



Kenosha Unified
School District

ANNUAL FINANCIAL REPORT

for the fiscal year ended June 30, 2016



PATHWAY
to **SUCCESS**

**KENOSHA UNIFIED SCHOOL DISTRICT
SCHOOL BOARD AND ADMINISTRATION
2015-2016**

Our Vision: *"To be Wisconsin's top performing urban school district that is highly regarded for continuously exceeding all expectations."*

Our Mission: *"Provide excellent, challenging learning opportunities and experiences that prepare each student for success."*

MEMBERS OF THE BOARD OF EDUCATION

Tamarra Coleman	President
Mary Snyder	Vice President
Daniel Wade	Clerk
Gary Kunich	Treasurer
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Anthony Garcia	Member
Rebecca Stevens	Member

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Julie Housaman	Chief Academic Officer
Dr. Bethany Ormseth	Chief of School Leadership
Annie Petering	Chief Human Resource Officer
Kristopher Keckler	Chief Information Officer
Tanya Ruder	Chief Communication Officer
Susan Valeri	Chief of Special Education and Student Support

ANNUAL FINANCIAL REPORT PREPARED BY

Lisa M. Salo, CPA, Accounting Manager
with the assistance of the
Dedicated Finance Department Team

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Kenosha, Wisconsin
June 30, 2016

Table of Contents

	<u>Page No.</u>
INDEPENDENT AUDITORS' REPORT	1 - 3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4 - 15
BASIC FINANCIAL STATEMENTS	
District-wide Financial Statements	
Statement of Net Position	16
Statement of Activities	17
Fund Financial Statements	
Balance Sheet - Governmental Funds	18 - 19
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	20 - 21
Statement of Net Position - Fiduciary Fund	22
Statement of Changes in Net Position - Fiduciary Funds	23
Notes to Basic Financial Statements	24 - 49
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund - Budgetary Basis	50
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Special Education Special Revenue Fund - Budgetary Basis	51
Schedule of Funding Progress	52
Schedule of Employer Contributions	53
Schedule of Proportionate Share of the Net Pension Liability (Asset) - Wisconsin Retirement System	54
Schedule of Contributions - Wisconsin Retirement System	55
Notes to Required Supplementary Information	56 - 57
SUPPLEMENTARY INFORMATION	
Combining Balance Sheet - Nonmajor Governmental Funds	58
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	59
Schedule of Changes in Assets and Liabilities - Pupil Activity Funds	60

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Kenosha, Wisconsin
June 30, 2016

Table of Contents (Continued)

	<u>Page No.</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 <i>Government Auditing Standards</i>	61 - 62
FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE	
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 <i>State Single Audit Guidelines</i>	63 - 64
Schedule of Expenditures of Federal Awards	65 - 67
Schedule of State Financial Assistance	68
Notes to the Schedule of Expenditures of Federal Awards and the Schedule of State Financial Assistance	69
Schedule of Findings and Questioned Costs	70 - 72
Schedule of Prior Year Audit Findings and Corrective Action Plan	73

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Kenosha Unified School District No. 1
Kenosha, Wisconsin

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Kenosha Unified School District No. 1 ("the District") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the 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, each major fund, and the aggregate remaining fund information of the District as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note B.1., the District implemented GASB Statement No. 72, *Fair Value Measurement and Application*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, and the schedules relating to pensions and other post-employment benefits on pages 4 through 15 and 50 through 57 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.

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 state financial assistance 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 schedules of expenditures of federal awards and state financial assistance 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, the schedules of expenditures of federal awards and the schedule of state financial assistance are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The transmittal letter has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2017, 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.



Certified Public Accountants
Green Bay, Wisconsin
January 10, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis For the Year Ended June 30, 2016

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

OVERVIEW OF THE FINANCIAL STATEMENTS

The District's basic financial statements are comprised of 1) District-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. In addition, required supplementary information and supplementary information is provided in the annual financial report.

District-wide Financial Statements

The District-wide financial statements are the *statement of net position* and *statement of activities*. These statements present an aggregate view of the District's finances in a manner similar to private-sector business. Both statements distinguish functions that are supported principally by property taxes and intergovernmental revenues, called *governmental activities*.

- The *statement of net position* presents information on all of the District's assets, deferred outflows of resources and liabilities, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.
- The *statement of activities* presents information showing how the District's net position changed during the year. This statement reports the cost of government functions and how those functions were financed in the fiscal year.

Fund Financial Statements

There are three kinds of fund types: *governmental*, *proprietary*, and *fiduciary*. The District has governmental funds and fiduciary funds. The District does not have any proprietary funds. A fund is a grouping of related accounts, which is used to maintain control over resources that have been segregated for specific activities. Fund statements generally report operations in more detail than the District-wide statements and provide information that may be useful in evaluating a district's near-term financing requirements.

1. Governmental Funds

Governmental funds are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. In general, this means that the focus of the fund types is what revenues have come in and what expenditures have been paid out. *Governmental funds* include the general fund, special revenue funds (Head Start, Trust, Food Service and Community Service), debt service fund and capital projects fund.

The District produces *fund financial statements* for this fund type. There are two fund financial statements, the *balance sheet* and the *statement of revenues, expenditures and changes in fund balances* (operating statement). Financial information is presented separately on both the *balance sheet* and the *statement of revenues, expenditures and changes in fund balances* for the general fund and the capital projects fund as these are considered to be major funds. Data for the special revenue trust fund, Head Start fund, food service fund, community service fund, and debt service fund is combined into a single, aggregated column. Data for each of these individual non-major funds is provided separately as supplementary information.

Management's Discussion and Analysis For the Year Ended June 30, 2016

A reconciliation to facilitate the comparison of the Statement of Net Position to the Governmental Funds Balance Sheet is presented at the bottom of the governmental funds statement. A separate statement to reconcile the Statement of Activities to the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds is also presented.

The District adopts an annual budget for its governmental funds. Budgetary comparison statements for the general fund and any major special revenue funds have been provided in the required supplementary information to demonstrate budget compliance as required by generally accepted accounting principles.

2. *Proprietary Funds*

Proprietary funds operate similar to a business. These funds have exchange transactions where each party receives and gives up essentially equal value for the essential activity for that fund. This fund type uses the accrual basis of accounting. The District does not have any proprietary funds.

3. *Fiduciary Funds*

The District also serves as a trustee, or *fiduciary*, for student organizations called the pupil activity fund, a retiree insurance fund used to provide for premiums the District has obligated itself related to prior service of retired employees, and a private benefit trust fund for scholarships. The assets of these organizations do not directly benefit the District. The District's responsibility is limited to ensuring the assets reported in these funds are used only for their intended purposes. *Fiduciary* activities are excluded from the District-wide financial statements because the District cannot use these assets to finance its operations. These funds follow the accrual basis of accounting that is described above in the District-wide Financial Statement section. There are two fiduciary financial statements, the *statement of net position* and the *statement of changes in net position* (operating statement).

Notes to the Financial Statements

The *notes to the financial statements* provide additional information that is essential to the full understanding of the data provided in the District-wide and fund financial statements. The notes to the financial statements follow the basic financial statements.

Required Supplementary Information

The *required supplementary information and related notes* contains information that is required to be reported under generally accepted accounting principles. This information is not audited and although not part of the basic financial statements is considered to be an essential part of financial reporting. The required supplementary information and related notes follow the notes to the financial statements.

Supplementary Information

The *supplementary information* is provided for additional analysis and is not part of the basic financial statements. It includes the combining fund statements which provide additional details for the non-major governmental funds. This information follows the required supplementary information section.

Management's Discussion and Analysis

For the Year Ended June 30, 2016

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the District exceeded the liabilities and deferred inflows at the close of the fiscal year by \$92.1 million (*net position*), an increase of \$4.4 million over the prior year. Of this amount, \$88 million represents the net investment in capital assets and \$7.5 million is restricted; \$2.9 million for food service programs, \$2.6 million for community service programs and \$2.0 million for debt service. This results in an unrestricted net deficit balance of \$3.4 million. The unrestricted net deficit balance occurred in 2016, because the state of Wisconsin Retirement System's (WRS) actuarial study performed with a measurement date of December 31, 2015, determined a net pension liability; whereas in 2015, the study with a measurement date of December 31, 2014, determined a net pension asset.
- Total capital assets increased by \$6.4 million.
- Other liabilities increased by \$5.5 million.
- Long-term obligations increased by \$5.8 million.
- Accrued OPEB obligation decreased \$1.7 million.
- In the governmental funds, total fund balance increased by \$11.7 million. The net increase is comprised of the General Fund experiencing an increase from operations of \$2.3 million, a Capital Projects Fund increase of \$7.3 million and an increase in the other governmental funds of \$2.1 million.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was approximately \$41.3 million dollars.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Governmental Activities

As noted earlier, the District-wide financial statements are the *statement of net position* and *statement of activities*. These statements present an aggregate view of the District's finances in a manner similar to private-sector business. Both statements distinguish functions that are supported principally by property taxes and intergovernmental revenues, called *governmental activities*.

Table 1, below, provides a summary of the District's statement of net position for the year ended June 30, 2016 compared to 2015.

Management's Discussion and Analysis

For the Year Ended June 30, 2016

Table 1				
Condensed Statement of Net Position				
(in thousands of dollars)				
	Governmental Activities		\$ Change	% Change
	2016	2015		
Assets				
Current assets	\$ 115,680	\$ 98,359	\$ 17,321	17.6%
Net pension asset	-	24,739	(24,739)	-100.0%
Capital assets	176,244	169,778	6,466	3.8%
Total Assets	291,924	292,876	(952)	-78.6%
Deferred Outflows				
Loss on advance refunding	722	285	437	153.3%
Related to pension	87,147	22,067	65,080	100.0%
	87,869	22,352	65,517	253.3%
Liabilities				
Other liabilities	52,186	46,673	5,513	11.8%
Long-term obligations	108,268	102,468	5,800	5.7%
Accrued OPEB obligation	76,655	78,351	(1,696)	-2.2%
Net pension liability	16,281	-	16,281	100.0%
Total Liabilities	253,390	227,492	25,898	115.3%
Deferred Inflows				
Related to pension	34,264	-	34,264	100.0%
Net Position				
Net investment in capital assets	88,014	76,985	11,029	14.3%
Restricted	7,606	9,348	(1,742)	-18.6%
Unrestricted (deficit)	(3,481)	1,403	(4,884)	348.1%
Total Net Position	\$ 92,139	\$ 87,736	\$ 4,403	343.8%

Note: may be rounding differences.

The largest portion of the District's net position is its net investment in capital assets (e. g. land, buildings, and equipment); less related outstanding debt used to acquire those assets. These assets are used to provide services to students and consequently are not available for future spending.

Restricted net position accounts for 20% of total net position. Restricted net position is a result of restrictions imposed by external groups such as creditors, grantors or other governments or through enabling legislation. The District's restricted net position consists of \$2.9 million for food service programs, \$2.6 million for community service programs and \$2.0 million for debt service. These restrictions have been imposed through legislation from the state of Wisconsin. The remaining net position is called unrestricted net position which decreased \$15.6 million to a \$4.9 million deficit from a \$1.4 million net position in the previous year. The unrestricted net deficit balance occurred in 2016, because the state of Wisconsin Retirement System's (WRS) actuarial study performed with a measurement date of December 31, 2015, determined a net pension liability; whereas in 2015, the study with a measurement date of December 31, 2014, determined a net pension asset.

Management's Discussion and Analysis For the Year Ended June 30, 2016

Table 2 provides summarized operating results and their impact on net position for the year ended June 30, 2016 compared to 2015.

<div>Table 2</div> <div>Changes in Net Position from Operating Results</div> <div>(in thousands of dollars)</div>					
	Governmental Activities		\$ Change	% Change	
	2016	2015			
Revenues					
Program Revenues					
Charges for services	\$ 4,195	\$ 4,008	\$ 187	4.7%	
Operating grants and contributions	36,880	37,440	(560)	-1.5%	
General Revenues					
Property taxes	89,548	89,509	39	0.0%	
State and Federal Aids					
Not restricted	157,784	155,661	2,123	1.4%	
Interest and investment earnings	100	66	34	51.5%	
Miscellaneous	1,399	1,536	(137)	-8.9%	
Total Revenues	289,906	288,220	1,686	0.6%	
Expenses					
Instruction	172,635	163,465	9,170	5.6%	
Support services	102,438	101,041	1,397	1.4%	
Interest and fiscal charges	5,849	5,706	143	2.5%	
Community services	879	744	135	18.1%	
Non-program transactions	3,702	3,273	429	13.1%	
Total Expenses	285,503	274,229	11,274	4.1%	
Change in Net Position	\$ 4,403	\$ 13,991	\$ (9,588)	-68.5%	

Note: May be rounding differences.

The District relies primarily on property taxes (30.89%), state and federal aids that are not restricted (54.43%) and operating grants and contributions (12.72%) to fund District activities. There were only minor variations between years within the sources of revenue, with the exception of miscellaneous general revenues and interest and investment earnings. Miscellaneous general revenues include donations and gifts to the District and those sources may vary from year to year. Interest and investment earnings are earnings on all cash sources. In 2015-16, the energy efficiency bond proceeds were spent down; however, a new bond for athletic facility upgrades was issued and the bond proceeds were invested and collecting interest and dividends for an entire year.

Program revenues, in the form of charges for services and operating grants and contributions, decreased \$.3 million for governmental activities reflecting a decrease in federal and state grants.

Overall, expenses increased 11.2 million or 4.01% compared to the prior year with the main increase being in the instruction function of \$9.1 million.

Management's Discussion and Analysis For the Year Ended June 30, 2016

Table 3 presents the cost of the five major District activities. The table reports each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost reflects the financial burden that was placed on the District's taxpayers by each of these functions.

Table 3 Total and Net Cost of Governmental Activities (in thousands of dollars)								
	Total Cost of Services		\$ Change	% Change	Net Cost of Services		\$ Change	% Change
	2016	2015			2016	2015		
Instruction	\$ 172,635	\$ 163,465	\$ 9,170	5.6%	\$ 149,680	\$ 139,579	\$ 10,101	7.2%
Support services	102,438	101,041	1,397	1.4%	85,982	85,066	916	1.1%
Interest and fiscal charges	5,849	5,706	143	2.5%	4,830	699	4,131	591.0%
Community services	879	744	135	18.1%	753	4,651	(3,898)	-83.8%
Non-program transactions	3,702	3,273	429	13.1%	3,183	2,786	397	14.2%
Totals	\$ 285,503	\$ 274,229	\$ 11,274	4.1%	\$ 244,428	\$ 232,781	\$ 11,647	5.0%

Note: May be rounding differences.

The cost of all governmental activities this year was \$285,503,323. Individuals who directly participated or benefited from a program offering paid \$4,194,830 of the costs. Federal and state governments subsidized certain programs with grants and contributions of \$36,880,376. The net cost of governmental activities totaling \$244,428,117 was financed by general revenues of the District.

The District relies primarily on property taxes and general state aid to fund governmental activities. School funding regulations restrict the amount by which these two revenue sources, in combination, may be increased. This restriction, called revenue limit, is intended to help hold down increases in property taxes throughout the state. The 2015-2016 District equalized property value of \$8,212,853,321 represents a 3.22% increase over the previous year and the total tax mill rate for 2015-2016 is \$10.88 and represents a 3.02% decrease over the previous year.

General state aid is paid according to a complex formula taking into consideration district spending, pupil counts and property values as compared to spending and property values for the state as a whole. The District's general equalization state aid increased by \$1,848,809 over the prior year due to increased spending. The 2015-16 aid is based on 2014-15 spending which increased in comparison to the 2013-14 spending and resulted in a higher shared cost per member.

