

**SWALLOW SCHOOL DISTRICT**  
Hartland, Wisconsin  
**AUDITED FINANCIAL STATEMENTS**  
Year Ended June 30, 2011

**TABLE OF CONTENTS**

|  | <u>Page</u> |
|--|-------------|
| Independent Auditors' Report   | 1 – 2       |
| <b>Basic Financial Statements</b>  |             |
| Statement of Net Assets  | 3           |
| Statement of Activities  | 4           |
| Balance Sheet – Governmental Funds   | 5           |
| Reconciliation of the Governmental Funds Balance Sheet to the<br>Statement of Net Assets   | 6           |
| Statement of Revenues, Expenditures, and Changes in Fund<br>Balances - Governmental Funds  | 7           |
| Reconciliation of the Governmental Funds Statement of Revenues,<br>Expenditures, and Changes in Fund Balances to the Statement of Activities | 8           |
| Statement of Fiduciary Net Assets  | 9           |
| Notes to Financial Statements  | 10 - 23     |
| <b>Required Supplementary Information</b>  |             |
| Budgetary Comparison Schedule – General Fund   | 25          |
| Schedules of Funding Progress and Employer Contributions   | 26          |

**SWALLOW SCHOOL DISTRICT**  
Hartland, Wisconsin

**AUDITED FINANCIAL STATEMENTS**

Year Ended June 30, 2011

**TABLE OF CONTENTS**  
(CONTINUED)

**Other Supplementary Information**

|  |         |
|--|---------|
| Combining Balance Sheet – Nonmajor Governmental Funds  | 28      |
| Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds  | 29      |
| Agency Funds – Schedule of Changes in Assets and Liabilities   | 30      |
| Schedule of Expenditures of State Awards   | 31      |
| Schedule of Expenditures of Federal Awards   | 32      |
| Notes to Schedules of Expenditures of Federal and State Awards   | 33      |
| 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   | 34 - 35 |
| Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major State Program and on Internal Control Over Compliance in Accordance with the Wisconsin Public School District Audit Manual | 36 - 37 |
| Schedule of Prior Audit Findings   | 38      |
| Schedule of Findings and Questioned Costs  | 39 - 40 |

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## INDEPENDENT AUDITORS' REPORT

To the School Board  
Swallow School District  
Hartland, Wisconsin

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Swallow School District ("District") as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's Board of Education and management. Our responsibility is to express an opinion 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 the 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the District's Board of Education and management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, 2011, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 01, 2011 on our consideration of the District's internal control over financial reporting and 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the required supplementary information, as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required 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 other knowledge we obtained 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 evidence to express an opinion or provide an assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operations, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements as a whole. The financial information listed in the table of contents as other supplemental information, and the accompanying schedules of expenditures of federal awards and of expenditures of state awards, as required by the *Wisconsin Public School District Audit Manual* issued by the Wisconsin Department of Public Instruction, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

As discussed in Note 1 to the financial statements, the District adopted the provisions of GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

November 01, 2011  
Milwaukee, Wisconsin

**SWALLOW SCHOOL DISTRICT**

Hartland, Wisconsin

**Statement of Net Assets**

June 30, 2011

|   | <b>Governmental<br/>Activities</b> |
|---|------------------------------------|
| <b>Assets:</b>                                  |                                    |
| <b>Current assets</b>                           |                                    |
| Cash and investments                            | \$ 2,064,841                       |
| Taxes receivable                                | 1,410,078                          |
| Accounts receivable                             | 42                                 |
| Due from other governments                      | 306,989                            |
| Inventories                                     | <u>1,902</u>                       |
| <b>Total current assets</b>                     | <b>3,783,852</b>                   |
| <b>Noncurrent assets</b>                        |                                    |
| Capital assets                                  | 9,152,812                          |
| Less: accumulated depreciation                  | <u>(3,804,270)</u>                 |
| <b>Total noncurrent assets</b>                  | <b><u>5,348,542</u></b>            |
| <b>Total assets</b>                             | <b><u>\$ 9,132,394</u></b>         |
| <b>Liabilities and Net Assets:</b>              |                                    |
| <b>Liabilities</b>                              |                                    |
| <b>Current liabilities</b>                      |                                    |
| Accounts payable                                | \$ 31,008                          |
| Withholdings and related fines payable          | 90,382                             |
| Accrued interest                                | 38,524                             |
| Due to other governments                        | 2,564                              |
| Deferred revenue                                | 10,309                             |
| Current portion of long-term obligations        | <u>357,167</u>                     |
| <b>Total current liabilities</b>                | <b>529,954</b>                     |
| <b>Noncurrent liabilities</b>                   |                                    |
| Noncurrent portion of long-term obligations     | 3,380,000                          |
| Other post-employment benefits                  | <u>384,601</u>                     |
| <b>Total noncurrent liabilities</b>             | <b><u>3,764,601</u></b>            |
| <b>Total liabilities</b>                        | <b>4,294,555</b>                   |
| <b>Net Assets</b>                               |                                    |
| Invested in capital assets, net of related debt | 1,611,375                          |
| Restricted for:                                 |                                    |
| Debt service                                    | 142,905                            |
| Capital projects                                | 124,661                            |
| Unrestricted                                    | <u>2,958,898</u>                   |
| <b>Total net assets</b>                         | <b><u>4,837,839</u></b>            |
| <b>Total liabilities and net assets</b>         | <b><u>\$ 9,132,394</u></b>         |

