

**RACINE UNIFIED SCHOOL DISTRICT  
RACINE, WISCONSIN**

**ANNUAL FINANCIAL REPORT**

**JUNE 30, 2016**

**RACINE UNIFIED SCHOOL DISTRICT**

Racine, Wisconsin

June 30, 2016

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**RACINE UNIFIED SCHOOL DISTRICT**

Racine, Wisconsin

June 30, 2016

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## INDEPENDENT AUDITORS' REPORT

To the Board of Education  
Racine Unified School District  
Racine, 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 Racine Unified School District, ("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 on pages 4 through 10 and the budgetary comparison information and the schedules relating to pensions and other postemployment benefits on pages 43 through 48 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.

## **Report on Summarized Financial Information**

We have previously audited the District's 2015 financial statements, and our report dated November 13, 2015, expressed unmodified opinions on those respective financial statements of the governmental activities, each major fund and the aggregate remaining fund information. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2016, 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  
December 19, 2016

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**



## Racine Unified School District

3109 Mount Pleasant Street, Racine, WI 53404  
Financial and Budget Services

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

#### **FINANCIAL HIGHLIGHTS**

- The District's overall financial position, as reflected in total net position, increased \$147,459 during the 2015-2016 fiscal year. (See pages 12 - 13)
- The District continued to apply GASB Statement No. 45, Accounting and Financial Reporting by Employers for Post-retirement Benefits Other than Pensions during the 2016 year. The actuarially determined expense was \$1,057,181 greater than the District's post-retirement plan contributions for the year compared to \$202,540 greater for the prior year. (See page 39)
- The District's governmental fund balance reported an increase of \$736,219 compared to an increase of \$9,536,049 in the prior year. The increases primarily were in the General Fund of \$820,579 and Capital Project Funds of \$330,592. The increase in the General Fund was a planned increase, with the final approved budget projecting a surplus of \$1,104,725. The increase in the Capital Projects was due primarily to timing on the receipt of debt proceeds and the spending of capital funds.
- The District's reported capital assets increased by \$48,391,880 over the prior year. The increases were primarily due to the construction of two new school buildings and a large addition and improvements to another school building. (See page 9)

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The basic financial statements are comprised of (1) district-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. In addition, other information supplementary to the basic financial statements is provided.

##### **Government-Wide Financial Statements**

- The district-wide financial statements are the Statement of Net Position and the 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 governmental activities from business-type activities.
- The Statement of Net Position presents information on all of the District's assets, deferred outflows/inflows of resources and liabilities, with the difference reported as net position.
- The Statement of Activities presents information showing how the District's net position changed during the year.



## **Fund Financial Statements**

- The District also produces fund financial statements, the Balance Sheet and the Statement of Revenue, Expenditures, and Changes in Fund Balance.
- A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities. The District, like other state and local governments, uses fund accounting to demonstrate compliance with finance related legal requirements. Fund statements generally report operations in more detail than the district-wide statements.
- The District has two types of funds: governmental, and fiduciary. Governmental funds are: general, special revenue, special education, special project, debt service, and capital projects. The District has three fiduciary funds. A private purpose trust fund accounts for financial resources to benefit specified beneficiaries, an employee benefit trust fund accounts for District and retiree contributions for post-retirement health and dental coverage and an agency fund to account for funds of student organizations.
- Financial information is presented separately on the Balance Sheet and the Statement of Revenue, Expenditures, and Changes in Fund Balance for the general fund and capital projects fund as they are considered to be major funds. Data for all other funds is combined into a single aggregated column. Data for each of these individual non-major funds is provided separately as supplementary information.
- The District serves as a trustee, or fiduciary, for student organizations and for certain trust beneficiaries. The assets of these funds do not directly benefit nor are under the direct control of 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.
- The District adopts an annual appropriated budget for its general fund. A budgetary comparison statement for the general fund has been provided to demonstrate compliance with this budget.

## **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 follow the financial statements for the fiduciary funds.

## FINANCIAL ANALYSIS

### The District as a Whole

#### Net Position

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

<b>Table 1</b>			
<b>Condensed Statement of Net Assets</b>			
<b>(in thousands of dollars)</b>			
	School District		%
	2016	2015	Change 2015-16
<b>Assets</b>			
Current assets	\$ 81,129	\$ 109,436	-25.9%
Capital assets	149,853	101,461	47.7%
<b>Total Assets</b>	<b>230,982</b>	<b>210,897</b>	<b>9.5%</b>
<b>Deferred Outflows</b>			
Related to pension	83,496	20,354	310.2%
Loss on advance refunding	77	171	-55.0%
<b>Total Deferred Outflows</b>	<b>83,573</b>	<b>20,525</b>	<b>307.2%</b>
<b>Liabilities</b>			
Long-term obligations	134,120	79,011	69.7%
Other liabilities	28,346	33,622	-15.7%
<b>Total Liabilities</b>	<b>162,466</b>	<b>112,633</b>	<b>44.2%</b>
<b>Deferred Inflows</b>			
Related to pension	33,386	233	14228.8%
<b>Net Position</b>			
Net investment in capital assets	53,417	45,571	17.2%
Restricted	11,258	29,427	-61.7%
Unrestricted	54,028	43,558	-24.0%
<b>Total Net Position</b>	<b>\$ 118,703</b>	<b>\$ 118,556</b>	<b>0.1%</b>

(The calculation of net position uses a historical cost for land and school buildings that may not accurately reflect the current market value.)

## Change in Net Position

Table 2, below, shows the changes in net position for the fiscal year ended June 30, 2016 with a comparison to the prior year.