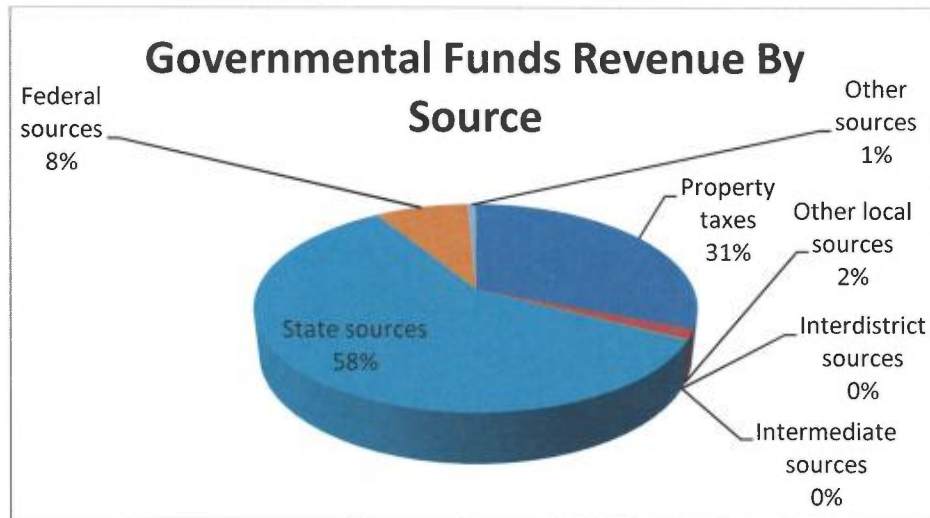
Management's Discussion and Analysis For the Year Ended June 30, 2016

Governmental Funds

The District uses fund accounting to provide information on inflows, outflows and balances of spendable resources. Fund statements generally report operations in more detail than the District-wide statements and provide information that may be useful in evaluating a district's near-term financing requirements.

Total governmental fund revenues increased from the prior year in total by 1% due to an increase in state categorical aids, such as equalization aid.

Table 4 Governmental Funds Revenue By Source (in thousands of dollars)				
			\$	%
	2016	2015	Change	Change
Property taxes	\$ 89,366	\$ 89,308	\$ 58	0.06%
Other local sources	4,663	4,345	318	7.32%
Interdistrict sources	487	487	-	0.00%
Intermediate sources	15	21	(6)	-28.57%
State sources	170,794	168,593	2,201	1.31%
Federal sources	23,847	23,431	416	1.78%
Other sources	2,004	2,035	(31)	-1.52%
Total	\$ 291,176	\$ 288,220	\$ 2,956	1.0%



Note: May be rounding differences.

Total governmental expenditures experienced an overall increase by 1.1% from the prior year. The increase in expenditures was seen in the instruction, pupil and instructional services and the non-program functions. The District paid full-time employees two stipends in the fiscal year, one in December 2015 and one in June 2016 which the largest impact was reflected in the instruction and pupil and instructional services functions. Non-program expenditures increased as a result of a new state program called the general voucher program. The general voucher program's new expenditure was \$659,973.

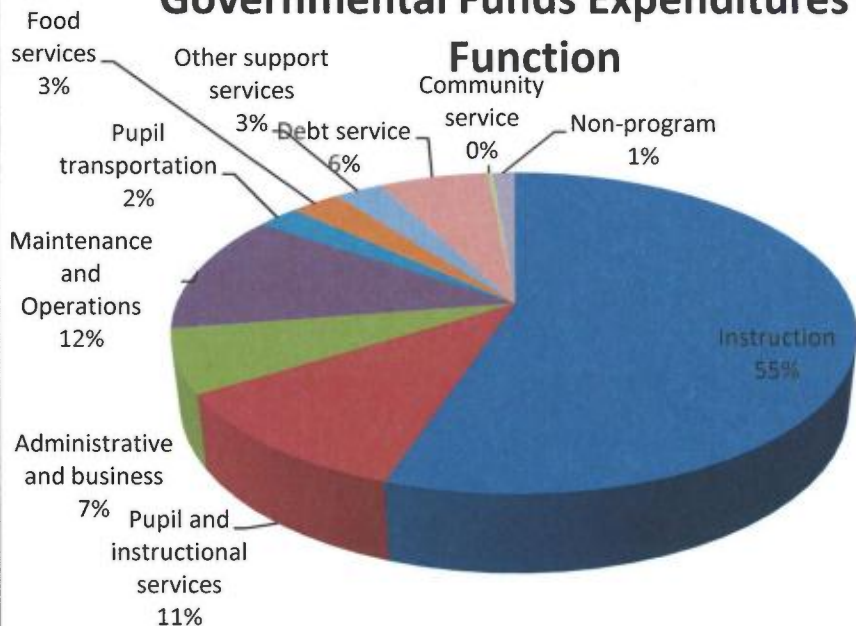
Management's Discussion and Analysis For the Year Ended June 30, 2016

The District also saw shifts among the other functions. Maintenance and operations expenditures decreased from the prior year because the energy efficiency projects were being concluded and the athletic facilities upgrades were just beginning in this fiscal year. Food service expenditures decreased as a result of less equipment upgrades than in the prior year. On the other hand, there were slight increases in the debt service and community service functions. Debt service expenditures increased because the District issued a bond in July 2015 and the first interest payments of \$932,173 were due in this fiscal year. Finally, the District saw an increase in community service expenditures as a result of expanding the Kenosha Youth Performance Arts Center (KYPAC) Theater and Marching Band programs by opening the programs to community members.

Table 5
Governmental Funds Expenditures By Function
(in thousands of dollars)

			\$	%
	2016	2015	Change	Change
Instruction	\$ 163,942	\$ 160,348	\$ 3,594	2.2%
Pupil and instructional services	32,332	32,015	317	1.0%
Administrative and business	19,089	19,111	(22)	-0.1%
Maintenance and Operations	35,618	37,298	(1,680)	-4.5%
Pupil transportation	6,958	7,064	(106)	-1.5%
Food services	8,236	8,561	(325)	-3.8%
Other support services	7,952	7,476	476	6.4%
Debt service	18,304	17,815	489	2.7%
Community service	884	745	139	18.7%
Non-program	3,702	3,273	429	13.1%
Total	\$ 297,017	\$ 293,706	\$ 3,311	1.1%

Governmental Funds Expenditures By Function



Note: May be rounding differences.

Management's Discussion and Analysis For the Year Ended June 30, 2016

Table 6 Comparison of Governmental Fund Balances (in thousands of dollars)				
Fund	Fund Balance		\$ Change	% Change
	2016	2015		
General Fund	\$ 44,557	\$ 42,222	\$ 2,335	5.5%
Head Start	-	-	-	0.0%
Special Revenue Trust	266	10	256	100.0%
Food service	2,905	2,580	325	12.6%
Community service	2,703	2,369	334	14.1%
Debt service	3,378	2,240	1,138	50.8%
Capital projects	10,812	3,465	7,347	212.0%
	<u>\$ 64,621</u>	<u>\$ 52,886</u>	<u>\$ 11,735</u>	<u>22.2%</u>

Note: May be rounding differences.

The District completed the year with fund balance of \$64,621,300 which increased from last year's ending fund balance of \$52,886,183 due to the following:

- The general fund had an increase in fund balance of \$2,335,120, of which was achieved as a result of conservative staffing practices, and an overall conservative spending approach. The general fund actual results are discussed further in the General Fund Budgetary Highlights below.
- The special revenue trust fund had an increase in fund balance of \$255,805. The special revenue trust fund is used to track the use of gifts and donations from private parties. As a result of the planned athletic facilities capital projects, Mary D. Bradford High School received approximately \$170,000 in sponsorships from area businesses to purchase a new video scoreboard for the Mary D. Bradford Stadium. The scoreboard was purchased and installed after fiscal year ending June 30, 2016.
- The food service fund balance had an increase of \$325,240. The food service department finished the construction of the new freezer at the Educational Support Center (ESC) and replaced various equipment and coolers at the individual schools in addition to providing students with nutritious meals.
- The debt service fund balance had an increase of \$1,137,664. The fund balance of the debt service fund will fluctuate each year, based on bond activity and the timing of bond payments.
- The capital project fund had an increase in fund balance of \$7,346,876. The capital projects fund balance will fluctuate depending on the status of the various projects and the corresponding unspent bond proceeds. The District completed part one of the energy efficiency projects funded with the 2013 debt. The energy efficiency expenditures for this fiscal year were \$3.6 million. In addition, the District issued \$16.7 million in bonds for athletic facilities upgrades in which only \$5.9 million was spent by the end of the fiscal year. The District anticipates the athletic facilities upgrades to be completed by the end of fiscal year 2018.

Management's Discussion and Analysis For the Year Ended June 30, 2016

GENERAL FUND BUDGETARY HIGHLIGHTS

The District adopts an interim budget in July for the year (beginning July 1st). Consistent with current state statutes and regulations an *original* budget is adopted in October, following a determination of the official enrollment, the certification of general state aids, and equalized property valuations. After the October budget adoption the District then notifies its respective municipalities of their share of the tax levy no later than November 10th, in compliance with Wis. Stats. 120.12(3)(a).

For budgetary purposes, DPI requires the District to separate the special education revenues and expenditures from other general fund amounts. The budgetary schedules are displayed in the required supplementary information section.

The general fund budgeted a net change in fund balance of (\$452,635). The actual general fund net change in fund balance was \$2,335,120. There are several reasons for the surplus. First, staffing levels were increased during 2015-16; however, not to the extent budgeted. When final enrollments were determined at the start of the year, there were positions budgeted for that remained vacant. Cost savings measures also contributed to the general fund's surplus. District personnel have been cognizant in monitoring for unnecessary spending and saving on costs when possible. For example, travel related to conferences and conference registrations fees were significantly lower than budget, because the District is looking for ways to provide quality in house training to employees rather than out of state or overnight travel. In addition, contracted transportation costs were less than anticipated. Lastly, the District benefited from a warm winter and as a result, utility expenditures were less than budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2016, the District had invested \$300,396,226 in capital assets, including buildings, sites, and equipment (See Table 7). Total accumulated depreciation on these assets total \$124,151,346. Capital Asset acquisitions for governmental activities totaled \$12,131,719. The District recognized depreciation expense of \$5,664,768 for governmental activities. The increase in the construction in progress is a result of the athletic facilities capital projects. Detailed information about capital assets can be found in Note B(2) to the financial statements.

Table 7 Capital Assets (in thousands of dollars)				
	Governmental Activities		\$ Change	% Change
	2016	2015		
Land	\$ 8,830	\$ 8,830	\$ -	0.0%
Construction in progress	6,668	14,892	(8,224)	-55.2%
Land improvements	6,208	6,208	-	0.0%
Buildings and improvements	227,926	208,797	19,129	9.2%
Furniture and equipment	50,764	49,536	1,228	2.5%
Total	\$ 300,396	\$ 288,263	\$ 12,133	4.2%

Note: May be rounding differences.

Management's Discussion and Analysis For the Year Ended June 30, 2016

OUTSTANDING LONG-TERM OBLIGATIONS

At year-end the District had \$102,380,000 in general obligation bonds and notes payable and \$79,040,160 other long-term debt outstanding – an increase of 2.3% over last year (see Table 8).

Table 8 Outstanding Long-term Obligations (in thousands of dollars)				
	Governmental Activities		\$ Change	% Change
	2016	2015		
General obligation debt				
Bonds and notes payable	\$ 102,380	\$ 99,408	\$ 2,972	3.0%
Premium on long-term debt	3,502	820	2,682	327.1%
Other liabilities				
Accrued OPEB Obligation	76,655	78,351	(1,696)	-2.2%
Compensated absences	2,385	2,240	145	6.5%
Total	\$ 184,922	\$ 180,819	\$ 4,103	2.3%

Note: May be rounding differences.

Debt of the District is secured by an irrevocable tax levy adopted by the School Board at the time of issuance. Wisconsin state statutes require that the first property tax receipts be segregated for annual debt service payments.

On May 22, 2016, Moody's affirmed the District's general obligation bond rating Aa3. The Aa3 rating reflects the District's large tax base, healthy reserve levels that have strengthened in recent years, marked improvement in management practices, an average debt burden and payout and affordable pension liabilities.

FACTORS BEARING ON THE DISTRICT'S FUTURE

Currently known circumstances that will impact the District's financial status in the future are:

- The District is continuing to experience declining enrollment, which can be primarily attributed to a decrease of births in the community. This lower birthrate occurred most significantly during the years of 2008 to 2012, which first had an impact on kindergarten enrollments during the 2013-2014 school year. The 2015-16 enrollment was 22,261. The projected 2016-17 and 2017-18 enrollments are 21,900; and 21,660 respectively.
- The 2015-17 state budget did include slight increases to the allowed per pupil amount for revenue limit calculation purposes, however this has not allowed for a full recovery of pre-2011 spending levels. Looking ahead to the 2017-19 state budget, the District does not expect any significant changes to funding, either positive or negative at this time.

Management's Discussion and Analysis For the Year Ended June 30, 2016

- At the June 28, 2016 School Board meeting, the Board voted to approve a resolution authorizing the sale of general school improvement bonds in an amount not to exceed \$28,495,000. The bond was issued July 26, 2016 in the amount of \$28,495,000 to finance additional energy efficiency projects.
- On September 14, 2016, Moody's Investors Service assigned a MIG 1 short-term rating to the District's short term tax and revenue anticipation promissory notes. This is the highest rating for short term debt obligations. The MIG 1 short term rating incorporates the historical timeliness and predictability of pledged revenues, which include property tax receipts and state aid, the accuracy of the District's past cash flow projections, as well as the reasonableness of the District's future cash flow projections.
- On December 6, 2016, a global settlement between the parties involved in the CDO transactions became final and the case the District had been pursuing against the RBC Defendants since 2008 was dismissed with prejudice. Pursuant to that settlement, KUSD received an additional \$3,272,500 in cash, and both it and its Post-employment Benefits Trust were fully and finally released from any and all remaining obligations under the Trust Notes, which have now been cancelled.

In addition, the District and its Trust were released of any claims by RBC, including the counterclaims alleged against them in 2012, without any payment being made by the District or Trust to resolve them. The RBC Defendants' counterclaims have likewise been dismissed with prejudice.

With the global settlement and dismissal of the District's case against RBC and the SEC's case against Stifel, all litigation relating to the 2006 Wisconsin Schools CDO transaction is now complete. There are no further proceedings or claims pending related to the transactions, at least to the District's knowledge.

- The District's tax base has experience modest growth given the recent recovery in property valuations and ongoing development in the local economy. The District is located in Kenosha County along the busy 1-94 transportation corridor and benefits from its position between the converging Milwaukee and Chicago metro areas. There has been significant development activity with Amazon.com, Inc. regarding its one million square foot fulfillment center located within District boundaries which has brought approximately 1,000 jobs to the area's workforce. In addition, Uline, a packaging materials distributor has undergone another round of expansions that has doubled the company's current distribution facilities in Kenosha County. The Kenosha Area Business Alliance continues its efforts to recruit new businesses to Kenosha County.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kenosha Unified School District Finance Department (262-359-6300), Kenosha Unified School District, 3600 52nd Street, Kenosha, WI 53144.