The accompanying notes to financial statements are an integral part of these statements.

**SWALLOW SCHOOL DISTRICT**  
Hartland, Wisconsin

**Statement of Activities**  
Year Ended June 30, 2011

|  | <u>Program Revenues</u> |                    |                      | <b>Net</b>          |
|--|-------------------------|--------------------|----------------------|---------------------|
|  | <u>Expenses</u>         | <u>Charges for</u> | <u>Operating</u>     | <b>(Expenses)</b>   |
|  |                         | <u>Services</u>    | <u>Grants and</u>    | <b>Revenues and</b> |
|  |                         |                    | <u>Contributions</u> | <b>Changes in</b>   |
|  |                         |                    |                      | <b>Net Assets</b>   |
| <b>Governmental activities:</b>                            |                         |                    |                      |                     |
| Instruction:   |                         |                    |                      |                     |
| Regular instruction  | \$ 3,500,422            | \$ 334,826         | \$ 91,411            | \$ (3,074,185)      |
| Special education instruction                              | 483,082                 | 22,465             | 214,082              | (246,535)           |
| Other instruction  | 365,623                 | 95,282             | ---                  | (270,341)           |
| Total instruction  | <u>4,349,127</u>        | <u>452,573</u>     | <u>305,493</u>       | <u>(3,591,061)</u>  |
| Support services:  |                         |                    |                      |                     |
| Pupil services   | 177,626                 | ---                | ---                  | (177,626)           |
| Library and instructional services                         | 329,872                 | ---                | 13,891               | (315,981)           |
| Administration services                                    | 564,192                 | ---                | ---                  | (564,192)           |
| Operation and maintenance of plant                         | 461,311                 | ---                | ---                  | (461,311)           |
| Pupil transportation                                       | 133,746                 | ---                | 9,200                | (124,546)           |
| Central services   | 476,948                 | ---                | ---                  | (476,948)           |
| Other support services                                     | 70,433                  | ---                | ---                  | (70,433)            |
| Food service   | 165,373                 | 117,325            | 28,477               | (19,571)            |
| Community services   | 12,000                  | ---                | ---                  | (12,000)            |
| Interest   | 169,136                 | ---                | ---                  | (169,136)           |
| Unallocated depreciation**                                 | 189,019                 | ---                | ---                  | (189,019)           |
| Total support services                                     | <u>2,749,656</u>        | <u>117,325</u>     | <u>51,568</u>        | <u>(2,580,763)</u>  |
| <b>Total governmental activities</b>                       | <u>\$ 7,098,783</u>     | <u>\$ 569,898</u>  | <u>\$ 357,061</u>    | <u>(6,171,824)</u>  |
| <b>General revenues:</b>                                   |                         |                    |                      |                     |
| Taxes:   |                         |                    |                      |                     |
| Property taxes, levied for general purposes                |                         |                    |                      | 4,742,566           |
| Property taxes, levied for debt service                    |                         |                    |                      | 502,068             |
| Federal and state aid not restricted to specific purposes: |                         |                    |                      |                     |
| General  |                         |                    |                      | 1,313,194           |
| Other  |                         |                    |                      | 237,062             |
| Interest and investment earnings                           |                         |                    |                      | 6,698               |
| Miscellaneous  |                         |                    |                      | <u>53,160</u>       |
| Changes in net assets                                      |                         |                    |                      | 682,924             |
| Net assets - beginning of year                             |                         |                    |                      | <u>4,154,915</u>    |
| Net assets - end of year                                   |                         |                    |                      | <u>\$ 4,837,839</u> |

\*\*This amount excludes the depreciation that is included in the direct expenses of the various programs.

