	283,215	-	283,215	-
Total Child Nutrition Cluster				-	320,104	-	320,104	-
Total U.S. Department of Agriculture				-	320,104	-	320,104	-
U.S. DEPARTMENT OF EDUCATION								
Title I Grants to Local Educational Agencies	84.010	WI DPI	2017-453479-Title I-141	(59,168)	59,168	-	-	-
Title I Grants to Local Educational Agencies	84.010	WI DPI	2018-453479-Title I-141	-	65,322	23,709	89,031	-
Title I Grants to Local Educational Agencies	84.010	WI DPI	2017-453479-Focus-145	(14,000)	14,000	-	-	-
Title I Grants to Local Educational Agencies	84.010	WI DPI	2018-453479-Focus-145	-	540	13,460	14,000	-
Total Title I Grants to Local Educational Agencies				(73,168)	139,030	37,169	103,031	-
<i>Special Education Cluster (IDEA)</i>								
Special Education Grants to States	84.027	WI DPI	2017-453479-IDEA-341	(240,649)	240,649	-	-	-
Special Education Grants to States	84.027	WI DPI	2018-453479-IDEA-341	-	582,244	177,919	760,163	-
Special Education Preschool Grants	84.173	WI DPI	2017-453479-Pre-S-347	(9,361)	9,361	-	-	-
Special Education Preschool Grants	84.173	WI DPI	2018-453479-Pre-S-347	-	9,526	5,772	15,298	-
Total Special Education Cluster (IDEA)				(250,010)	841,780	183,691	775,461	-
English Language Acquisition State Grants	84.365	WI DPI	2017-453479-Title III A-391	(3,780)	3,780	-	-	-
English Language Acquisition State Grants	84.365	WI DPI	2018-453479-Title III A-391	-	8,561	3,774	12,335	-
Total English Language Acquisition State Grants				(3,780)	12,341	3,774	12,335	-
Improving Teacher Quality State Grants	84.367	WI DPI	2018-453479-Title II-365	-	44,061	11,006	55,067	-
Total U.S. Department of Education				(326,958)	1,037,212	235,640	945,894	-
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES								
<i>Medicaid Cluster</i>								
Medical Assistance Program	93.778	WI DHS	44222900	-	114,411	2,587	116,998	-
TOTAL FEDERAL AWARDS				\$ (326,958)	\$ 1,471,727	\$ 238,227	\$ 1,382,996	\$ -
Reconciliation to the basic financial statements Federal sources							\$ 1,382,996	

The notes to the schedules of expenditures of federal and state awards are an integral part of this schedule.

Mequon-Thiensville School District

Mequon, Wisconsin

SCHEDULE OF EXPENDITURES OF STATE AWARDS FOR THE YEAR ENDED JUNE 30, 2018

Grantor Agency/State Program Title	State I.D. Number	Pass-Through Agency	State Identifying Number	(Accrued) Deferred Revenue 7/1/17	Cash Received (Refunded)	Accrued (Deferred) Revenue 6/30/18	Total Expenditures	Subrecipient Payments
WISCONSIN DEPARTMENT OF PUBLIC INSTRUCTION								
Special Education and School Age Parents	255.101	Direct Program	453479-100	\$ -	\$ 1,532,827	\$ -	\$ 1,532,827	\$ -
State School Lunch Aid	255.102	Direct Program	453479-107	-	11,372	-	11,372	-
Common School Fund Library Aid	255.103	Direct Program	453479-104	-	133,041	-	133,041	-
General Transportation Aid	255.107	Direct Program	453479-103	-	85,310	-	85,310	-
Equalization Aids	255.201	Direct Program	453479-116	(25,684)	1,086,909	18,377	1,079,602	-
Integration Transfer - Non Resident	255.204	Direct Program	453479-106	-	1,119,160	-	1,119,160	-
High Cost Special Education Aid	255.210	Direct Program	453479-119	-	95,198	-	95,198	-
State School Breakfast Aid	255.344	Direct Program	453479-108	-	2,150	-	2,150	-
Educator Effective Evaluation System	255.940	Direct Program	453479-154	(12,964)	12,964	21,329	21,329	-
Per Pupil Aid	255.945	Direct Program	453479-113	-	1,584,000	-	1,584,000	-
Assessments of Reading Readiness	255.956	Direct Program	453479-166	-	8,740	-	8,740	-
Robotics League Participation Grant	255.959	Direct Program	453479-167	(9,415)	19,783	-	10,368	-
Total Wisconsin Department of Public Instruction				(48,063)	5,691,454	39,706	5,683,097	-
TOTAL STATE PROGRAMS				<u>\$ (48,063)</u>	<u>\$ 5,691,454</u>	<u>\$ 39,706</u>	<u>\$ 5,683,097</u>	<u>\$ -</u>
Reconciliation to the basic financial statements								
State sources							\$ 5,768,476	
Less: State sources not considered state financial assistance								
State tax computer aid							(85,379)	
Total expenditures of state awards							<u>\$ 5,683,097</u>	