BASIC FINANCIAL STATEMENTS

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Statement of Net Position

June 30, 2016

	Governmental Activities
ASSETS	
Cash and investments	\$ 78,565,251
Receivables	
Taxes	19,749,043
Accounts	6,750,422
Due from other governments	9,835,501
Inventories	440,856
Prepaid items	337,784
Capital assets	
Land	8,830,458
Construction in progress	6,667,422
Land improvements	6,208,343
Buildings and building improvements	227,926,174
Furniture and equipment	50,763,829
Less: Accumulated depreciation	<u>(124,151,346)</u>
TOTAL ASSETS	<u>291,923,737</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	721,993
Deferred outflows related to pension	<u>87,147,110</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>87,869,103</u>
LIABILITIES	
Short-term notes payable	15,000,000
Accounts payable	13,361,224
Accrued payroll liabilities	21,583,603
Accrued interest payable	1,485,759
Unearned revenues	360
Deposits payable	755,012
Long-term obligations	
Due within one year	8,601,445
Due in more than one year	99,666,137
Accrued OPEB obligation	76,655,225
Net pension liability	<u>16,281,444</u>
TOTAL LIABILITIES	<u>253,390,209</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pension	<u>34,264,022</u>
NET POSITION	
Net investment in capital assets	88,013,735
Restricted for	
Food service programs	2,904,665
Community services	2,653,261
Debt service	2,048,429
Unrestricted (deficit)	<u>(3,481,481)</u>
TOTAL NET POSITION	<u>\$ 92,138,609</u>

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

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Statement of Activities
For the Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental Activities				
Instruction	\$ 172,634,799	\$ 1,314,918	\$ 21,640,353	\$(149,679,528)
Support services	102,438,238	2,265,172	14,190,578	(85,982,488)
Interest and fiscal charges	5,848,726	-	1,018,308	(4,830,418)
Community services	879,595	127,024	-	(752,571)
Non-program transactions	3,701,965	487,716	31,137	(3,183,112)
Total School District	<u>\$ 285,503,323</u>	<u>\$ 4,194,830</u>	<u>\$ 36,880,376</u>	<u>(244,428,117)</u>
General revenues				
Property taxes, levied for general purposes				71,041,926
Property taxes, levied for debt service				16,823,755
Property taxes, levied for community service				1,500,000
Other taxes				182,051
State and federal aids not restricted to specific functions				
General				157,335,184
Other				448,820
Interest and investment earnings				100,078
Miscellaneous				
Gifts and donations				269,779
Other				1,129,254
Total General Revenues				<u>248,830,847</u>
Change in net position				4,402,730
Net position - July 1				<u>87,735,879</u>
Net position - June 30				<u><u>\$ 92,138,609</u></u>

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

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Balance Sheet
Governmental Funds
June 30, 2016

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 56,235,017	\$ 13,716,581	\$ 8,613,653	\$ 78,565,251
Receivables				
Taxes	19,749,043	-	-	19,749,043
Accounts	6,514,646	-	235,776	6,750,422
Due from other funds	259,207	-	-	259,207
Due from other governments	9,292,462	-	543,039	9,835,501
Inventories	4,639	-	436,217	440,856
Prepaid items	286,884	-	50,900	337,784
TOTAL ASSETS	\$ 92,341,898	\$ 13,716,581	\$ 9,879,585	\$ 115,938,064
LIABILITIES AND FUND BALANCES				
Liabilities				
Short-term notes payable	\$ 15,000,000	\$ -	\$ -	\$ 15,000,000
Accounts payable	10,804,888	2,334,820	221,516	13,361,224
Accrued payroll liabilities	21,784,821	-	-	21,784,821
Accrued interest payable	156,140	-	-	156,140
Due to other funds	-	-	259,207	259,207
Unearned revenues	360	-	-	360
Deposits payable	38,376	569,900	146,736	755,012
Total Liabilities	47,784,585	2,904,720	627,459	51,316,764
Fund Balances				
Nonspendable				
Inventories	4,639	-	436,217	440,856
Prepaid items	286,884	-	50,900	337,784
Restricted				
Retirement of long-term debt	-	-	3,378,048	3,378,048
Capital expansion	-	10,811,861	-	10,811,861
Food service	-	-	2,468,448	2,468,448
Community service	-	-	2,653,261	2,653,261
Committed				
Contracts	1,562,535	-	-	1,562,535
Donations	-	-	265,252	265,252
Assigned				
Charter schools	1,411,378	-	-	1,411,378
Unassigned	41,291,877	-	-	41,291,877
Total Fund Balances	44,557,313	10,811,861	9,252,126	64,621,300
TOTAL LIABILITIES AND FUND BALANCES	\$ 92,341,898	\$ 13,716,581	\$ 9,879,585	\$ 115,938,064

(Continued)

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Balance Sheet (Continued)

Governmental Funds

June 30, 2016

	Total Governmental Funds
<u>Reconciliation to the Statement of Net Position</u>	
Total Fund Balances from previous page	\$ 64,621,300
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	176,244,880
Deferred outflow of resources is reported in the statement of net position for:	
Loss on advance refinancing	721,993
The District's proportionate share of Wisconsin Retirement System pension plan is not an available financial resource; therefore, it is not reported in the fund financial statements	
Deferred outflows of resources	87,147,110
Net pension liability	(16,281,444)
Deferred inflows of resources	(34,264,022)
Some liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds.	
General obligation debt	(102,380,000)
Premium on long term debt	(3,502,647)
Accrued interest on long-term obligations	(1,329,619)
Compensated absences	(2,183,717)
Accrued OPEB obligation	(76,655,225)
Net Position of Governmental Activities as Reported on the Statement of Net Position (see page 16)	<u>\$ 92,138,609</u>

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

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2016

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 71,041,926	\$ -	\$ 18,323,755	\$ 89,365,681
Other local sources	2,362,859	44,495	2,255,651	4,663,005
Interdistrict sources	487,716	-	-	487,716
Intermediate sources	15,000	-	-	15,000
State sources	170,655,891	-	138,451	170,794,342
Federal sources	15,348,822	-	8,498,305	23,847,127
Other sources	684,180	138,281	1,181,624	2,004,085
Total Revenues	260,596,394	182,776	30,397,786	291,176,956
Expenditures				
Instruction				
Regular instruction	112,424,882	-	306,011	112,730,893
Vocational instruction	4,764,283	-	-	4,764,283
Special education instruction	37,355,060	-	796,731	38,151,791
Other instruction	8,289,735	-	5,360	8,295,095
Total Instruction	162,833,960	-	1,108,102	163,942,062
Support Services				
Pupil services	17,486,520	-	369,772	17,856,292
Instructional staff services	14,370,423	-	105,243	14,475,666
General administration services	1,160,743	-	403,275	1,564,018
School administration services	15,099,878	-	236,541	15,336,419
Business services	2,188,577	-	-	2,188,577
Operation and maintenance of plant	25,872,764	9,535,900	209,372	35,618,036
Pupil transportation	6,878,771	-	79,399	6,958,170
Food services	-	-	8,235,509	8,235,509
Central services	7,058,398	-	-	7,058,398
Insurance	832,042	-	-	832,042
Other support services	62,298	-	-	62,298
Total Support Services	91,010,414	9,535,900	9,639,111	110,185,425
Debt Service				
Principal	-	-	12,403,000	12,403,000
Interest and fiscal charges	214,941	-	5,685,689	5,900,630
Total Debt Service	214,941	-	18,088,689	18,303,630
Community services	-	-	883,938	883,938
Non-program transactions				
General tuition payments	3,479,026	-	-	3,479,026
Special education tuition payments	30,109	-	-	30,109
Adjustments and refunds	192,824	-	6	192,830
Total Non-program transactions	3,701,959	-	6	3,701,965
Total Expenditures	257,761,274	9,535,900	29,719,846	297,017,020
Excess of Revenues Over (Under) Expenditures	2,835,120	(9,353,124)	677,940	(5,840,064)
Other Financing Sources (Uses)				
Long-term debt issued	-	16,700,000	13,305,000	30,005,000
Premium on long term debt issued	-	-	2,874,246	2,874,246
Payment to refunded bond escrow agent	-	-	(15,304,065)	(15,304,065)
Transfers in	-	-	500,000	500,000
Transfers out	(500,000)	-	-	(500,000)
Total Other Financing Sources (Uses)	(500,000)	16,700,000	1,375,181	17,575,181
Net Change in Fund Balances	2,335,120	7,346,876	2,053,121	11,735,117
Fund Balances - July 1	42,222,193	3,464,985	7,199,005	52,886,183
Fund Balances - June 30	\$ 44,557,313	\$ 10,811,861	\$ 9,252,126	\$ 64,621,300

(Continued)

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1
Statement of Revenues, Expenditures and Changes in Fund Balances (Continued)
Governmental Funds
For the Year Ended June 30, 2016

	Total Governmental Funds
<u>Reconciliation to the Statement of Activities</u>	
Net Change in Fund Balances from previous page	\$ 11,735,117
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 outlay reported in governmental fund statements	\$ 12,131,719
Depreciation expense reported in the statement of activities	(5,664,768)
Amount in which depreciation is less than capital outlays	6,466,951
Certain employee benefits are reported in the governmental funds when amounts are paid. The statement of activities reports the value of benefits earned during the year. The accrual of these benefits (increased) decreased by:	
Other post-employment benefits (OPEB)	1,696,388
Accrued sick leave and vacation payable	(48,376)
The change in the net pension liability (asset) and related deferred inflows and outflows of resources as a result of employer contributions, changes in assumptions and proportionate share and the difference between the expected and actual experience of the pension plan	(10,204,848)
The loss on advance refunding is reported in the governmental funds as an expenditure when paid. In the statement of activities, this cost is deferred and amortized over the life of the bonds. The change reported related to these items on the statement of activities in the current year is:	437,203
Premiums are reported in the governmental funds as an other financing source while discounts are shown as expenditures. In the statement of activities, these items are deferred and amortized over the life of the bonds. The change reported related to these items on the statement of activities in the current year is:	(2,683,019)
The District issued bonds during the year to both refinance previous bond issues and for capital projects. The amount of the debt issue is reported in the governmental funds as a source of financing. In the statement of net position however, debt is not reported as a financing source, but rather constitutes a long-term liability. The amount of long-term debt reported as proceeds in the governmental funds statement is:	(30,005,000)
Repayment of principal on long-term debt is reported in the governmental funds as an expenditure, but is reported as a reduction in long-term debt in the statement of net position and does not affect the statement of activities. The amount of long-term debt principal payments in the current year is:	
General obligation debt	27,033,000
Accrued interest as presented in the governmental funds does not include an estimate of the interest expense incurred during the current period which relates to bonds and notes payable that were not recorded in the governmental funds.	(24,686)
Change in Net Position of Governmental Activities as Reported on the Statement of Activities (see page 17)	<u>\$ 4,402,730</u>

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

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Statement of Net Position

Fiduciary Funds

June 30, 2016

	Retiree Health Ins	Private-Benefit Trust	Agency Fund Pupil Activity	Total Fiduciary Funds
ASSETS				
Cash and investments	\$ 13,593,302	\$ 250,463	\$ 1,609,216	\$ 15,452,981
Accounts receivable	9,999,136	-	-	9,999,136
Prepaid items	808	-	-	808
TOTAL ASSETS	\$ 23,593,246	\$ 250,463	\$ 1,609,216	\$ 25,452,925
LIABILITIES				
Accounts payable	\$ 6,246,692	\$ -	\$ 8,515	\$ 6,255,207
Due to student organizations	-	-	1,600,701	1,600,701
TOTAL LIABILITIES	6,246,692	-	1,609,216	7,855,908
NET POSITION				
Restricted for:				
Retiree health insurance	17,346,554	-	-	17,346,554
Scholarships	-	250,463	-	250,463
TOTAL NET POSITION	17,346,554	250,463	-	17,597,017
TOTAL LIABILITIES AND NET POSITION	\$ 23,593,246	\$ 250,463	\$ 1,609,216	\$ 25,452,925

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

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Statement of Changes in Net Position

Fiduciary Funds

For the Year Ended June 30, 2016

	Retiree Health Ins	Private-Benefit Trust	Total Fiduciary Funds
ADDITIONS			
Employer contributions	\$ 12,228,534	\$ -	\$ 12,228,534
Earnings on investments	20,625	259	20,884
Other income	282,631	20,574	303,205
Total Additions	12,531,790	20,833	12,552,623
DEDUCTIONS			
Trust fund disbursements	9,601,681	20,300	9,621,981
Change in Net Position	2,930,109	533	2,930,642
Net Position - July 1	14,416,445	249,930	14,666,375
Net Position - June 30	\$ 17,346,554	\$ 250,463	\$ 17,597,017

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

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Kenosha, Wisconsin
Notes to Basic Financial Statements
June 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Kenosha Unified School District No. 1 ("the District"), Kenosha, Wisconsin, 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:

1. Reporting Entity

The Kenosha Unified School District No. 1 is organized as a common school district governed by an elected seven-member school board. The District operates grades pre-kindergarten through grade 12, Head Start, and several adult education and recreation programs. The District is comprised of three municipal taxing districts (City of Kenosha, Village of Pleasant Prairie, and Town of Somers).

In accordance with GAAP, the basic financial statements are required to include the District (the primary government) and any separate component units that have a significant operational or financial relationship with the District. The District has not identified any component units that are required to be included in the basic financial statements in accordance with standards established by GASB Statement No. 61.

2. District-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. The effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District reports 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. *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 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 and fiduciary funds, even though the latter are excluded from district-wide financial statements. Governmental funds include general, special revenue, debt service and capital projects funds. The District has no enterprise or internal service funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

MAJOR FUNDS

The District reports the following major governmental funds:

GENERAL FUND

This is the District's primary operating fund. It accounts for all financial activity that is not accounted for in another fund. The District follows the regulatory requirements of the Wisconsin Department of Public Instruction, which requires educational programs for students with disabilities to be reported in a separate Special Education Fund (Fund 27) from other instructional activities reported in the General Fund (Fund 10). Under GAAP, the activities of the Special Education Fund are reported with General Fund activities because excess expenditures within the Special Education Fund are financed by a transfer from Fund 10. General fund sources include financial aid received from the state and federal government and payments from other school districts.

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Kenosha, Wisconsin
Notes to Basic Financial Statements
June 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CAPITAL PROJECTS FUND

This fund accounts for the resources restricted for the acquisition or construction of specific capital projects or items.

NON-MAJOR FUNDS

The District reports the following non-major governmental funds:

HEAD START FUND

This fund is used to account for the federal Head Start program.

TRUST FUND

This fund is used to account for trust funds that can be used for district operations.

FOOD SERVICE FUND

This fund accounts for the activities of the District's food service, generally school breakfast, lunch and snack programs.

COMMUNITY SERVICE FUND

This fund is used to account for activities such as adult education, community recreation programs such as evening swimming pool operation and sports leagues, and other programs which are not elementary and secondary educational programs but have the primary function of serving the community.

DEBT SERVICE FUND

This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental activities.

Additionally, the District reports the following fund types:

The District accounts for assets held as an agent for various student organizations in a *fiduciary agency fund – pupil activity*.

The District accounts for assets that are accumulated to finance retiree health insurance benefits in the *fiduciary fund – retiree health insurance trust*.

The District accounts for assets that are accumulated to finance scholarships in the *fiduciary fund – private benefit trust*.

3. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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.

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Kenosha, Wisconsin
Notes to Basic Financial Statements
June 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 employee benefit programs 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, 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.

4. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Fund Balance

a. 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.

b. Accounts Receivable

Accounts receivable are recorded at gross amount 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.

c. 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 December 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.

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Kenosha, Wisconsin
Notes to Basic Financial Statements
June 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

d. 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.

e. Inventories

Inventories are recorded at cost which approximates market, using the first-in/first-out (FIFO) method. Inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed rather than when purchased.

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

f. Prepaid Items

Payments made to vendors that will benefit periods beyond the end of the current fiscal year are recorded as prepaid items.

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

g. Capital Assets

Capital assets are reported at actual cost or estimated historical costs, based on appraisals conducted by an independent third-party professional appraisal firm. Donated assets are reported at estimated acquisition value at the time received.