The accompanying notes to financial statements are an integral part of these statements.

**SWALLOW SCHOOL DISTRICT**

Hartland, Wisconsin

**Balance Sheet  
Governmental Funds**

June 30, 2011

|  | <b>General<br/><u>Fund</u></b> | <b>Non-major<br/><u>Funds</u></b> | <b>Total<br/>Governmental<br/><u>Funds</u></b> |
|--|--------------------------------|-----------------------------------|--|
| <b>Assets:</b>                             |                                |                                   |  |
| Cash and Investments                       | \$ 1,754,992                   | \$ 309,849                        | \$ 2,064,841                                   |
| Taxes receivable                           | 1,410,078                      | ---                               | 1,410,078                                      |
| Accounts receivable                        | ---                            | 42                                | 42   |
| Due from other governments                 | 306,989                        | ---                               | 306,989  |
| Inventories                                | ---                            | 1,902                             | 1,902  |
|  | <hr/>                          | <hr/>                             | <hr/>  |
| <b>Total assets</b>                        | <b>\$ 3,472,059</b>            | <b>\$ 311,793</b>                 | <b>\$ 3,783,852</b>                            |
|  | <hr/>                          | <hr/>                             | <hr/>  |
| <b>Liabilities and Fund Balances:</b>      |                                |                                   |  |
| <b>Liabilities:</b>                        |                                |                                   |  |
| Accounts payable                           | \$ 30,247                      | \$ 761                            | \$ 31,008                                      |
| Withholdings and related fines payable     | 90,382                         | ---                               | 90,382   |
| Due to other governments                   | 2,564                          | ---                               | 2,564  |
| Deferred revenue                           | ---                            | 10,309                            | 10,309   |
|  | <hr/>                          | <hr/>                             | <hr/>  |
| <b>Total liabilities</b>                   | <b>123,193</b>                 | <b>11,070</b>                     | <b>134,263</b>                                 |
|  | <hr/>                          | <hr/>                             | <hr/>  |
| <b>Fund Balances:</b>                      |                                |                                   |  |
| Nonspendable                               | ---                            | 1,902                             | 1,902  |
| Restricted                                 | ---                            | 267,566                           | 267,566  |
| Committed                                  | 750,000                        | ---                               | 750,000  |
| Assigned                                   | ---                            | 33,157                            | 33,157   |
| Unassigned                                 | 2,598,866                      | (1,902)                           | 2,596,964                                      |
|  | <hr/>                          | <hr/>                             | <hr/>  |
| <b>Total fund balances</b>                 | <b>3,348,866</b>               | <b>300,723</b>                    | <b>3,649,589</b>                               |
|  | <hr/>                          | <hr/>                             | <hr/>  |
| <b>Total liabilities and fund balances</b> | <b>\$ 3,472,059</b>            | <b>\$ 311,793</b>                 | <b>\$ 3,783,852</b>                            |
|  | <hr/>                          | <hr/>                             | <hr/>  |

The accompanying notes to financial statements are an integral part of these statements.

**SWALLOW SCHOOL DISTRICT**

Hartland, Wisconsin

**Reconciliation of the Governmental Funds Balance Sheet to the  
Statement of Net Assets**

June 30, 2011

**Total fund balances - governmental funds** \$ 3,649,589

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds:

|                          |                    |           |
|--------------------------|--------------------|-----------|
| Cost of the assets       | \$ 9,152,812       |           |
| Accumulated depreciation | <u>(3,804,270)</u> |           |
|                          |                    | 5,348,542 |

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the government funds.

Long-term liabilities at year-end consist of:

|                         |              |             |
|-------------------------|--------------|-------------|
| Bonds payable           | 3,730,000    |             |
| Post-employment benefit | 384,601      |             |
| Capital leases payable  | <u>7,167</u> |             |
|                         |              | (4,121,768) |

Accrued interest payable on the bonds is not due and payable in the current period and therefore is not reported as a liability in the government funds.

(38,524)

**Total net assets - governmental activities** \$ 4,837,839

The accompanying notes to financial statements are an integral part of these statements.