	School District		%
	2016	2015	Change 2015-16
<b>Revenues</b>			
Program Revenues			
Charges for services	\$ 2,349	\$ 2,401	-2.2%
Operating grants and contributions	52,989	52,032	1.8%
General Revenues			
Property taxes	85,619	77,093	11.1%
State Formula aid	141,035	140,778	0.2%
Interest	59	15	293.3%
Other	1,272	8,874	-85.7%
<b>Total Revenues</b>	<b>283,323</b>	<b>281,193</b>	<b>0.8%</b>
<b>Expenses</b>			
Instruction	151,003	144,769	4.3%
Pupil and instructional services	42,490	37,791	12.4%
Administration and business	61,336	65,316	-6.1%
Central services and Insurance	9,863	9,511	3.7%
Interest on debt	2,623	1,916	36.9%
Non-program	15,146	10,564	43.4%
Community services	715	104	587.5%
<b>Total Expenses</b>	<b>283,176</b>	<b>269,971</b>	<b>4.7%</b>
Change in Accounting Principle	-	43,087	
<b>Change in Net Position</b>	<b>\$ 147</b>	<b>\$ 54,309</b>	

General revenues (all revenue except operating grants and contributions and charges for services) provide about 90% of the funding for governmental activities. Racine Unified School District relies on state formula aid and property taxes for 50% and 30%, respectively, of its governmental activities.

**Governmental Activities**  
**Net Cost of Governmental Activities**

Table 3 reports the cost of seven major District activities. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). In all categories, program revenue did not keep pace with the increased cost of providing the service, thereby increasing reliance on general revenues.

	Total Cost of Services		Net Cost of Services		% Change
	2016	2015	2016	2015	2015-16
Instruction	\$ 151,003	\$ 144,769	\$ 118,913	\$ 103,044	-13.3%
Pupil and instructional services	42,490	37,791	29,900	34,886	16.7%
Administration and business	61,336	65,316	50,971	55,886	9.6%
Central services and insurance	9,863	9,511	9,737	9,370	-3.8%
Interest on debt	2,623	1,916	2,623	1,916	-27.0%
Non-program	15,146	10,564	15,029	10,564	-29.7%
Community services	715	104	665	(128)	-119.2%
Totals	\$ 283,176	\$ 269,971	\$ 227,838	\$ 215,538	-5.4%

**Governmental Funds**

The District completed the year with a total governmental fund balance of \$53.4 million, an increase of \$736 thousand from the prior year.

- Total general fund revenue for the year was \$2.1 million below budget.
- Total general fund program expenditures, including non-program transactions, was less than the budget by \$1.8 million.
- The original general fund budget forecasted a decrease in general fund balance of \$2.4 million while the final budget forecast an increase of \$1.1 million while the actual results showed a \$.8 million increase.
- The debt service funds fund balance had a net increase of \$.3 million. The debt service fund balance will fluctuate from year to year because the fund balance must be at least equal to the amount of debt payments that are scheduled prior to January 20<sup>th</sup> of the subsequent year. The typical debt service schedule for the District requires interest payments prior to January 20<sup>th</sup> with an additional interest payment and principal payment occurring in March of each year.
- For fiscal year 2015-2016, the capital projects funds fund balance increased by \$331 thousand as debt was issued to fund various projects.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of the 2016 fiscal year, the District had net capital assets of \$149.9 million in a broad range of capital assets, including buildings, sites, furniture, and equipment (see Table 4). Additional information about capital assets can be found in the notes to the financial statements.

<b>Table 4</b>			
<b>Net Capital Assets</b>			
<b>(in thousands of dollars)</b>			
	Totals		%
	School District		Change
	2016	2015	2015-16
Land	\$ 3,229	\$ 2,475	30.5%
Work in progress	43,919	3,301	1230.5%
Site improvements	5,302	4,984	6.4%
Buildings	84,921	77,629	9.4%
Machinery and equipment	12,482	13,072	-4.5%
<b>Total</b>	<b>\$ 149,853</b>	<b>\$ 101,461</b>	<b>47.7%</b>

## Long-Term Debt and Other Obligations

At year end, the district had \$96 million in general obligation debt outstanding, an increase of \$38 million from last year. Additional information about the District's long-term liabilities is presented in the notes to the financial statements.

	Totals		%
	School District		Change
	2016	2015	2015-16
General obligation debt	\$ 90,798	\$ 58,181	56.1%
State Trust Fund Loans	5,225	-	N/A
Premium on debt	2,323	1,510	53.8%
Other post-employment benefits	18,743	17,686	6.0%
Pension benefits	877	667	0.0%
Compensated absences	374	967	-61.3%
<b>Total</b>	<b>\$ 118,340</b>	<b>\$ 79,011</b>	<b>49.8%</b>

The district participates in the Wisconsin Retirement System (the "WRS"), a cost-sharing multiple employer pension plan, in addition to maintaining a separate supplemental pension plan. As a result, the district reports their proportionate share of the WRS net pension asset or liability. The WRS operates on a different fiscal year from the district; therefore, the pension information included in the district's annual financial report is derived from the WRS's year ended December 31, 2015. The district reported a pension asset of \$23.5 million as of June 30, 2015; however, due to differences in projected and actual investment return, expected results and other factors, the district reported a net pension liability of \$15.8 million accounting for the increase in pension benefits noted above.

### 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 Marc Duff, Chief Financial Officer, Racine Unified School District, 3109 Mount Pleasant St., Racine, WI 53404.

## **BASIC FINANCIAL STATEMENTS**