Capitalization thresholds (the dollar valued above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the district-wide statements are as follows:

	Governmental Activities		
	Capitalization Threshold	Depreciation Method	Estimated Useful Life
<u>Assets</u>			
Buildings	\$ 5,000	Straight-line	50 years
Building improvements	5,000	Straight-line	20 to 25 years
Site improvements	5,000	Straight-line	10 to 20 years
Furniture & equipment*	5,000	Straight-line	4 to 15 years
Computer & related technology*	5,000	Straight-line	4 to 10 years
Library books*	5,000	Straight-line	7 years

* For these categories, the District recognized similar group purchases exceeding \$5,000 under the capitalization threshold for the year

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Kenosha, Wisconsin
Notes to Basic Financial Statements
June 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

h. Unearned Revenues

The District reports unearned revenues on its balance sheet. Unearned revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period.

i. Vested Employee Benefits

Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Generally, sick leave can be accumulated up to a maximum of 90 to 120 days depending on the employment agreement. Accumulated sick time may not be taken in compensation but, upon retirement for certain collective bargaining groups, the employee is granted a payout equal to 50% of cumulative sick days times their daily rate. The District accrues that sick leave which it deems probable of payout for employee retirement. Only sick leave relating to employees qualifying for retirement is accrued.

The entire compensated absence liability is reported on the district-wide financial statements. The estimated liabilities include required salary-related payments. For governmental fund financial statements only, the matured compensated absences payable to currently terminating employees are reported as a liability.

Retirement Plans.

District employees participate in the Wisconsin Retirement System. All contributions made by the District on behalf of its employees are reported as expenditures when paid.

Post-Employment Benefits.

The District provides varying amounts of health insurance to eligible retired employees until age 65, based on the employment agreement in existence at the date of their retirement. The benefit is offered to all employees who retire from the District on or after attaining age 55 (age 58 under a certain employment agreement) with at least fifteen years of service. The District will cover the cost of a single premium or a family premium based on the applicable employment agreement.

The District conducted an actuarial valuation study to determine the Unfunded Actuarial Accrued Liability and annual required contribution for the post-retirement healthcare and life insurance plans on the basis of GASB 45.

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Kenosha, Wisconsin
Notes to Basic Financial Statements
June 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. One is the deferred charge on refunding reported in the district-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second is related to the District's proportionate share of the Wisconsin Retirement System pension plan and is deferred and amortized over the expected remaining service lives of the pension plan participants.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District currently has one item that qualifies for reporting in this category. This item is related to the District's proportionate share of the Wisconsin Retirement System pension plan and is deferred and amortized over the expected remaining service lives of the pension plan participants.

k. 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. For the district-wide statements, bond issuance costs are reported as expenses while bond discounts and premiums are included with long-term obligations. Bond premiums and discounts are amortized over the life of the issue using the straight-line method.

In the fund financial statements, governmental funds recognize bond issuance costs, bond premium and discounts during the current period. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures while bond premiums and discounts are recorded as other financing sources or uses.

l. Pensions

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

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Kenosha, Wisconsin
Notes to Basic Financial Statements
June 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

m. 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 Chief Financial Officer 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.

The District has adopted a fund balance spend down policy regarding the order in which fund balance will be utilized. Where applicable, the policy requires restricted funds to be spent first, followed by committed funds, and then assigned funds. Unassigned funds would be spent last.

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.

5. 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.

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Kenosha, Wisconsin
Notes to Basic Financial Statements
June 30, 2016

NOTE B - DETAILED NOTES ON ALL FUNDS

1. Cash and Investments

The debt service and capital project 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 and employee benefit 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 \$94,018,232 on June 30, 2016 as summarized below:

Petty cash funds	\$ 13,736
Deposits with financial institutions	78,098,026
Investments	15,906,470
	<u>\$ 94,018,232</u>

Reconciliation to the basic financial statements:

District-wide Statement of Net Position	
Cash and investments	\$ 78,565,251
Retiree Health Insurance Fund	13,593,302
Fiduciary funds Statement of Net Position	
Private-Purpose Trust Fund	250,463
Agency Fund - Pupil Activity Fund	1,609,216
	<u>\$ 94,018,232</u>

Fair Value Measurements

The District implemented GASB Statement No. 72, *Fair Value Measurement and Application*, for the year ending June 30, 2016. 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.

Fair Value Measurements Using:		
Level 1	Level 2	Level 3
Investments		
Negotiable certificates of deposit	\$ 1,740,526	\$ - \$ -

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Kenosha, Wisconsin
Notes to Basic Financial Statements
June 30, 2016

NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)

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

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 risk 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 accounts and \$250,000 for the combined amount of all interest-bearing and noninterest-bearing demand deposit accounts 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. 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.

As of June 30, 2016, none of the District's deposits with financial institutions were in excess of federal and state depository insurance limits and uncollateralized or 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 investments in securities to the top two ratings assigned by nationally recognized statistical rating organizations. The District does not have an additional credit risk policy. Presented below is the actual rating as of year-end for each investment type.

Investment Type	Amount	Exempt From Disclosure	Rating as of Year End		
			AAA	Aa	Not Rated
Wisconsin local government investment pool	\$ 1,148	\$ -	\$ -	\$ -	\$ 1,148
WISC investments					
Cash management series	9,574,252	-	9,574,252	-	-
Investment series	590,544	-	590,544	-	-
Negotiated certificates of deposits	1,740,526	-	-	-	1,740,526
Repurchase agreements	4,000,000	4,000,000	-	-	-
Totals	<u>\$15,906,470</u>	<u>\$ 4,000,000</u>	<u>\$10,164,796</u>	<u>\$ -</u>	<u>\$ 1,741,674</u>

On June 30, 2016, the District held repurchase agreement investment of \$4,000,000 of which the underlying securities are held by the investment's counterparty, not in the name of the District.

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Kenosha, Wisconsin
Notes to Basic Financial Statements
June 30, 2016

NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)

On June 30, 2016, the District held Wisconsin Investment Series Cooperative Cash Management Series of \$9,574,252 of which the underlying investments are held by the investment's counterparty, not in the name of the District.

On June 30, 2016, the District held Wisconsin Investment Series Cooperative Investment Series of \$590,544 of which the underlying certificates of deposit were covered by FDIC insurance.

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. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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
Wisconsin local government investment pool	\$ 1,148	\$ 1,148	\$ -	\$ -	\$ -
WISC investments					
Cash management series	9,574,252	9,574,252	-	-	-
Investment series	590,544	590,544	-	-	-
Negotiated certificates of deposits	1,740,526	1,740,526	-	-	-
Repurchase agreements	4,000,000	4,000,000	-	-	-
Totals	<u>\$15,906,470</u>	<u>\$15,906,470</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuation

The District's investments do not include investments that are highly sensitive to interest rate fluctuations.

Investment in Wisconsin Local Government Investment Pool

The District has investments in the Wisconsin local government investment pool of \$1,148 at year-end. The Wisconsin local government investment pool (LGIP) is part of the State Investment Fund (SIF), and is managed by the State of Wisconsin Investment Board. The SIF is not registered with the Securities and Exchange Commission, but operates under the statutory authority of Wisconsin Chapter 25. The SIF reports the fair value of its underlying assets annually. Participants in the LGIP have the right to withdraw their funds in total on one day's notice. At June 30, 2016, the fair value of the District's share of the LGIP's assets was substantially equal to the carrying value.

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Kenosha, Wisconsin
Notes to Basic Financial Statements
June 30, 2016

NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)Investment in Wisconsin Investment Series Cooperative

The District has investments in the Wisconsin Investment Series Cooperative (WISC) of \$81,461,725 at year end consisting of \$9,574,252 invested in the Cash Management Series, \$590,544 invested in the Investment Series, \$1,740,526 in Negotiated Certificates of Deposits, \$62,216,959 in savings deposit accounts, \$2,514,530 in insured cash sweep accounts, and \$4,824,914 in certificates of deposit. 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.

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 intergovernmental Cooperation Statute, Wisconsin Statutes, Section 66.0301. 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. At June 30, 2016, the fair value of the District's share of the WISC assets was substantially equal to the carrying value.

2. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Sites (land)	\$ 8,830,458	\$ -	\$ -	\$ 8,830,458
Construction in progress	14,891,744	6,473,127	14,697,449	6,667,422
Total capital assets, not being depreciated	23,722,202	6,473,127	14,697,449	15,497,880
Capital assets, being depreciated:				
Land improvements	6,208,343	-	-	6,208,343
Buildings & building improvements	208,797,477	19,128,697	-	227,926,174
Furniture and equipment	49,536,485	1,227,344	-	50,763,829
Total capital assets being depreciated	264,542,305	20,356,041	-	284,898,346
Less accumulated depreciation for:				
Land improvements	5,139,078	241,309	-	5,380,387
Buildings & building improvements	68,451,908	4,385,767	-	72,837,675
Furniture and equipment	44,895,592	1,037,692	-	45,933,284
Total accumulated depreciation	118,486,578	5,664,768	-	124,151,346
Total capital assets, being depreciated, net	146,055,727	14,691,273	-	160,747,000
Governmental activities capital assets, net	\$ 169,777,929	\$ 21,164,400	\$ 14,697,449	176,244,880
Less:				
Related general obligation debt outstanding				88,231,145
Net investment in capital assets				\$ 88,013,735

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Kenosha, Wisconsin
Notes to Basic Financial Statements
June 30, 2016

NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)

Depreciation expense was charged to the following functions of the District as follows:

Governmental activities

Instruction

Regular instruction	\$ 3,535,875
Vocational instruction	43,441
Special education instruction	3,588
Other instruction	47,690
Total instruction	<u>3,630,594</u>

Support Services

Pupil services	8,510
Instructional staff services	36,606
General administration services	740
School administration services	14,151
Business services	2,668
Operation and maintenance of plant	1,743,085
Pupil transportation services	1,929
Central services	97,578
Community services	308
Food service	128,599
Total support services	<u>2,034,174</u>

Total depreciation expense - governmental activities	<u><u>\$ 5,664,768</u></u>
--	----------------------------

3. Interfund Receivable, Payables, and Transfers

The balances result from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made. Interfund receivables and payables at June 30, 2016 were as follows:

	Interfund Receivables	Interfund Payables
Governmental Activities		
General Fund	\$ 259,207	\$ -
Head Start Fund	-	259,207
Total Governmental Activities	<u>\$ 259,207</u>	<u>\$ 259,207</u>

Transfers within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital acquisitions or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects.

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Kenosha, Wisconsin
Notes to Basic Financial Statements
June 30, 2016

NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)

Interfund transfers for the year ended June 30, 2016 were as follows:

	Transfer to:
	Debt
	Service
Transfers from:	
General Fund	\$ 500,000

4. Short-term Debt

The District issues tax anticipation notes in advance of property tax collections. The notes are necessary because payments for the year begin in July whereas the tax collections are received from the municipalities beginning in January. Short-term debt activity for the year ended June 30, 2016 was as follows:

	Outstanding 7/1/15	Issued	Retired	Outstanding 6/30/16
Tax anticipation notes	\$ 9,500,000	\$ 25,000,000	\$ 19,500,000	\$ 15,000,000

Interest paid on short-term debt for the year ended June 30, 2016, was \$120,727.

5. Long-term Obligations

The following is a summary of changes in long-term obligations of the District for the year ended June 30, 2016:

	Outstanding 7/1/15	Issued	Retired	Outstanding 6/30/16	Due Within One Year
Governmental activities:					
General Obligation Debt					
Bonds and notes payable	\$ 99,408,000	\$ 30,005,000	\$ 27,033,000	\$ 102,380,000	\$ 8,209,000
Premium on long term debt	819,628	2,874,246	191,227	3,502,647	191,227
Total	100,227,628	32,879,246	27,224,227	105,882,647	8,400,227
Compensated absences	2,240,147	377,207	232,419	2,384,935	201,218
Governmental activities					
Long-term obligations	\$ 102,467,775	\$ 33,256,453	\$ 27,456,646	\$ 108,267,582	\$ 8,601,445

Total interest paid during the year on long-term debt totaled \$5,342,001.

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Kenosha, Wisconsin
Notes to Basic Financial Statements
June 30, 2016

NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)

General Obligation Debt

The full faith, credit, and taxing powers of the District secure all general obligation debt. Bonds and notes payable is comprised of the following individual issues:

	Issue Date	Average Interest Rates (%)	Dates of Maturity	Outstanding 6/30/16
General Obligation Bonds and Notes				
Bond - Brass	06/20/07	4.25%-4.5%	04/01/27	\$ 5,320,000
Bond - Mahone	07/15/09	4.50% - 5.0%	04/01/20	690,000
Bond - ITA Refinancing	07/15/09	5.00% - 5.25%	04/01/24	13,950,000
Bond - ITA BAB	07/15/09	8.00%	04/01/29	20,000,000
State Trust Fund Loan - Reuther BAB	06/10/10	4.25%	03/15/17	296,000
State Trust Fund Loan - Reuther QSCB	06/10/10	4.25%	03/15/18	850,000
State Trust Fund Loan - ITA QSCB	06/10/10	4.25%	03/15/19	6,328,000
State Trust Fund Loan - Reuther QZAB	06/10/10	4.25%	03/15/20	2,696,000
State Trust Fund Loan - OPEB	06/08/11	3.75%	03/15/19	2,615,000
Bond - Refinancing	02/15/12	2.00%-2.50%	04/01/18	3,665,000
Bond - Refinancing & Energy Efficiency Project	09/17/13	3.00%	04/01/33	15,965,000
Bond - Refinancing & Athletic Building	07/15/15	3.00% - 5.00%	04/01/35	30,005,000
Total General Obligation Bonds and Notes				<u>\$ 102,380,000</u>

Aggregate cash flow requirements for retirement of long-term principal and interest on notes and bonds (including State Trust Loans) as of June 30, 2016 as follows:

Year Ended June 30,	Governmental Activities		
	Principal	Interest	Total
2017	\$ 8,209,000	\$ 5,230,097	\$ 13,439,097
2018	8,788,000	4,923,970	13,711,970
2019	8,364,000	4,573,380	12,937,380
2020	7,109,000	4,204,535	11,313,535
2021	6,180,000	3,861,422	10,041,422
2022-2026	34,050,000	14,217,961	48,267,961
2027-2031	22,600,000	4,622,283	27,222,283
2032-2035	7,080,000	589,977	7,669,977
	<u>\$ 102,380,000</u>	<u>\$ 42,223,625</u>	<u>\$ 144,603,625</u>

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Kenosha, Wisconsin
Notes to Basic Financial Statements
June 30, 2016

NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)Advance Refunding

During fiscal year 2016 the District advance refunded a portion of a general obligation bond issue from 2006. The District issued \$13,305,000 of general obligation refunding bonds to provide resources to purchase U.S. Government and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the financial statements. The advance refunding were undertaken to reduce total debt service payments over the next 9 years by \$1,467,069 and to obtain an economic benefit (difference between the present value of the debt service payments of the refunded and refunding bonds) of \$1,434,140.

Legal Margin for New Debt

The District's legal margin for creation of additional general obligation debt on June 30, 2016 was \$720,953,761 as follows:

Equalized valuation of the District	\$8,212,853,321
Statutory limitation percentage	(x) 10%
General obligation debt limitation, per Section 67.03 of the Wisconsin Statutes	821,285,332
Total outstanding general obligation debt	\$ 102,380,000
Less: Amounts available for financing general obligation debt	
Debt service fund ⁽¹⁾	2,048,429
Net outstanding general obligation debt applicable to debt limitation	100,331,571
Legal Margin for New Debt	<u>\$ 720,953,761</u>

(1) Less accrued interest

Operating Leases

The District leases buildings and other equipment under non-cancelable operating leases. Total costs for such leases were \$489,143 for facility leases, \$255,058 for vehicle leases, \$159,951 for copier leases, and \$14,816 for musical instrument leases for the year ended June 30, 2016. The future minimum lease payments totaling \$2,973,896 for these leases are as follows:

Year Ended June 30	Total
2017	\$ 941,128
2018	636,629
2019	541,188
2020	369,985
2021	110,886
2022-2026	182,040
2027-2031	192,040
Total Minimum Lease Payments	<u>\$ 2,973,896</u>

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Kenosha, Wisconsin
Notes to Basic Financial Statements
June 30, 2016

NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)

6. Pension Plan

a. 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.