**SWALLOW SCHOOL DISTRICT**

Hartland, Wisconsin

**Statement of Revenues, Expenditures and Changes in Fund Balance**

**Governmental Funds**

For the Year Ended June 30, 2011

|  | <b>General</b>      | <b>Non-major</b>  | <b>Total</b>        |
|--|---------------------|-------------------|---------------------|
|  | <b>Fund</b>         | <b>Funds</b>      | <b>Governmental</b> |
|  | <b>Funds</b>        | <b>Funds</b>      | <b>Funds</b>        |
| <b>Revenues:</b>                             |                     |                   |                     |
| Local  | \$ 4,877,554        | \$ 652,697        | \$ 5,530,251        |
| Interdistrict                                | 325,556             | ---               | 325,556             |
| Intermediate                                 | 654                 | ---               | 654                 |
| State  | 1,423,180           | 2,030             | 1,425,210           |
| Federal                                      | 420,519             | 26,447            | 446,966             |
| Other  | 51,466              | 1,603             | 53,069              |
| Total revenues                               | <u>7,098,929</u>    | <u>682,777</u>    | <u>7,781,706</u>    |
| <b>Expenditures:</b>                         |                     |                   |                     |
| Instruction:                                 |                     |                   |                     |
| Current                                      | 3,785,029           | 13,811            | 3,798,840           |
| Interdistrict                                | 365,244             | ---               | 365,244             |
| Support Services:                            |                     |                   |                     |
| Current                                      | 2,158,188           | 195,137           | 2,353,325           |
| Capital Outlay                               | 149,145             | ---               | 149,145             |
| Debt Service                                 | 13,016              | 509,261           | 522,277             |
| Total expenditures                           | <u>6,470,622</u>    | <u>718,209</u>    | <u>7,188,831</u>    |
| Excess of revenues over (under) expenditures | 628,307             | (35,432)          | 592,875             |
| <b>Other Financing sources (uses):</b>       |                     |                   |                     |
| Operating transfers                          | <u>(4,952)</u>      | 4,952             | ---                 |
| Net change in fund balance                   | 623,355             | (30,480)          | 592,875             |
| Fund Balance - Beginning of year             | <u>2,725,511</u>    | <u>331,203</u>    | <u>3,056,714</u>    |
| Fund Balance - End of year                   | <u>\$ 3,348,866</u> | <u>\$ 300,723</u> | <u>\$ 3,649,589</u> |

The accompanying notes to financial statements are an integral part of these statements.

**SWALLOW SCHOOL DISTRICT**

Hartland, Wisconsin

**Reconciliation of the Governmental Funds Statement of  
Revenues, Expenditures, and Changes in Fund Balances  
to the Statement of Activities**

For the Year Ended June 30, 2011

**Total net change in fund balances - governmental funds** \$ 592,875

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

Capital outlays are reported in governmental funds as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expenses.

|                      |                |          |
|----------------------|----------------|----------|
| Depreciation expense | \$ (228,396)   |          |
| Capital outlays      | <u>149,145</u> |          |
|                      |                | (79,251) |

Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

|                        |              |         |
|------------------------|--------------|---------|
| Bonds payable          | 340,000      |         |
| Capital leases payable | <u>9,878</u> |         |
|                        |              | 349,878 |

In the statement of activities, post-employment benefits are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. (183,840)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.

3,262

**Change in net assets of governmental activities** \$ 682,924

The accompanying notes to financial statements are an integral part of these statements.

**SWALLOW SCHOOL DISTRICT**

Hartland, Wisconsin

**Statement of Fiduciary Net Assets**

June 30, 2011

|                              | <b>Agency<br/>Funds</b> |
|------------------------------|-------------------------|
| <b>Assets:</b>               |                         |
| Cash                         | <u>\$ 13,154</u>        |
| <br>                         |                         |
| <b>Liabilities:</b>          |                         |
| Due to student organizations | <u>\$ 13,154</u>        |

The accompanying notes to financial statements are an integral part of these statements.

**SWALLOW SCHOOL DISTRICT**  
Hartland, Wisconsin

**Notes to Financial Statements**  
June 30, 2011

**1. Summary of Significant Accounting Policies**

**A. Introduction**

The Swallow School District ("District") is organized as a common school district. The District, governed by a five-member elected school board, is fiscally independent with taxing and borrowing powers. The District operates grades K through 8.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the District are discussed below.