The notes to the schedules of expenditures of federal and state awards are an integral part of this schedule.

Mequon-Thiensville School District

Mequon, Wisconsin

NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1: BASIS OF PRESENTATION

The accompanying schedules of expenditures of federal and state awards for the Mequon Thiensville School District are presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the *State Single Audit Guidelines* issued by the Wisconsin Department of Administration.

The schedules of expenditures of federal and state awards include all federal and state awards of the District. 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 position, or cash flows of the District.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

Revenues and expenditures in the schedules are presented in accordance with the modified accrual basis of accounting and are generally in agreement with revenues and expenditures reported in the District's 2018 fund financial statements. Accrued revenue at year-end consists of federal and state program expenditures scheduled for reimbursement to the District in the succeeding year while unearned revenue represents advances for federal and state programs that exceed recorded District expenditures. Because of subsequent program adjustments, these amounts may differ from the prior year's ending balances.

The District has not elected to charge a de minimis rate of 10% of modified total costs.

NOTE 3: SPECIAL EDUCATION AND SCHOOL AGE PARENTS PROGRAM

The 2017 - 2018 eligible costs under the State Special Education Program as reported by the District are \$6,117,045. Compiled information required by compliance requirement 1-1 of the Special Education Audit Program was reported to the Wisconsin Department of Public Instruction.

NOTE 4: FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule of expenditures of federal awards at the fair market value of the commodities received and disbursed.

NOTE 5: OVERSIGHT AGENCIES

The federal and state oversight agencies for the District are as follows:

Federal - U.S. Department of Education

State - Wisconsin Department of Public Instruction

NOTE 6: PASS THROUGH ENTITIES

Federal awards have been passed through the following entities:

WI DHS - Wisconsin Department of Health Services

WI DPI - Wisconsin Department of Public Instruction

Mequon-Thiensville School District

Mequon, Wisconsin

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2018

SECTION I: SUMMARY OF AUDITORS' RESULTS

BASIC FINANCIAL STATEMENTS

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
▶ Material weakness(es) identified?	No
▶ Significant deficiency(ies) identified?	Yes
Noncompliance material to basic financial statements noted?	No

FEDERAL AND STATE AWARDS

Internal control over major programs:	
▶ Material weakness(es) identified?	No
▶ Significant deficiency(ies) identified?	None reported
Type of auditors' report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?	No
Any audit findings disclosed that are required to be reported in accordance with the <i>State Single Audit Guidelines</i> ?	No
Identification of major federal programs:	

<u>CFDA Number</u>	<u>Name of Federal Program</u>
	<i>Special Education Cluster</i>
84.027	Special Education Grants to States
84.173	Special Education Preschool Grants

Identification of major state programs:

<u>State ID Number</u>	<u>Name of State Program</u>
255.101	Special Education and School Age Parents <i>General Aids</i>
255.201	Equalization Aids
255.204	Integration Transfer Non-Resident

Audit threshold used to determine between Type A and Type B programs:

Federal Awards	\$750,000
State Awards	\$250,000
Auditee qualified as low-risk auditee	Yes

Mequon-Thiensville School District

Mequon, Wisconsin

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2018

SECTION II: FINANCIAL STATEMENT FINDINGS

FINDING NO.	CONTROL DEFICIENCIES
2018-001	Preparation of Annual Financial Report Repeat of Finding 2017-001
Condition:	Current District staff maintains accounting records which reflect the District's financial transactions; however, preparing the District's annual financial report, including note disclosures, involves the selection and application of specific accounting principles which would require additional experience and knowledge. The District contracts with us and our knowledge of applicable accounting principles, financial statement format, and note disclosures to assist in the preparation of the annual financial report in an efficient manner.
Criteria:	The preparation and review of the annual financial report by staff with expertise in financial reporting is an internal control intended to prevent, detect and correct a potential omission or misstatement in the financial statements or notes or other required state financial reports.
Cause:	District management has determined that the additional costs associated with training staff to become experienced in applicable accounting principles and note disclosures outweigh the derived benefits.
Effect:	Without our involvement, the District may not be able to completely prepare an annual financial report in accordance with accounting principles generally accepted in the United States of America.
Recommendation:	We recommend the District continue reviewing the annual financial report. While it may not be cost beneficial to train additional staff to completely prepare the report, a thorough review of this information by appropriate staff of the District is necessary to obtain a complete and adequate understanding of the District's annual financial report.

Mequon-Thiensville School District

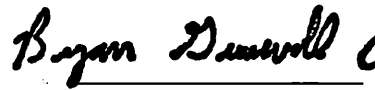
Mequon, Wisconsin

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2018

SECTION III: FEDERAL AND STATE AWARD FINDINGS AND QUESTIONED COSTS

There are no audit findings and questioned costs required to be reported under the Uniform Guidance and the *State Single Audit Guidelines* issued by the Wisconsin Department of Administration for the year ended June 30, 2018.

SECTION IV: OTHER ISSUES

- | | |
|--|---|
| 1. Does the auditor have substantial doubt as to the auditee's ability to continue as a going concern? | No |
| 2. Does the audit report show audit issues (i.e. material non-compliance, non-material non-compliance, questioned cost, material weakness, significant deficiencies, management letter comment, excess revenue or excess reserve) related to grant/contracts with funding agencies that require audits to be in accordance with the <i>State Single Audit Guidelines</i> : | |
| Department of Health Services | No |
| Department of Public Instruction | No |
| 3. Was a Management Letter or other document conveying audit comments issued as a result of this audit? | Yes |
| 4. Name and signature of partner |  |
| 5. Date of report | Bryan Grunewald, CPA
November 27, 2018 |

Mequon-Thiensville School District

Mequon, Wisconsin

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND CORRECTIVE ACTION PLAN FOR THE YEAR ENDED JUNE 30, 2018

PRIOR YEAR AUDIT FINDINGS

The findings noted in the 2017 schedule of findings and questioned costs have been reported to the proper federal and state agencies. The current status of the prior year audit findings, as provided by management, follows:

<u>Finding No.</u>	<u>Prior Year Audit Finding</u>
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2017-001	Preparation of Annual Financial Report
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Management continues to rely on the audit firm to prepare its annual financial report. This finding is reported as 2018-001.

CORRECTIVE ACTION PLAN

<u>Finding No.</u>	<u>Corrective Action Plan</u>
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2018-001	Preparation of Annual Financial Report
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District management believes the cost of employing internal resources to draft financial statements and related notes under the GASB 34 model, including the related GASB 34 conversion entries, would outweigh the benefits to be received. Furthermore, District management will continue to employ personnel who have the capability to review, approve and accept responsibility for the financial statements.