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 State executive participants) are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor.

Final average earnings is the average of the participant's three highest years' earnings. Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required. The formula factor is a standard percentage based on employment category.

Employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefits.

The WRS also provides death and disability benefits for employees.

b. 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:

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Kenosha, Wisconsin
Notes to Basic Financial Statements
June 30, 2016

NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)

Year	Core Fund Adjustment	Variable Fund Adjustment
2006	0.8%	3%
2007	3.0	10
2008	6.6	0
2009	(2.1)	(42)
2010	(1.3)	22
2011	(1.2)	11
2012	(7.0)	(7)
2013	(9.6)	9
2014	4.7	25
2015	2.9	2

c. Contributions

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

During the reporting period, the WRS recognized \$9,730,965 in contributions from the District.

Contribution rates as of June 30, 2016 are:

Employee Category	Employee	Employer
General (including teachers)	6.6%	6.6%
Executives & Elected Officials	6.6%	6.6%
Protective with Social Security	6.6%	9.4%
Protective without Social Security	6.6%	13.2%

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

At June 30, 2016, the District reported a liability of \$16,281,444 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014 rolled forward to December 31, 2015. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2015, the District's proportion was 1.00194701%, which was a decrease of 0.00522933% from its proportion measured as of December 31, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$19,756,354.

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Kenosha, Wisconsin
Notes to Basic Financial Statements
June 30, 2016

NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)

At June 30, 2016, 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	\$ 2,768,734	\$ 34,264,022
Changes in assumptions	11,391,207	-
Net differences between projected and actual earnings on pension plan investments	66,707,566	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	439,911	-
Employer contributions subsequent to the measurement date	5,839,692	-
Total	<u>\$ 87,147,110</u>	<u>\$ 34,264,022</u>

\$

5,839,692 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 in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year ended June 30	Deferred Outflow of Resources	Deferred Inflow of Resources
2016	\$ 21,126,694	\$ 8,291,956
2017	21,126,694	8,291,956
2018	21,126,694	8,291,956
2019	17,560,780	8,291,956
2020	366,556	1,096,198
Total	<u>\$ 81,307,418</u>	<u>\$ 34,264,022</u>

d. Actuarial Assumption

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

Actuarial Valuation Date:	December 31, 2014
Measurement Date of Net Pension Liability:	December 31, 2015
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%

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Kenosha, Wisconsin
Notes to Basic Financial Statements
June 30, 2016

NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)

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

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

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:

	Current Asset Allocation %	Destination Target Asset Allocation %	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %
<u>Core Fund Asset Class</u>				
U.S. Equities	27%	23%	7.6%	4.7%
International Equities	24.5%	22%	8.5%	5.6%
Fixed Income	27.5%	37%	4.4%	1.6%
Inflation Sensitive Assets	10%	20%	4.2%	1.4%
Real Estate	7%	7%	6.5%	3.6%
Private Equity/Debt	7%	7%	9.4%	6.5%
Multi-Asset	4%	4%	6.7%	3.8%
Total Core Fund	107%	120%	7.4%	4.5%
<u>Variable Fund Asset Class</u>				
U.S. Equities	70%	70%	7.6%	4.7%
International Equities	30%	30%	8.5%	5.6%
Total Variable Fund	100%	100%	7.9%	5.0%

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 3.57%. Because of the unique structure of WRS, the 7.20% expected rate of return implies that a dividend of approximately 2.1% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Kenosha, Wisconsin
Notes to Basic Financial Statements
June 30, 2016

NOTE B - DETAILED NOTES ON ALL FUNDS (Continued)

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.20 percent, as well as what the District's proportionate share of the net pension liability 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 (6.2%)	Current Discount Rate (7.2%)	1% Increase to Discount Rate (8.2%)
District's proportionate share of the the net pension liability (asset)	\$ 114,198,363	\$ 16,281,444	\$ (60,193,415)

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>.

f. Payable to the WRS

At June 30, 2016, the District reported a payable of \$3,587,641 for the outstanding amount of contributions to the pension plan for the year ended June 30, 2016.

7. Minimum Fund Balance Policy

The Board of Education has adopted a policy that unassigned fund balance in the general fund will be equal to a minimum of 15% and a maximum of 20% of the ensuing year's budgeted general fund expenditures be maintained for cash flow and working capital purposes. The minimum fund balance amount is calculated as follows:

Budgeted 2016-17 General Fund Expenditures	\$ 247,048,855
Minimum Fund Balance %	(x) 15% - 20%
Minimum Fund Balance Amount	<u>\$37,057,328 to \$49,409,771</u>

The District's general fund balance is in compliance with this policy.

NOTE C - OTHER INFORMATION1. Postemployment Benefits Trust

On August 22, 2006, the District established the Kenosha Unified School District Post Employment Benefits Trust (the "Trust") for the purpose of holding assets (the "Trust Estate") for the payment of benefits to the members of the District's postemployment health and other OPEB benefits plan, and incurring debt, as provided in the agreement. The Trust is reported as a fiduciary fund in the District's basic financial statements. Separate financial statements are not prepared for the Trust. The basis of accounting and valuation of investments of the Trust are described in Note A while the required disclosures on the Trust's investments can be found in Note B.

Plan Descriptions and Contribution Information

The District administers a single-employer defined benefit OPEB plan providing District retirees with medical and other postemployment benefits. The plan is administered by the District and does not issue a standalone financial report.

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Kenosha, Wisconsin
Notes to Basic Financial Statements
June 30, 2016

NOTE C - OTHER INFORMATION (Continued)

The District contracted with Milliman, Inc. to prepare an actuarial report dated August 16, 2016, which estimates the District's Expected Postretirement Benefit Obligation (EPSO) to be \$212,593,106 allocated, as follows:

Past Service Component (unfunded actuarial accrued liability)	\$ 98,718,658
Current Service Component (assets)	14,416,445
Future Service Component (present value of future normal costs)	<u>99,458,003</u>
Total Assets and Future Employer Contributions	<u>\$212,593,106</u>

The participant data as of July 1, 2016 was used in the development of the EPSO and ARC consisting of 2,129 active employees with the average age of 45.6 years and average service of 11.6 years, and 361 retirees (medical) with the average age of 61.8 years. Expected medical costs are based on estimates ranging from \$1,049 for male-single to \$3,321 for male-family and from \$1,161 for female-single to \$3,321 for female-family. Estimates are adjusted for age and demographic differences between retirees and all participants.

Plan Assets and Debt Obligation

Plan Assets

The Trust has cash and investments totaling \$13,593,302 as of June 30, 2016.

Debt Obligations

In 2006, the Trust entered into the Indenture of Trust dated as of September 1, 2006 (the "Trust Note Indenture") and issued an aggregate of \$28.4 million of its taxable Post-Employment Benefits Trust Asset Backed Notes (the "Trust Notes") bearing interest at a floating rate based upon a spread over the 3-month LIBOR rate. The District issued \$9.5 million of its Taxable Note Anticipation Notes (the "District Notes") due September 1, 2011 and deposited the proceeds with the Trust. On June 8, 2011, the District refinanced these District Notes with the proceeds of a 10-year loan through the Wisconsin State Trust Fund Loan program. The combined proceeds of the Trust Notes and the District Notes were used to acquire an aggregate of \$37.5 million of floating rate credit-linked secured notes due 2013 (the "CDOs") issued by a Cayman Island investment vehicle (the "CDO Issuer"). The District anticipated that the Trust would receive interest payments on the CDOs sufficient to pay interest on the Trust Notes. The District expected to pay interest on the District Notes from its general funds, with excess Trust earnings on the CDOs expected to ultimately fund a portion of the District's OPEB liabilities.

Although the Trust Notes and the Trust Note Indenture provide that the Trust Notes are payable solely from the assets of the Trust that are pledged for that purpose under the Trust Note Indenture (including the Moral Obligation Contribution Agreement described below), it is an Event of Default under the Trust Note Indenture if the Asset Ratio falls below 95% and is not raised to at least 101% within 30 days after The Bank of New York Trust Company, N.A., the Trustee under the Trust Note Indenture (the "Indenture Trustee"), provides notice of that fact to the Trust and the District. The "Asset Ratio" is calculated by the valuation agent as the ratio of the value of the CDOs (as determined by the valuation agent, using a "market value" approach) to the outstanding principal amount of the Trust Notes.

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Kenosha, Wisconsin
Notes to Basic Financial Statements
June 30, 2016

NOTE C - OTHER INFORMATION (Continued)

The District entered into a Moral Obligation Contribution Agreement with the Trust (the "Moral Obligation Agreement") in connection with the execution of the Trust Note Indenture and the issuance of the Trust Notes. In the Moral Obligation Contribution Agreement, the District agreed that if it is notified by the Indenture Trustee that the Asset Ratio is less than 101%, the District's Director of Business Services will include the amount of the deficiency in each annual budget submitted to the District school board until an appropriation of that amount is made and, if appropriated by the District school board from funds available for that purpose, will deposit with the Indenture Trustee for the account of the Trust an amount sufficient to cause the Asset Ratio to be at least 101%. The Moral Obligation Contribution Agreement included a statement recognizing the District's "moral obligation" and expressing the District's "expectation and aspiration" to include any such deficiency in its next budget, but it expressly stated that the District's obligation constituted only a "moral obligation" and not a legal obligation or indebtedness of the District within the meaning of any state constitutional provision or statutory limitation. As part of the Stifel Settlement (explained below), the District has been released from the terms of the Moral Obligation Agreement.

Upon completion of the CDO transactions described above there were \$28.4 million of Trust Notes outstanding and \$37.5 million principal amount of CDOs held by the Trust. However, both the value of the CDOs and the Asset Ratio have since declined dramatically.

On February 7, 2008, the Indenture Trustee notified the Trust and the District that the Asset Ratio was below 95% and requested that the District pay such amounts to the Trust as were necessary to restore the Asset Ratio to 101% in accordance with the Moral Obligation Contribution Agreement.

The District hired outside counsel in connection with these matters. Four other Wisconsin school districts and their OPEB investment trusts that have entered into similar financing arrangements have hired the same law firms for this purpose. The school boards for the five districts filed a lawsuit seeking rescission, actual and exemplary damages, costs and fees.

On August 10, 2011, the Securities and Exchange Commission ("SEC") filed a complaint against Stifel, Nicolaus & Co. Inc. and a former executive. On August 11, 2011, Stifel Financial Corp. ("Stifel") announced that it had finalized an agreement to purchase the Trust Notes from the holder of the Trust Notes.

On September 27, 2011, the SEC separately charged RBC Capital Markets LLC (RBCCM). The SEC subsequently accepted an Offer of Settlement and ordered RBCCM to pay disgorgement, prejudgment interest and a civil money penalty aggregating in the amount of \$30.4 million. Pursuant to the settlement order, RBCCM was ordered to pay such aggregate amount in specified proportions to each of the Plaintiffs, including a payment of \$6,331,061 to the District, which the District has received. The District has used \$633,106 of such amount to pay related attorney's fees, and used the remainder to pay down \$6 million of the June 10, 2011 State Trust Fund Loan. The District cannot use any of this payment for general or operating expenses.

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Kenosha, Wisconsin
Notes to Basic Financial Statements
June 30, 2016

NOTE C - OTHER INFORMATION (Continued)

In March 6, 2012, the Stifel Defendants entered into a Partial Settlement Agreement with the Plaintiffs in the Plaintiffs' suit against the Stifel Defendants (the "Stifel Settlement"). Under the terms of the Stifel Settlement, Stifel paid \$13 million to the Plaintiffs and provided a standby letter of credit for an additional \$9.5 million to be paid when, among other conditions, Stifel's case with the SEC as described above is resolved. The Stifel Settlement also provides for an additional conditional payment by Stifel to the Plaintiffs of the difference between any amounts recovered by the Plaintiffs from the RBC Defendants and a maximum of \$11 million. Additionally, as part of the Stifel Settlement, all of the Stifel Defendants' counterclaims against the Plaintiffs have been dismissed. Finally, the Stifel Settlement relieves and releases the District from the terms of the Moral Obligation Agreement and any other obligation to pay the Trust Notes. Accordingly, the Trust removed the liability from the Statement of Net Position and recognized an addition of \$27,649,483 during the 2011-2012 fiscal year. The District received \$2,041,431 from Stifel pursuant to the Stifel Settlement and is entitled to receive an additional \$3,454,876 under the standby letter of credit. The District has used \$1,831,740 of this amount to pay related attorney's fees, and expects to use the remainder to pay down June 10, 2011 State Trust Fund Loan.

Following the Stifel Settlement, the Plaintiffs and Stifel sought and received leave to file an amended complaint adding Stifel as a plaintiff against the RBC Defendants, which amended complaint was filed April 23, 2012. On June 12, 2012, the RBC Defendants filed an answer to the amended complaint and filed counterclaims against the Plaintiffs and the Stifel Defendants. On August 6, 2012, the Plaintiffs and the Stifel Defendants filed a Motion to Dismiss the RBC Defendants' counterclaims. The outcome of these legal proceedings cannot be predicted at this time.

On December 6, 2016, a global settlement between the parties involved in the CDO transactions became final and the case the District had been pursuing against the RBC Defendants since 2008 was dismissed with prejudice. Pursuant to that settlement, KUSD received an additional \$3,272,500 in cash, and both it and its Post-employment Benefits Trust were fully and finally released from any and all remaining obligations under the Trust Notes, which have now been cancelled. In addition, the District and its Trust were released of any claims by RBC, including the counterclaims alleged against them in 2012, without any payment being made by the District or Trust to resolve them. The RBC Defendants' counterclaims have likewise been dismissed with prejudice. With the global settlement and dismissal of the District's case against RBC and the SEC's case against Stifel, all litigation relating to the 2006 Wisconsin Schools CDO transaction is now complete. There are no further proceedings or claims pending related to the transactions, at least to the District's knowledge.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), and the amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation.

Annual Required Contribution	\$ 12,062,600
Interest on net OPEB	2,350,548
Adjustment to annual required contribution	(3,881,002)
Annual OPEB cost (expense)	10,532,146
Contributions made	(12,228,534)
Change in net OPEB obligation	(1,696,388)
OPEB obligation - beginning of year	78,351,613
OPEB obligation - end of year	<u>\$ 76,655,225</u>

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Kenosha, Wisconsin
Notes to Basic Financial Statements
June 30, 2016

NOTE C - OTHER INFORMATION (Continued)

The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with a long-term perspective of the calculations.

Trend Information

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation is as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual Required Contribution (ARC)	Annual OPEB Cost Contributed	Percentage of ARC Contributed	Net OPEB Obligation
6/30/2014	\$ 11,568,764	\$ 13,098,348	\$ 11,642,903	88.89%	\$ 78,232,978
6/30/2015	11,789,450	13,368,918	11,670,815	87.30%	78,351,613
6/30/2016	10,532,146	12,062,600	12,228,534	101.38%	76,655,225

Funded Status and Funding Progress

The funded status and progress of the plan as of the most recent actuarial valuation date is as follows (dollar amounts in millions):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
7/1/2012	\$ 8.1	\$ 170.4	\$ 162.3	4.8%	\$ 124.7	130.2%
7/1/2014	11.4	124.8	113.4	9.1%	144.6	78.4%
7/1/2016	17.3	117.1	99.8	14.8%	132.7	75.2%

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Kenosha, Wisconsin
Notes to Basic Financial Statements
June 30, 2016

NOTE C - OTHER INFORMATION (Continued)**2. Risk Management**

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; employee health and accident claims; and natural disasters. For all risks of loss, the District's policy is to purchase commercial insurance. Settled claims have not exceeded commercial coverage in any of the past three years and there have been no significant reductions in insurance coverage from coverage in the prior year.