**B. Component Units**

Accounting principles generally accepted in the United States of America require that these financial statements include the primary government and its component units. Component units are separate organizations that are included in the District's reporting entity because of the significance of their operational or financial relationships with the District. All significant activities and organizations with which the District exercises oversight responsibility have been considered for inclusion in the general purpose financial statements. The District has no component units, and it is not included in any other governmental reporting entity.

**C. Basis of Presentation**

**District-Wide Statements**

The statement of net assets and the statement of activities present financial information about the District's governmental activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. Eliminations have been made to minimize the double counting of internal transactions. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Program revenues include (a) charges paid by, or on behalf of, the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues have been classified to the function where the majority of the expenditures relating to it have been incurred. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**SWALLOW SCHOOL DISTRICT**  
Hartland, Wisconsin

**Notes to Financial Statements**  
June 30, 2011  
(Continued)

**1. Summary of Significant Accounting Policies (Continued)**

**C. Basis of Presentation (Continued)**

**Fund Financial Statements**

The fund statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund category (governmental, and fiduciary) are presented. The emphasis of fund financial statements is on major governmental funds; each displayed in a separate column. All remaining governmental funds are aggregated and reported as other governmental funds.

The District reports the following major governmental fund:

**General Fund** - The General Fund is the operating fund of the District. It is used to account for all financial resources of the District except those required to be accounted for in other funds. It is also used to account for activities associated with providing educational programs for students with disabilities.

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

**D. Measurement Focus and Basis of Accounting**

The district-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District may fund certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Therefore, when program expenses are incurred, both restricted and unrestricted net assets may be available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

**SWALLOW SCHOOL DISTRICT**  
Hartland, Wisconsin

**Notes to Financial Statements**  
June 30, 2011  
(Continued)

**1. Summary of Significant Accounting Policies (Continued)**

**E. Deposits and Investments**

The District's cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition. Cash and investment balances for individual funds are pooled unless maintained in segregated accounts.

State statutes permit the District to invest available cash balances, other than debt services funds, in time deposits of authorized depositories, U.S. Treasury obligations, U.S. agency issues, high grade commercial paper, and the local government pooled investment fund administered by the state investment board. Available balances in the Debt Service Fund may be invested in municipal obligations, obligations of the United States, and the local government pooled-investment fund.

**F. Receivables and Payables**

Property taxes are recognized as revenues in the year for which they are budgeted. Under the Wisconsin Statutes, Waukesha County purchases the outstanding property taxes of the District in August of each year. This statutory guarantee assures the District full collection of all property taxes within sixty days of its year end, and hence, the availability of these funds to finance expenditures of the fiscal year for which the taxes were levied. Property taxes are levied in October on the assessed value as of the prior January 1, and are due in full by January 31, or in installments with the last payment due in July.

The current portion of lending/borrowing arrangements between funds is identified as due to/from other funds. The noncurrent portion of outstanding balances between funds is reported as advances to/from other funds. Advances between funds are offset by a fund balance reserve account to indicate that they are not available for appropriation and are not expendable available financial resources. The District has no advances between funds.

All accounts receivable are shown at gross amounts with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that such allowance would not be material.

**G. Interfund Transactions**

Individual fund transfers and interfund receivables and payable activity for the year ending June 30, 2011 are as follows:

| <u>Purpose</u> | <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u>   |
|----------------|------------------------|---------------------|-----------------|
| Transfers:     |                        |                     |                 |
| Operations     | Food service           | General             | \$ <u>4,952</u> |

**SWALLOW SCHOOL DISTRICT**  
Hartland, Wisconsin

**Notes to Financial Statements**  
June 30, 2011  
(Continued)

**1. Summary of Significant Accounting Policies (Continued)**

**H. Capital Assets**

Capital assets are reported at historical cost or estimated historical cost, based on appraisals conducted by an independent third-party professional appraisal firm. Maintenance and repair costs are charged to expenses as incurred and betterments are capitalized as assets. Upon disposal of land, buildings and equipment, a gain or loss is reflected in the statement of activities. Property and equipment and related depreciation expense are not reflected in the Governmental Fund Financial Statements.

Capitalization thresholds (the dollar value 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 and proprietary funds are as follows:

|                            | <u>Capitalization<br/>Threshold</u> | <u>Depreciation<br/>Method</u> | <u>Estimated<br/>Useful Life</u> |
|----------------------------|-------------------------------------|--------------------------------|----------------------------------|
| Buildings and improvements | \$ 3,000                            | Straight-line                  | 20 - 40 years                    |
| Equipment and furniture    | 3,000                               | Straight-line                  | 5- 20 years                      |

**I. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement for those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources when expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**J. Accumulated Unpaid Vacation, Sick Pay, and Other Employee Benefit Amounts**

The District's policy does not allow accumulated vacation and sick pay benefits to vest. Unused accumulated vacation and sick pay benefits are forfeited upon retirement or termination of employment. These benefits are recorded as an expenditure in the year used. No accumulated amount is recorded as a liability in the district-wide financial statements.

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.

**K. Estimates**

The preparation of the 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 may differ from those estimates.

**SWALLOW SCHOOL DISTRICT**  
Hartland, Wisconsin

**Notes to Financial Statements**  
June 30, 2011  
(Continued)

**1. Summary of Significant Accounting Policies (Continued)**

**L. Fund Balance Reserves**

The Government Accounting Standards Board (GASB) has issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54). This statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB 54 requires the fund balance amounts to be reported within one of the following fund balance categories:

- *Nonspendable* - amounts that cannot be spent either because they are not in spendable form and cannot be converted to cash or because they are legally or contractually required to be maintained intact.
- *Restricted* - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.
- *Committed* - amounts that can be used only for specific purposes determined by a formal action of the School Board. The School Board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through the same type of action it employed to previously commit those amounts.
- *Assigned* - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the School Board is authorized to assign funds. The intent of the assigned funds may change with appropriate approvals as decided by the Director of Business Services.
- *Unassigned* - all other spendable amounts.

*Order of Fund Balance Spending Policy:*

The District has established the following order of spending when various funding sources exist: (1) Restricted, (2) Committed, (3) Assigned, (4) Unassigned.

**M. Other Assets**

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund type inventories are recorded as expenditures when consumed rather than when purchased. Prepaid items represent payments made by the District for which benefits extend beyond June 30.

**N. Subsequent Events**

Management has evaluated subsequent events for possible recognition or disclosure through the date the financial statements were available to be distributed November 01, 2011. Subsequent to year end, the District contracted for environmental remediation in the amount of \$15,000 for mold removal. See Note 4 for subsequent purchase of computer equipment.

**SWALLOW SCHOOL DISTRICT**  
Hartland, Wisconsin

**Notes to Financial Statements**  
June 30, 2011  
(Continued)

**2. Cash and Investments**

Cash and investments as shown on the District's financial statements are subject to the following risks:

|                                  | <u>Amount</u>           | <u>Risks</u> |
|----------------------------------|-------------------------|--------------|
| Cash and Investments             |                         |              |
| Petty cash                       | \$ 200                  |              |
| Demand deposits                  | 1,022,892               | Custodial    |
| Local government investment pool | <u>1,054,903</u>        | Custodial    |
| <br>Total cash and investments   | <br>\$ <u>2,077,995</u> |              |

The District's cash and investments are reported in the financial statements as follows:

|                                    |                     |
|------------------------------------|---------------------|
| Statement of net assets:           |                     |
| Cash and Investments               | \$ 2,064,841        |
| Statement of fiduciary net assets: |                     |
| Cash                               | <u>13,154</u>       |
| Total cash and investments         | \$ <u>2,077,995</u> |

Investments are stated at fair value which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income.

Wisconsin Statute 66.0603 authorizes the District to invest in the following types of instruments:

- Time deposits in any credit union, bank, savings bank, trust company, or savings and loan association that is authorized to transact business in Wisconsin if the time deposit matures in not more than three years.
- Bonds or securities issued or guaranteed as to principal or interest by the federal government or by a commission, board, or other instrumentality of the federal government (U.S. Treasuries and U.S. agencies).
- Bonds or securities of any Wisconsin county, city, drainage district, technical college district, village, town, or school district.
- Bonds issued by a local exposition district, local professional baseball park district, or local professional stadium district created under subchapter III or IV of chapter 229 of the Wisconsin statutes or bonds issued by the University of Wisconsin Hospitals or Clinics Authority.
- Any security maturing in seven years or less of the acquisition date with either the highest or second highest rating category of a nationally recognized rating agency.
- Securities of open-end management investment companies or investment trusts if the portfolio is collateralized by bonds or securities, subject to various conditions and investment options.
- A local government investment pool, subject to certain conditions.