SELF-FUNDED INSURANCE PROGRAM

The District has a self-insured workman's compensation benefit plan for its employees. The Plan administrators, Aegis Corporation (administrator) is responsible for the approval, processing, and payment of claims, after which they bill the District for reimbursement. The District is also responsible for a monthly administrative fee. The Plan reports on a fiscal year ending June 30, 2016.

Accounting and budgeting requirements for the Plan are established by the Wisconsin Department of Public Instruction. Currently, the Plan is accounted for in the General Fund of the District.

As part of the workman's compensation coverage of the Plan, the District purchases stop-loss coverage, which pays claims in excess of \$1 million per individual.

At June 30, 2016, the District has reported a liability of \$992,508 which represents reported and unreported claims which were incurred on or before June 30, 2016, but were not paid by the District as of that date. The amounts not reported to the District were determined by the Plan administrator. Changes in the claims liability for the years ended June 30, 2015 and June 30, 2016 are as follows:

Year Ended June 30	Beginning Balance	Incurred	Payments	Ending Balance
2015	\$ 923,176	\$ 1,474,845	\$ 1,643,539	\$ 754,482
2016	754,482	1,511,079	1,273,053	992,508

3. Contingencies

- a. 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.
- b. 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 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.

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Kenosha, Wisconsin
Notes to Basic Financial Statements
June 30, 2016

NOTE C - OTHER INFORMATION (Continued)

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

5. Upcoming Accounting Pronouncements

In June 2015, the GASB issued two new standards addressing accounting and financial reporting for postemployment benefits other than pensions (OPEB). GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, addresses reporting by OPEB plans whereas GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses accounting and reporting by employer governments that provide OPEB benefits to their employees. The District will, after adoption of GASB No. 75, recognize on the face of the financial statements its net OPEB liability. GASB No. 74 is effective for fiscal years beginning after June 15, 2016 whereas GASB No. 75 is effective one year later. The District is currently evaluating the impact these standards will have on the financial statements when adopted.

6. Subsequent Events

At the June 28, 2016 meeting, the Board of Education approved a resolution authorizing the issuance of \$28,495,000 General Obligation School Improvement Bonds for energy efficiency projects. The bonds were issued on July 26, 2016 with principal amounts of \$1,000,000 to \$5,025,000 due annually through 2036. Interest rates on the bonds is 2.5% to 5.0%.

REQUIRED SUPPLEMENTARY INFORMATION

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund - Budgetary Basis
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Property taxes	\$ 71,041,926	\$ 71,041,926	\$ 71,041,926	\$ -
Other local sources	2,042,858	2,182,631	2,352,226	169,595
Interdistrict sources	400,000	400,000	487,716	87,716
Intermediate sources	-	15,000	15,000	-
State sources	159,554,962	159,833,075	159,775,352	(57,723)
Federal sources	11,339,826	12,910,155	10,360,482	(2,549,673)
Other sources	400,034	535,812	684,180	148,368
Total Revenues	244,779,606	246,918,599	244,716,882	(2,201,717)
Expenditures				
Instruction				
Regular instruction	114,103,159	111,680,556	112,424,882	(744,326)
Vocational instruction	5,066,688	5,080,646	4,763,728	316,918
Other instruction	8,452,416	8,566,888	8,200,357	366,531
Total Instruction	127,622,263	125,328,090	125,388,967	(60,877)
Support Services				
Pupil services	11,191,487	11,574,785	11,374,148	200,637
Instructional staff services	12,306,735	14,407,174	13,148,338	1,258,836
General administration services	1,114,880	1,114,344	1,160,743	(46,399)
School administration services	14,539,477	14,848,315	15,099,878	(251,563)
Business services	2,526,501	2,558,163	2,188,577	369,586
Operation and maintenance of plant	26,469,398	26,785,518	25,845,240	940,278
Pupil transportation services	4,475,407	4,512,893	4,437,160	75,733
Central services	7,569,079	7,803,170	7,058,398	744,772
Insurance	718,434	718,584	832,042	(113,458)
Other support services	88,300	74,536	62,298	12,238
Total Support Services	80,999,698	84,397,482	81,206,822	3,190,660
Debt service	322,058	272,615	214,941	57,674
Non-program				
General tuition payments	2,686,200	3,706,234	3,479,026	227,208
Adjustments and refunds	-	-	183,362	(183,362)
Total Non-program	2,686,200	3,706,234	3,662,388	43,846
Total Expenditures	211,630,219	213,704,421	210,473,118	3,231,303
Excess of Revenues Over Expenditures	33,149,387	33,214,178	34,243,764	1,029,586
Other Financing Sources (Uses)				
Transfers in	-	-	131,231	131,231
Transfers out	(33,149,387)	(33,666,813)	(32,039,875)	1,626,938
Total Other Financing Sources (Uses)	(33,149,387)	(33,666,813)	(31,908,644)	1,758,169
Net Change in Fund Balance	-	(452,635)	2,335,120	2,787,755
Fund Balance - July 1	42,222,193	42,222,193	42,222,193	-
Fund Balance - June 30	\$ 42,222,193	\$ 41,769,558	\$ 44,557,313	\$ 2,787,755

The notes to the required supplementary information are an integral part of this schedule.

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1
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, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Other local sources	\$ 9,000	\$ 9,000	\$ 10,633	\$ 1,633
State sources	10,683,620	10,683,620	10,880,539	196,919
Federal sources	4,818,944	8,850,524	4,988,340	(3,862,184)
Total Revenues	15,511,564	19,543,144	15,879,512	(3,663,632)
Expenditures				
Instruction				
Vocational instruction	1,100	35,600	555	35,045
Special education instruction	37,589,840	39,937,540	37,355,060	2,582,480
Other instruction	88,837	89,920	89,378	542
Total Instruction	37,679,777	40,063,060	37,444,993	2,618,067
Support Services				
Pupil services	6,235,830	6,583,081	6,112,372	470,709
Instructional staff services	1,337,691	2,460,382	1,222,085	1,238,297
Operation and maintenance of plant	15,600	128,731	27,524	101,207
Pupil transportation services	2,892,053	3,429,703	2,441,611	988,092
Total Support Services	10,481,174	12,601,897	9,803,592	2,798,305
Non-program				
Special education tuition payments	-	45,000	30,109	14,891
Adjustments and refunds	-	-	9,462	(9,462)
Total Non-program	-	45,000	39,571	5,429
Total Expenditures	48,160,951	52,709,957	47,288,156	5,421,801
Excess of Revenues Under Expenditures	(32,649,387)	(33,166,813)	(31,408,644)	1,758,169
Other Financing Sources (Uses)				
Transfers in	32,649,387	33,166,813	31,539,875	(1,626,938)
Transfers out	-	-	(131,231)	(131,231)
Total Other Financing Sources (Uses)	32,649,387	33,166,813	31,408,644	(1,758,169)
Net Change in Fund Balance	-	-	-	-
Fund Balance - July 1	-	-	-	-
Fund Balance - June 30	\$ -	\$ -	\$ -	\$ -

The notes to the required supplementary information are an integral part of this schedule.

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Kenosha, Wisconsin
Schedule of Funding Progress
For the Year Ended June 30, 2016
(In Millions of Dollars)

Other Post-Employment Benefit Plan							
Actuarial Valuation Date July 1	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) Entry Age Normal	(3) Funded Ratio (1) / (2)	(4) Unfunded Actuarial Accrued Liability (UAAL) (2) - (1)	(5) Covered Payroll	UAAL as a Percentage of Covered Payroll (4) / (5)	
2012	\$ 8.1	\$ 170.4	4.75%	\$ 162.3	\$ 124.7	130.15%	
2014	\$ 11.4	\$ 124.8	9.13%	\$ 113.4	\$ 144.6	78.42%	
2016	\$ 17.3	\$ 117.1	14.77%	\$ 99.8	\$ 132.7	75.21%	

The notes to the required supplementary information are an integral part of this schedule.

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Kenosha, Wisconsin
Schedule of Employer Contributions
For the Year Ended June 30, 2016
(In Millions of Dollars)

Other Post-Employment Benefit Plan				
Year Ended June 30,	Employer	Annual Required	Percentage	
2014	\$ 11.6	\$ 13.1	88.55%	
2015	\$ 11.7	\$ 13.4	87.31%	
2016	\$ 12.2	\$ 12.1	101.37%	

The notes to the required supplementary information are an integral part of this schedule.

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Kenosha, Wisconsin

Schedule of Proportionate Share of the Net Pension Liability (Asset)

Wisconsin Retirement System

Last 10 Fiscal Years*

	2015	2016
Proportion of the net pension liability (asset)	1.00717634%	1.00194701%
Proportionate share of the net pension liability (asset)	(\$24,739,006)	\$16,281,444
Covered-employee payroll	\$141,510,815	\$143,092,222
Plan fiduciary net position as a percentage of the total pension liability (asset)	102.74%	98.20%

* The District implemented GASB Statement Nos. 68 and 71 for the year ended June 30, 2015. Information for the prior years is not available. The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.

The notes to the required supplementary information are an integral part of this schedule.

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Kenosha, Wisconsin
Schedule of Contributions
Wisconsin Retirement System
Last 10 Fiscal Years*

	2015	2016
Contractually required contributions	\$9,911,151	\$9,730,965
Contributions in relation to the contractually required contributions	\$9,911,151	\$9,730,965
Contribution deficiency (excess)	\$0	\$0
Covered-employee payroll	\$141,510,815	\$143,092,222
Contributions as a percentage of covered-employee payroll	7.00%	6.80%

* The District implemented GASB 68 Statement Nos. 68 and 71 for the year ended June 30, 2015.
Information for prior years is not available. The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.

The notes to the required supplementary information are an integral part of this schedule.

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Kenosha, Wisconsin Notes to Required Supplementary Information For the Year Ended June 30, 2016

NOTE A - 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 using the budgetary accounting procedures prescribed by the Wisconsin Department of Public Instruction (DPI). The DPI requires the District to separate special education revenues and expenditures from other general fund amounts. Budgetary expenditure control is exercised at the on digit function level for the general fund and at the fund level for all other funds. 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. Encumbrances outstanding at year-end (e.g., purchase orders, contracts) are reported as reservations of fund balances. There were no encumbrances at the end of 2016.
- 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, 2016.

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Kenosha, Wisconsin

Notes to Required Supplementary Information

For the Year Ended June 30, 2016

NOTE B - 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 separate 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 Fund	Special Education Fund
Revenues		
Actual amounts (budgetary basis)	\$244,716,882	\$ 15,879,512
Reclassification of special education	15,879,512	(15,879,512)
Total Revenues	260,596,394	-
Expenditures		
Actual amounts (budgetary basis)	210,473,118	47,288,156
Reclassification of special education	47,288,156	(47,288,156)
Total Expenditures	257,761,274	-
Excess of Revenues Over (Under) Expenditures		
Actual amounts (budgetary basis)	34,243,764	(31,408,644)
Reclassification of special education	(31,408,644)	31,408,644
Excess of Revenues Over (Under) Expenditures	2,835,120	-
Other Financing Sources (Uses)		
Actual amounts (budgetary basis)	(31,908,644)	31,408,644
Reclassification of special education	31,408,644	(31,408,644)
Total Other Financing Sources (Uses)	(500,000)	-
Net Change in Fund Balance		
Actual amounts (budgetary basis)	2,335,120	-
Fund Balance - July 1		
Actual amounts (budgetary basis)	42,222,193	-
Fund Balance - June 30		
Actual amounts (budgetary basis)	\$ 44,557,313	\$ -

NOTE C - PENSION

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

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

SUPPLEMENTARY INFORMATION

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2016

	Special Revenue Funds				Debt Service	Total Nonmajor Governmental Funds
	Head Start	Trust	Food Service	Community Service		
ASSETS						
Cash and investments	\$ -	\$ 159,452	\$ 2,406,513	\$ 2,669,640	\$ 3,378,048	\$ 8,613,653
Receivables						
Accounts	26,803	108,000	63,407	37,566	-	235,776
Due from other governments	307,130	-	235,909	-	-	543,039
Inventories	-	-	436,217	-	-	436,217
Prepaid items	-	900	-	50,000	-	50,900
TOTAL ASSETS	<u>\$ 333,933</u>	<u>\$ 268,352</u>	<u>\$ 3,142,046</u>	<u>\$ 2,757,206</u>	<u>\$ 3,378,048</u>	<u>\$ 9,879,585</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	\$ 74,726	\$ 2,200	\$ 90,645	\$ 53,945	\$ -	\$ 221,516
Due to other funds	259,207	-	-	-	-	259,207
Deposits payable	-	-	146,736	-	-	146,736
Total Liabilities	<u>333,933</u>	<u>2,200</u>	<u>237,381</u>	<u>53,945</u>	<u>-</u>	<u>627,459</u>
Fund Balances						
Nonspendable						
Inventories	-	-	436,217	-	-	436,217
Prepaid items	-	900	-	50,000	-	50,900
Restricted						
Retirement of long-term debt	-	-	-	-	3,378,048	3,378,048
Food service	-	-	2,468,448	-	-	2,468,448
Community service	-	-	-	2,653,261	-	2,653,261
Committed						
Donations	-	265,252	-	-	-	265,252
Total Fund Balances	<u>-</u>	<u>266,152</u>	<u>2,904,665</u>	<u>2,703,261</u>	<u>3,378,048</u>	<u>9,252,126</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 333,933</u>	<u>\$ 268,352</u>	<u>\$ 3,142,046</u>	<u>\$ 2,757,206</u>	<u>\$ 3,378,048</u>	<u>\$ 9,879,585</u>

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended June 30, 2016

	Special Revenue Funds				Debt Service	Total Nonmajor Governmental Funds
	Head Start	Trust	Food Service	Community Service		
Revenues						
Property taxes	\$ -	\$ -	\$ -	\$ 1,500,000	\$ 16,823,755	\$ 18,323,755
Other local sources	-	172,968	1,944,143	129,431	9,109	2,255,651
State sources	-	-	138,451	-	-	138,451
Federal sources	1,924,503	-	6,573,802	-	-	8,498,305
Other sources	-	163,316	-	-	1,018,308	1,181,624
Total Revenues	1,924,503	336,284	8,656,396	1,629,431	17,851,172	30,397,786
Expenditures						
Instruction						
Regular instruction	306,011	-	-	-	-	306,011
Special education instruction	796,731	-	-	-	-	796,731
Other instruction	-	5,360	-	-	-	5,360
Total Instruction	1,102,742	5,360	-	-	-	1,108,102
Support Services						
Pupil services	369,772	-	-	-	-	369,772
Instructional staff services	35,238	70,005	-	-	-	105,243
General administration services	-	-	-	403,275	-	403,275
Building administration services	236,541	-	-	-	-	236,541
Operation and maintenance of plant	109,750	3,814	95,641	167	-	209,372
Pupil transportation	70,460	1,300	-	7,639	-	79,399
Food services	-	-	8,235,509	-	-	8,235,509
Total Support Services	821,761	75,119	8,331,150	411,081	-	9,639,111
Debt Service						
Principal	-	-	-	-	12,403,000	12,403,000
Interest and fiscal charges	-	-	-	-	5,685,689	5,685,689
Total Debt Service	-	-	-	-	18,088,689	18,088,689
Community services	-	-	-	883,938	-	883,938
Non-program transactions						
Adjustments and refunds	-	-	6	-	-	6
Total Expenditures	1,924,503	80,479	8,331,156	1,295,019	18,088,689	29,719,846
Excess of Revenues Over (Under) Expenditures	-	255,805	325,240	334,412	(237,517)	677,940
Other Financing Sources (Uses)						
Long-term debt issued	-	-	-	-	13,305,000	13,305,000
Premium on long term debt issued	-	-	-	-	2,874,246	2,874,246
Payment to refunded bond escrow agent	-	-	-	-	(15,304,065)	(15,304,065)
Transfers in	-	-	-	-	500,000	500,000
Total Other Financing Sources (Uses)	-	-	-	-	1,375,181	1,375,181
Net Change in Fund Balances	-	255,805	325,240	334,412	1,137,664	2,053,121
Fund Balances - July 1	-	10,347	2,579,425	2,368,849	2,240,384	7,199,005
Fund Balances - June 30	\$ -	\$ 266,152	\$ 2,904,665	\$ 2,703,261	\$ 3,378,048	\$ 9,252,126

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Pupil Activity Funds

Schedule of Changes in Assets and Liabilities

For the Year Ended June 30, 2016

ASSETS

Cash and investments

LIABILITIES

Accounts payable

Due to student organizations

TOTAL LIABILITIES

Pupil Activity Funds			
Balance 7/1/15	Additions	Deletions	Balance 6/30/16
\$ 1,641,307	\$ 4,449,850	\$ 4,481,941	\$ 1,609,216
\$ 57,786	\$ 534,631	\$ 583,902	\$ 8,515
1,583,521	3,915,219	3,898,039	1,600,701
\$ 1,641,307	\$ 4,449,850	\$ 4,481,941	\$ 1,609,216

**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
Kenosha Unified School District No. 1
Kenosha, 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, each major fund, and the aggregate remaining fund information of the Kenosha Unified School District No. 1, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Kenosha Unified School District No. 1's basic financial statements, and have issued our report thereon which included an emphasis of matter paragraph as indicated on page 2 dated January 10, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Kenosha Unified School District No. 1'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 Kenosha Unified School District No. 1's internal control. Accordingly, we do not express an opinion on the effectiveness of the Kenosha Unified School District No. 1's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Kenosha Unified School District No. 1'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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Kenosha Unified School District No. 1'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 Kenosha Unified School District No. 1's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Certified Public Accountants
Green Bay, Wisconsin
January 10, 2017

FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

**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
Kenosha Unified School District No. 1
Kenosha, Wisconsin

Report on Compliance for Each Major Federal and State Program

We have audited Kenosha Unified School District No. 1'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 Kenosha Unified School District No. 1's major federal and state programs for the year ended June 30, 2016. Kenosha Unified School District No. 1's major federal and state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Kenosha Unified School District No. 1'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, the Uniform Guidance, and the *State Single Audit Guidelines* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about Kenosha Unified School District No. 1'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 Kenosha Unified School District No. 1's compliance.