**SWALLOW SCHOOL DISTRICT**  
Hartland, Wisconsin

**Notes to Financial Statements**  
June 30, 2011  
(Continued)

**2. Cash and Investments (Continued)**

Deposits in each local bank and area bank are insured by the FDIC in the amount of \$250,000 for interest bearing accounts. Non-interest bearing accounts are fully insured by the FDIC through December 31, 2012. Under the program, there is no limit to the amount of insurance for eligible accounts. Beginning 2013, insurance coverage will revert to \$250,000 per depositor at each financial institution. Deposits and the Wisconsin Local Government Investment Pool are also insured by the State Deposit Guarantee Fund in the amount of \$400,000 per district. However, due to the relatively small size of the Guarantee Fund in relationship to the total deposits covered and other legal implications, recovery of material principal losses may not be significant to individual municipalities.

The District has adopted an investment policy which permits all investments allowed under the state statutes as described above.

**Custodial Risk – Deposits:** Is the risk that, in the event of a financial institution failure, the District's deposits may not be returned to the District. The District's carrying value for demand deposits were \$1,022,892 at June 30, 2011 and the bank's carrying value was \$1,285,122, all of which was fully insured. The District did not have deposits that were uninsured and uncollateralized. The District does not have a policy on custodial risk.

**Custodial Risk – Investment:** Is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a policy on custodial risk.

**Interest Rate Risk:** As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy limits the maturity of any security to no more than seven years from the date of purchase or in accordance with state statutes. The District's policy is that all investment transactions shall be planned to avoid loss of capital from market risk.

**Credit Risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The District's investment policy minimized credit risk by limiting investments to the safest type of securities. The District's policy is that all investment transactions shall be planned to avoid loss of capital from credit risk.

The LGIP does not have a credit quality rating. It is part of the State of Wisconsin Investment Fund (SIF) and is managed by the State of Wisconsin Investment Board. The LGIP is not registered with the Securities and Exchange Commission, but operated under the statutory authority of Wisconsin Chapter 25. The SIF reports the fair value of its underlying assets annually. Funds invested in the LGIP are due to the District on demand. The District has relied on data provided by the LGIP for the valuation of pooled investments.

**3. Short-Term Notes Payable**

Short-term notes payable at June 30, 2011 are as follows:

| <u>Balance</u>       |                  |                   |  | <u>Balance</u>       |
|----------------------|------------------|-------------------|--|----------------------|
| <u>June 30, 2010</u> | <u>Additions</u> | <u>Reductions</u> |  | <u>June 30, 2011</u> |
| \$ 500,000           | \$ ---           | \$ 500,000        |  | ---                  |

Interest for the year ended June 30, 2011 was \$2,065.

**SWALLOW SCHOOL DISTRICT**  
Hartland, Wisconsin

**Notes to Financial Statements**  
June 30, 2011  
(Continued)

**4. Capital Assets**

Capital asset balances and activity for the year ended June 30, 2011 were as follows:

|  | <u>Beginning<br/>Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending<br/>Balance</u> |
|--|------------------------------|------------------|-------------------|---------------------------|
| Capital assets not being depreciated:                                      |                              |                  |                   |                           |
| Sites  | \$ 19,929                    | \$ ---           | \$ ---            | \$ 19,929                 |
| Capital assets being depreciated:  |                              |                  |                   |                           |
| Land improvements  | 117,756                      | 23,168           | ---               | 140,924                   |
| Buildings and improvements   | 7,994,038                    | 101,095          | ---               | 8,095,133                 |
| Equipment  | 888,674                      | 24,882           | (16,730)          | 896,826                   |
| Total capital assets being depreciated                                     | 9,000,468                    | 149,145          | (16,730)          | 9,132,883                 |
| Less accumulated depreciation  | 3,592,604                    | 228,396          | 16,730            | 3,804,270                 |
| Total capital assets being depreciated, net<br>of accumulated depreciation | 5,407,864                    | (79,251)         | ---               | 5,328,613                 |
| Governmental activities capital assets,<br>net of accumulated depreciation | \$ 5,427,793                 | \$ (79,251)      | \$ ---            | \$ 5,348,542              |

Subsequent to year end, the District purchased approximately \$170,000 of computer equipment, which is not included above.