Opinion on Each Major Federal and State Program

In our opinion, Kenosha Unified School District No. 1 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, 2016.

Other Matter

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the *State Single Audit Guidelines* and which is described in the accompanying schedule of findings and questioned costs as item 2015-002.

Kenosha Unified School District No. 1's response to the noncompliance finding identified in our audit is described in the accompanying schedule of prior year audit findings and corrective action plan. Kenosha Unified School District No. 1's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance


Management of Kenosha Unified School District No. 1 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 Kenosha Unified School District No. 1'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 Kenosha Unified School District No. 1's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies 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. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2015-002 to be a significant deficiency.

Kenosha Unified School District No. 1's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of prior year audit findings and corrective action plan. Kenosha Unified School District No. 1's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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
Green Bay, Wisconsin
January 10, 2017

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1
Kenosha, Wisconsin
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

Federal Grantor/Program Name/Grant Period	Pass-Through Agency	Federal Catalog Number	Pass-Through Entity Identifying Number	(Accrued Receivable) Deferred Revenue 7/1/15	Cash Received (Refunded)	Accrued Receivable (Deferred Revenue) 6/30/16	Total Revenues	Total Expenditures	Subrecipient Payments
U.S. Department of Agriculture									
<i>Child Nutrition Cluster</i>									
National School Breakfast Program	Wisconsin Department of Public Instruction	10.553	A546-00000-302793	\$ (53,968)	\$ 53,968	\$ -	\$ -	\$ -	\$ -
July 1, 2014 - June 30, 2015				-	1,141,857	42,347	1,184,204	1,184,204	-
July 1, 2015 - June 30, 2016	Wisconsin Department of Public Instruction			(53,968)	1,195,825	42,347	1,184,204	1,184,204	-
Total National School Breakfast Program									
National School Lunch Program	Wisconsin Department of Public Instruction	10.555	A547-00000-302793	(181,987)	181,987	-	-	-	-
Food Service Aid Lunch NSL				-	4,461,425	128,838	4,590,263	4,590,263	-
July 1, 2014 - June 30, 2015	Wisconsin Department of Public Instruction			-	17,324	265	17,589	17,589	-
July 1, 2015 - June 30, 2016	Wisconsin Department of Public Instruction			-	481,830	-	481,830	481,830	-
NSL Area Eligible Snack Program	Wisconsin Department of Public Instruction		A566-00000-302793	-	17,324	265	17,589	17,589	-
July 1, 2015 - June 30, 2016	Wisconsin Department of Public Instruction		A547-00000-302793	(181,987)	5,142,566	129,103	5,089,682	5,089,682	-
Donated Commodities									
Total National School Lunch Program									
Summer Food Service Program	Wisconsin Department of Public Instruction	10.559	A586-00000-302793	(21,310)	21,310	-	-	-	-
July 1, 2014 - June 30, 2015				-	38,746	30,533	69,279	69,279	-
July 1, 2015 - June 30, 2016	Wisconsin Department of Public Instruction			(21,310)	60,056	30,533	69,279	69,279	-
Total National School Lunch Program				(257,265)	6,398,447	201,983	6,343,165	6,343,165	-
Total Child Nutrition Cluster									
Fresh Fruit & Vegetable Program	Wisconsin Department of Public Instruction	10.582	A376-00000-302793	(10,715)	10,715	-	-	-	-
July 1, 2014 - June 30, 2015				-	173,687	33,927	207,614	207,614	-
July 1, 2015 - June 30, 2016	Wisconsin Department of Public Instruction			-	23,023	-	23,023	23,023	-
July 1, 2015 - June 30, 2016	Wisconsin Department of Public Instruction		A594-00000-302793	(10,715)	207,425	33,927	230,637	230,637	-
Total Fresh Fruit & Vegetable Program									
Total U.S. Department of Agriculture				(267,980)	6,605,872	235,910	6,573,802	6,573,802	-
U.S. Department of Education									
<i>Title I Grants to Local Educational Agencies</i>									
Basic Grant	Wisconsin Department of Public Instruction	84.010	A141-00000-302793	(1,304,774)	1,304,774	-	-	-	-
July 1, 2014 - June 30, 2015				-	5,214,121	853,768	6,067,889	6,067,889	-
July 1, 2015 - June 30, 2016	Wisconsin Department of Public Instruction			(10,500)	10,500	-	-	-	-
Focus Schools	Wisconsin Department of Public Instruction		A145-00000-302793	-	67,188	16,288	83,476	83,476	-
July 1, 2014 - June 30, 2015	Wisconsin Department of Public Instruction			(37)	37	-	-	-	-
July 1, 2015 - June 30, 2016	Wisconsin Department of Public Instruction			-	70,172	8,816	78,988	78,988	-
Delinquent	Wisconsin Department of Public Instruction		A140-00000-302793	(14,347)	14,347	-	-	-	-
July 1, 2014 - June 30, 2015	Wisconsin Department of Public Instruction			-	17,938	7,009	24,947	24,947	-
July 1, 2015 - June 30, 2016	Wisconsin Department of Public Instruction		A154-00000-302793	(1,329,658)	6,699,077	885,881	6,255,300	6,255,300	-
Total Title I Grants to Local Educational Agencies									

(Continued)

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1
Kenosha, Wisconsin
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

Federal Grantor/Program Name/Grant Period	Pass-Through Agency	Federal Catalog Number	Pass-Through Entity Identifying Number	(Accrued Receivable) Deferred Revenue 7/1/15	Cash Received (Refunded)	Accrued Receivable (Deferred Revenue) 6/30/16	Total Revenues	Total Expenditures	Subrecipient Payments
U.S. Department of Education (Continued)									
Career and Technical Education (Carl Perkins IV)		84.048	A400-00000-302793						
July 1, 2014 - June 30, 2015	Wisconsin Department of Public Instruction			(34,348)	34,348	-	-	-	-
July 1, 2015 - June 30, 2016	Wisconsin Department of Public Instruction			-	185,674	21,857	207,531	207,531	-
Total Career and Technical Education (Carl Perkins IV)				(34,348)	220,022	21,857	207,531	207,531	-
Special Education Cluster (IDEA)									
Special Education - Grants to States		84.027	A341-00000-302793						
Special Education - IDEA Flow-through									
July 1, 2014 - June 30, 2015	Wisconsin Department of Public Instruction			(627,900)	627,900	-	-	-	-
July 1, 2015 - June 30, 2016	Wisconsin Department of Public Instruction			-	2,856,894	781,186	3,638,080	3,638,080	-
Special Education - CEIS Entitlement			A341-00000-302793						
July 1, 2014 - June 30, 2015	Wisconsin Department of Public Instruction			(93,541)	93,541	-	-	-	-
July 1, 2015 - June 30, 2016	Wisconsin Department of Public Instruction			-	348,937	238,766	587,703	587,703	-
Special Education - High Cost			A342-00000-302793						
July 1, 2015 - June 30, 2016	Wisconsin Department of Public Instruction			-	107,505	-	107,505	107,505	-
Total Special Education - Grants to States				(721,441)	4,034,777	1,019,952	4,333,288	4,333,288	-
Special Education - Preschool Grants		84.173	A347-00000-302793						
Special Education - IDEA Preschool									
July 1, 2014 - June 30, 2015	Wisconsin Department of Public Instruction			(32,028)	32,028	-	-	-	-
July 1, 2015 - June 30, 2016	Wisconsin Department of Public Instruction			-	116,349	160,357	276,706	276,706	-
Total Special Education - Preschool Grants				(32,028)	148,377	160,357	276,706	276,706	-
Total Special Education Cluster (IDEA)				(753,469)	4,183,154	1,180,309	4,609,994	4,609,994	-
Safe and Drug Free Schools and Communities		84.184	A592-00000-302793						
July 1, 2014 - June 30, 2015	Wisconsin Department of Public Instruction			(34,164)	34,164	-	-	-	-
Education for Homeless		84.196	A335-00000-302793						
July 1, 2014 - June 30, 2015	Wisconsin Department of Public Instruction			(5,955)	5,955	-	-	-	-
July 1, 2015 - June 30, 2016	Wisconsin Department of Public Instruction			-	36,688	13,112	49,800	49,800	-
Total Education for Homeless				(5,955)	42,643	13,112	49,800	49,800	-
21st Century Community Learning Centers		84.287	A367-00000-302793						
July 1, 2014 - June 30, 2015	Wisconsin Department of Public Instruction			(67,586)	67,586	-	-	-	-
July 1, 2015 - June 30, 2016	Wisconsin Department of Public Instruction			-	74,182	25,330	99,512	99,512	-
Total 21st Century Community Learning Centers				(67,586)	141,768	25,330	99,512	99,512	-

(Continued)

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1
Kenosha, Wisconsin
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

Federal Grantor/Program Name/Grant Period	Pass-Through Agency	Federal Catalog Number	Pass-Through Entity Identifying Number	(Accrued Receivable) Deferred Revenue 7/1/15	Cash Received (Refunded)	Accrued Receivable (Deferred Revenue) 6/30/16	Total Revenues	Total Expenditures	Subrecipient Payments
U.S. Department of Education (Continued)									
Title III-A English Language Acquisition Grants		84.365	A391-00000-302793						
July 1, 2014 - June 30, 2015	Wisconsin Department of Public Instruction			(20,462)	20,462	-	-	-	-
July 1, 2015 - June 30, 2016	Wisconsin Department of Public Instruction			-	250,606	36,142	286,748	286,748	-
Total Title III-A English Language Acquisition Grants				(20,462)	271,068	36,142	286,748	286,748	-
Improving Teacher Quality State Grants		84.367	A365-00000-302793						
July 1, 2014 - June 30, 2015	Wisconsin Department of Public Instruction			(157,669)	157,669	-	-	-	-
July 1, 2015 - June 30, 2016	Wisconsin Department of Public Instruction			-	567,303	301,454	868,757	868,757	-
Total Improving Teacher Quality State Grants				(157,669)	724,972	301,454	868,757	868,757	-
Total U.S. Department of Education				(2,403,311)	12,316,868	2,464,085	12,377,642	12,377,642	-
U.S. Department of Health and Human Services									
Head Start		93.600	n/a						
Award No 05CH8317-03-00									
July 1, 2014 - June 30, 2015	Direct Program			(184,867)	184,867	-	-	-	-
July 1, 2015 - June 30, 2016	Direct Program			-	1,683,067	307,130	1,990,197	1,990,197	-
Total Head Start				(184,867)	1,867,934	307,130	1,990,197	1,990,197	-
Medicaid Cluster									
Medical Assistance		93.778	44202800						
July 1, 2014 - June 30, 2015	Wisconsin Department of Health Services			(198,271)	198,271	-	-	-	-
July 1, 2015 - June 30, 2016	Wisconsin Department of Health Services			-	2,627,003	211,320	2,838,323	2,838,323	-
Total Medicaid Cluster				(198,271)	2,825,274	211,320	2,838,323	2,838,323	-
Total U.S. Department of Health and Human Services				(383,138)	4,693,208	518,450	4,828,520	4,828,520	-
TOTAL FEDERAL FINANCIAL ASSISTANCE				\$ (3,054,429)	\$ 23,615,948	\$ 3,218,445	\$ 23,779,964	\$ 23,779,964	\$ -

See Notes to the Schedule of Expenditures of Federal Awards and Schedule of State Financial Assistance.

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1
Kenosha, Wisconsin
Schedule of State Financial Assistance
For the Year Ended June 30, 2016

State Grantor/Program Name/Grant Period	Pass-through Agency	State I.D. Number	State Identifying Number	(Accrued Receivable) Deferred Revenue 7/1/15	Cash Received	(Accrued Receivable) (Deferred Revenue) 6/30/16	Total Revenues	Total Expenditures	Subrecipient Payments
<u>Wisconsin Department of Public Instruction</u>									
Special Education and School Age Parents	Direct Program	255.101	302793-100	\$ -	\$ 10,722,471	\$ -	\$ 10,722,471	\$ 10,722,471	\$ -
School Lunch Aid Program	Direct Program	255.102	302793-107	-	83,001	-	83,001	83,001	-
Common School Fund Library Aid	Direct Program	255.103	302793-104	-	985,855	-	985,855	985,855	-
Bilingual-Bicultural Education Aid	Direct Program	255.106	302793-111	-	46,133	-	46,133	46,133	-
Pupil Transportation Aid	Direct Program	255.107	302793-102	-	259,886	-	259,886	259,886	-
WI Morning Milk	Direct Program	255.109	302793-109	-	5,570	-	5,570	5,570	-
Equalization Aid	Direct Program	255.201	302793-116						
July 1, 2014 - June 30, 2015				(2,644,819)	2,644,819	-	-	-	-
July 1, 2015 - June 30, 2016				-	149,836,390	2,678,012	152,514,402	152,514,402	-
High Cost Special Education Aid	Direct Program	255.210	302793-119	-	158,068	-	158,068	158,068	-
Alcohol and Other Drug Abuse	Direct Program	255.306	302793-143						
July 1, 2014 - June 30, 2015				(4,518)	4,518	-	-	-	-
July 1, 2015 - June 30, 2016				-	22,128	3,832	25,960	25,960	-
Head Start	Direct Program	255.327	302793-145						
July 1, 2014 - June 30, 2015				(102,621)	102,621	-	-	-	-
July 1, 2015 - June 30, 2016				-	255,507	62,377	317,884	317,884	-
School Breakfast Aid	Direct Program	255.344	302793-108	-	49,880	-	49,880	49,880	-
Wisconsin's Movin' Schools	Direct Program	255.345	302793-123	-	200	-	200	200	-
Tuition Payments	Direct Program	255.401	302793-157	-	207,240	-	207,240	207,240	-
Aid for High-Poverty School District	Direct Program	255.926	302793-121	-	1,488,832	-	1,488,832	1,488,832	-
STEM Grant	Direct Program	255.929	302793-147	(17)	17	-	-	-	-
Educator Effectiveness Grant	Direct Program	255.940	302793-154	-	-	92,066	92,066	92,066	-
Per Pupil Aid	Direct Program	255.945	302793-113	-	-	3,331,950	3,331,950	3,331,950	-
Career and Technical Education Incentive Grants	Direct Program	255.950	302793-152						
July 1, 2014 - June 30, 2015				5,000	-	-	5,000	5,000	-
July 1, 2015 - June 30, 2016				-	10,676	-	10,676	10,676	-
Total Wisconsin Department of Public Instruction				(2,746,975)	166,883,812	6,168,237	170,305,074	170,305,074	-
TOTAL STATE FINANCIAL ASSISTANCE				\$ (2,746,975)	\$ 166,883,812	\$ 6,168,237	\$ 170,305,074	\$ 170,305,074	\$ -

See Notes to the Schedule of Expenditures of Federal Awards and Schedule of State Financial Assistance.

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Kenosha, Wisconsin

Notes to the Schedule of Expenditures of Federal Awards and Schedule of State Financial Assistance
For the Year Ended June 30, 2016

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards and schedule of state financial assistance include the federal and state grant activity of the Kenosha Unified School District No. 1 and are presented on the modified accrual basis of accounting. The information in these schedules is 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*. Therefore, some amounts presented in these schedules may differ from amounts presented in, or used in the preparation of, the basic financial statements. The District has not elected to charge a de minimis indirect rate of 10% of modified total direct costs.

NOTE B - SPECIAL EDUCATION AND SCHOOL AGE PARENTS PROGRAM

The 2015-2016 eligible costs under the State Special Education Program as reported by the District are \$41,308,776.

NOTE C - OVERSIGHT AGENCIES

The U.S. Department of Health and Human Services is the federal oversight agency and the Wisconsin Department of Public Instruction is the state oversight agency for the District.

NOTE D - DONATED SERVICES

The District receives an undeterminable amount of donated services from a variety of unpaid volunteers assisting the Head Start program. Therefore, no amounts have been recorded in the Schedule of Expenditures of Federal Awards.

NOTE E - RECONCILIATION OF REVENUES TO BASIC FINANCIAL STATEMENTS

The following is a reconciliation of federal and state revenues per the schedule of expenditures of federal and state financial assistance to the federal and state revenues per the District's basic financial statements.

	Federal	State
Revenues per schedule of expenditures of federal and state awards	\$ 23,779,964	\$ 170,305,074
Programs not subject to single audit	67,163	489,268
Revenues per basic financial statements	<u>\$ 23,847,127</u>	<u>\$ 170,794,342</u>
Revenues per basic financial statements:		
Governmental funds		
Federal and state sources	<u>\$ 23,847,127</u>	<u>\$ 170,794,342</u>
Revenues per basic financial statements	<u>\$ 23,847,127</u>	<u>\$ 170,794,342</u>

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1

Kenosha, Wisconsin
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2016

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?	None Reported
Noncompliance material to basic financial statements noted?	No

Federal Awards and State Financial Assistance

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	Yes
Type of auditors' report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	No
Any audit findings disclosed that are required to be reported in accordance with the <i>State Single Audit Guidelines</i> ?	Yes
Identification of major federal and state programs:	

CFDA Number	Name of Federal Programs
93.600	Head Start
93.778	Medical Assistance Program

State ID Number	Name of State Programs
255.101	Special Education and School Age Parents
255.107	Pupil Transportation Aid
255.201	General Equalization Aids
255.327	Head Start

Audit threshold used to determine between Type A and Type B federal programs:	\$750,000
Audit threshold used to determine between Type A and Type B state programs:	\$250,000
Auditee qualified as low-risk auditee	Yes

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1
Kenosha, Wisconsin
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2016

Section II - Financial Statement Findings

There are no findings to be reported.

Section III - Federal Award and State Financial Assistance Findings and Questioned Costs

Finding No.	<i>State Single Audit Guidelines</i> Finding and Internal Control Deficiency
2015-002	Special Education Aid Allowable Costs
State ID #:	255.101
Condition:	Wisconsin Department of Public Instruction (DPI) identified fifteen individuals that did not have valid licenses for the year ended June 30, 2016. The District reviewed this listing and provided correspondence to the Wisconsin DPI for four of the individuals. In our payroll testing sample of 25 employees, we noted one employee that had a valid license but was not being coded to the proper Wisconsin Uniform Financial Accounting Requirements (WUFAR) function based on the employee's position.
Criteria:	The <i>State Single Audit Guidelines</i> (SSAG) require that employees and contractors hired by the District be appropriately licensed for their actual assignment in order to be eligible for special education categorical aid.
Cause:	The District's human resources and special education departments all monitor special education licenses and position assignments to ensure only eligible teachers are claimed for special education categorical aids.
Effect:	The District may receive special education reimbursement for employees not appropriately licensed or in positions not directly related to the special education program.
Questioned Costs:	Salaries and benefits in the amount of \$562,362 for the employees listed on the no valid license report were not reclassified from project 011 to project 019 on the special education report for fiscal year 2016 due to the DPI's pending review of documentation submitted by the District.
Recommendation:	We recommend the District's human resources department develop procedures to ensure only employees with valid licenses and approval of the special education department are coded to special education positions. We also recommend the District consider creating an additional procedure to have a District employee familiar with the program, such as the special education director, review annually all employees coded to special education positions and project 011 expenditure accounts to evaluate their proper assignment. This step should include a review of the WUFAR coding in comparison to Wisconsin Department of Public Instruction's "Valid Reporting and License Codes for Special Education and Pupil Services Staff SPED/SAP Categorical Aid Eligibility" report and make any adjustments necessary.

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1
Kenosha, Wisconsin
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2016

Section IV - Other Issues

Does the auditors' report or the notes to the financial statement include disclosure with regard to substantial doubt as to the auditee's ability to continue as a going concern?

_____ Yes X No

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

Department of Health Services

_____ Yes X No

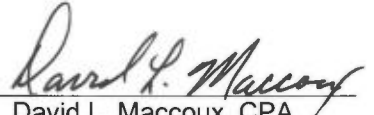
Department of Public Instruction

 X Yes _____ No

Was a Management Letter or other document conveying audit comments issued as a result of this audit?

 X Yes _____ No

Name and signature of shareholder


David L. Maccoux, CPA

Date of report

January 10, 2017

KENOSHA UNIFIED SCHOOL DISTRICT NO. 1
Kenosha, Wisconsin
Schedule of Prior Year Audit Findings and Corrective Action Plan
For the Year Ended June 30, 2016

Status of Prior Year Audit Finding

All findings noted in the 2015 Schedule of Findings and Questioned Costs have been reported to the proper federal and state agencies. Finding 2015-001 was remedied in the fiscal year ended June 30, 2016. Finding 2015-002 was repeated for the fiscal year ended June 30, 2016.

Corrective Action Plan for Audit Findings

2015-002 Special Education Aid Allowable Costs

We agree with auditors' recommendation. The Human Resources Department will work with the Special Education Department to perform procedures to ensure employees with valid licenses are coded to the corresponding function and project in the District's ERP System, Business Plus. These procedures include, but are not limited to the following:

A Position Control (PCN) form must be completed for all new hires. The Human Resources Department will verify the license information on the PCN form and determine that the function and project assigned in Business Plus at date of hire matches DPI licensing and financial reporting requirements for that position. If the new hire's licensing does not match the position being filled, documentation for emergency or permanent licensing must be provided at time of hire. If the documentation is not provided at time of hire, the candidate's date of hire will be delayed until appropriate documentation is obtained.

If existing District personnel are found to have licensure issues, documentation of appropriate licensure will be required within 30 days of employee notification by the Human Resources Department. Failure to provide documentation will result in disciplinary action. Then the Human Resources Department will initiate the employee's transfer of salary and benefits to a non-aidable function and project within Business Plus through the position control (PCN) and payroll transfer process.

Prior to the Human Resources Department's submission of the PI-1202 Report, a labor distribution report by function and project from the District's ERP System, Business Plus, will be reviewed by the Chief of Special Education and Student Support. The review will verify that employees are charged to the correct function and project in Business Plus based on the employee's licensure compared to the State of Wisconsin Department of Public Instruction's Valid Reporting and License Codes for Special Education. This report will be initialed and dated by the Chief of Special Education and Student Support. A copy of the report will be kept in the Special Education Department. Any changes will be resolved through the Position Control (PCN) process. The PCN Change form(s) and a copy of the reviewed Labor Distribution Report will be forwarded to the Human Resources Department for their records. The Human Resources Department will verify that the position change is entered into Business Plus and that the payroll transfer has occurred in the ERP system.

Elementary schools

Bose Elementary School

1900 15th St., Kenosha, WI 53140
Phone: 359-4044 Fax: 359-4005
Web: bose.kusd.edu

Brass Community School

6400 15th Ave., Kenosha, WI 53143
Phone: 359-8000 Fax: 359-8050
Web: brass.kusd.edu

Curtis Strange Elementary School

5414 49th Ave., Kenosha, WI 53144
Phone: 359-6024 Fax: 359-6247
Web: strange.kusd.edu

EBSOLA Creative Arts

2600 50th St., Kenosha, WI 53140
Phone: 359-2300 Fax: 359-2400
Web: ebsola.kusd.edu/ca

EBSOLA Dual Language

2600 50th St., Kenosha, WI 53140
Phone: 359-2300 Fax: 359-2400
Web: ebsola.kusd.edu/dl

Forest Park Elementary School

6810 45th Ave., Kenosha, WI 53142
Phone: 359-6319 Fax: 359-6170
Web: forestpark.kusd.edu

Frank Elementary School

1816 57th St., Kenosha, WI 53140
Phone: 359-6324 Fax: 359-6393
Web: frank.kusd.edu

Grant Elementary School

1716 35th St., Kenosha, WI 53140
Phone: 359-6346 Fax: 359-6672
Web: grant.kusd.edu

Grewenow Elementary School

7714 20th Ave., Kenosha, WI 53143
Phone: 359-6362 Fax: 359-7706
Web: grewenow.kusd.edu

Harvey Elementary School

2012 19th Ave., Kenosha, WI 53140
Phone: 359-4040 Fax: 359-4020
Web: harvey.kusd.edu

Jefferson Elementary School

1832 43rd St., Kenosha, WI 53140
Phone: 359-6390 Fax: 359-7578
Web: jefferson.kusd.edu

Jeffery Elementary School

4011 87th St., Kenosha, WI 53142
Phone: 359-2100 Fax: 359-2033
Web: jeffery.kusd.edu

McKinley Elementary School

5520 32nd Ave., Kenosha, WI 53144
Phone: 359-6002 Fax: 359-7641
Web: mckinley.kusd.edu

Nash Elementary School

6801 99th Ave., Kenosha, WI 53142
Phone: 359-3500 Fax: 359-3550
Web: nash.kusd.edu

Pleasant Prairie Elementary School

9208 Wilmot Road, Pleasant Prairie, WI 53158
Phone: 359-2104 Fax: 359-2157
Web: pleasantprairie.kusd.edu

Prairie Lane Elementary School

10717 47th Ave., Pleasant Prairie, WI 53158
Phone: 359-3600 Fax: 359-3650
Web: prairielane.kusd.edu

Roosevelt Elementary School

3322 Roosevelt Road, Kenosha, WI 53142
Phone: 359-6097 Fax: 359-6107
Web: roosevelt.kusd.edu

Somers Elementary School

1245 72nd Ave., Kenosha, WI 53144
Phone: 359-3200 Fax: 359-3212
Web: somers.kusd.edu

Southport Elementary School

723 76th St., Kenosha, WI 53143
Phone: 359-6309 Fax: 359-5952
Web: southport.kusd.edu

Stocker Elementary School

6315 67th St., Kenosha, WI 53142
Phone: 359-2143 Fax: 359-2012
Web: stocker.kusd.edu

Vernon Elementary School

8518 22nd Ave., Kenosha, WI 53143
Phone: 359-2113 Fax: 359-2169
Web: vernon.kusd.edu

Whittier Elementary School

8542 Cooper Road, Pleasant Prairie, WI 53158
Phone: 359-2110 Fax: 359-2270
Web: whittier.kusd.edu

Wilson Elementary School

4520 33rd Ave., Kenosha, WI 53144
Phone: 359-6094 Fax: 359-5993
Web: wilson.kusd.edu

Middle schools

Bullen Middle School

2804 39th Ave., Kenosha, WI 53144
Phone: 359-4460 Fax: 359-4487
Web: bullen.kusd.edu

Lance Middle School

4515 80th St., Kenosha, WI 53142
Phone: 359-2240 Fax: 359-2184
Web: lance.kusd.edu

Lincoln Middle School

6729 18th Ave., Kenosha, WI 53143
Phone: 359-6296 Fax: 359-5966
Web: lincoln.kusd.edu

Mahone Middle School

6900 60th St., Kenosha, WI 53144
Phone: 359-8100 Fax: 359-6851
Web: mahone.kusd.edu

Washington Middle School

811 Washington Road, Kenosha, WI 53140
Phone: 359-6291 Fax: 359-6056
Web: washington.kusd.edu

High schools

Bradford High School

3700 Washington Rd., Kenosha, WI 53144
Phone: 359-6200 Fax: 359-5948
Web: bradford.kusd.edu

Indian Trail High School & Academy

6800 60th St., Kenosha, WI 53144
Phone: 359-8700 Fax: 359-8756
Web: indiantrail.kusd.edu

Tremper High School

8560 26th Ave., Kenosha, WI 53143
Phone: 359-2200 Fax: 359-2353
Web: tremper.kusd.edu

Choice schools

LakeView Technology Academy

(Grades 9-12)
9449 88th Ave., Pleasant Prairie, WI 53158
Phone: 359-8155 Fax: 359-8159
Web: lakeview.kusd.edu

Reuther Central High School

(Grades 9-12)
913 57th St., Kenosha, WI 53140
Phone: 359-6160 Fax: 359-6281
Web: reuther.kusd.edu

Kenosha eSchool

(Online school, grades K-12)
1808 41st Place, Kenosha, WI 53140
Phone: 359-7715 Fax: 359-5933
Web: eschool.kusd.edu

Charter schools

Harborside Academy

(Grades 6-12)
913 57th St., Kenosha, WI 53140
Phone: 359-8400 Fax: 359-8450
Web: harborside.kusd.edu

Kenosha School of Technology Enhanced Curriculum (KTEC)

(Grades K-8)
KTEC East: 6811 18th Ave., Kenosha, WI 53143
Phone: 359-3800 Fax: 359-3850
KTEC West: 5710 32nd Ave., Kenosha, WI 53144
Phone: 359-7100 Fax: 359-7070
Web: ktec.kusd.edu

The Brompton School

(Grades K-8)
8518 22nd Ave., Kenosha, WI 53143
Phone: 359-2191 Fax: 359-2194
Web: brompton.kusd.edu

Dimensions of Learning Academy

(Grades K-8)
6218 25th Ave., Kenosha, WI 53143
Phone: 359-6849 Fax: 359-3134
Web: dol.kusd.edu

Specialty schools

Cesar E. Chavez Learning Station

(Head Start Center)
6300 27th Ave., Kenosha, WI 53143
Phone: 359-6078 Fax: 359-6286
Web: headstart.kusd.edu

Hillcrest School

(Bridges Center/T.I.M.E. Program, grades 9-12)
4616 24th St., Kenosha, WI 53144
Phone: 359-6118 Fax: 359-7870
Web: hillcrest.kusd.edu



**Kenosha Unified
School District**