Depreciation expense was charged to governmental functions as follows:

|  |                       |
|--|-----------------------|
| Regular instruction                                | \$ 25,134             |
| Other instruction                                  | 849                   |
| Library and instructional services                 | 4,826                 |
| Administration services                            | 4,639                 |
| Operation and maintenance of plant                 | 1,007                 |
| Food service                                       | 2,922                 |
| Unallocated depreciation                           | <u>189,019</u>        |
| <br>Total depreciation for governmental activities | <br>\$ <u>228,396</u> |

**SWALLOW SCHOOL DISTRICT**  
Hartland, Wisconsin

**Notes to Financial Statements**  
June 30, 2011  
(Continued)

**5. Long-Term Liabilities**

Long-term liabilities of the District are as follows:

| <u>Type</u>    | <u>Balance</u><br><u>July 1, 2010</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u><br><u>June 30, 2011</u> | <u>Amounts</u><br><u>due</u><br><u>within</u><br><u>one year</u> |
|----------------|---------------------------------------|------------------|-------------------|--|--|
| G.O. Bonds     | \$ 4,070,000                          | \$ ---           | \$ 340,000        | \$ 3,730,000                           | \$ 350,000   |
| Capital leases | 17,044                                | ---              | 9,878             | 7,167                                  | 7,167  |
| <b>Total</b>   | <b>\$ 4,087,044</b>                   | <b>\$ ---</b>    | <b>\$ 349,878</b> | <b>\$ 3,737,167</b>                    | <b>\$ 357,167</b>  |

Total interest paid and expensed (including accrual) during the year for the year ended June 30, 2011 on long-term liabilities was \$169,608 and \$166,345, respectively.

All general obligation debt is secured by the full faith and credit and unlimited taxing powers of the District. The capital leases are secured by equipment and improvements. The long-term debt will be retired by future property tax levies and resources accumulated in the Debt Service Fund.

General obligation debt at June 30, 2011 is comprised of the following individual issues:

| <u>Description</u>               | <u>Issue</u><br><u>Dates</u> | <u>Interest</u><br><u>Rates (%)</u> | <u>Dates of</u><br><u>Maturity</u> | <u>Balance</u><br><u>June 30, 2011</u> |
|----------------------------------|------------------------------|-------------------------------------|------------------------------------|--|
| \$3,500,000 G.O. refunding bonds | 10/15/2004                   | 3.00-4.55                           | 4/1/2024                           | \$ 2,655,000                           |
| \$2,135,000 G.O. refunding bonds | 8/23/2002                    | 2.25-4.2                            | 4/1/2016                           | <u>1,075,000</u>                       |
|                                  |                              |                                     |                                    | <u>\$ 3,730,000</u>                    |

The 2010 equalized valuation of the District as certified by the Wisconsin Department of Revenue is \$803,637,819. The legal debt limit and margin of indebtedness as of June 30, 2011, in accordance with Section 67.03(1)(b) of the Wisconsin Statutes follows:

|   |                      |
|---|----------------------|
| Debt limit (5% of \$803,637,819)                | \$ 40,181,891        |
| Deduct long-term debt applicable to debt margin | <u>3,730,000</u>     |
| Margin of indebtedness                          | <u>\$ 36,451,891</u> |

**SWALLOW SCHOOL DISTRICT**  
Hartland, Wisconsin

**Notes to Financial Statements**  
June 30, 2011  
(Continued)

**5. Long-Term Liabilities (Continued)**

Aggregate cash flow requirements for the retirement of long-term principal and interest on June 30, 2011 follow:

| <u>Year Ended</u><br><u>June 30,</u> | <u>Principal</u>    | <u>Interest</u>     | <u>Total</u>        |
|--------------------------------------|---------------------|---------------------|---------------------|
| 2012                                 | \$ 350,000          | \$ 155,600          | \$ 505,600          |
| 2013                                 | 370,000             | 142,088             | 512,088             |
| 2014                                 | 385,000             | 127,183             | 512,183             |
| 2015                                 | 405,000             | 111,357             | 516,357             |
| 2016                                 | 420,000             | 95,202              | 515,202             |
| 2017-2021                            | 1,050,000           | 309,130             | 1,359,130           |
| 2022-2026                            | 750,000             | 68,920              | 818,920             |
|                                      | <u>\$ 3,730,000</u> | <u>\$ 1,009,480</u> | <u>\$ 4,739,480</u> |

In a prior year, the District defeased \$1,985,000 of general obligation bonds by placing the proceeds of newly issued bonds in an irrevocable trust to provide for all future debt service payments. At June 30, 2011, the sum of \$1,070,000 of the defeased bonds remains outstanding.

**6. Capital Leases**

The District leases equipment under capital leases. These assets are included in the capital assets with a cost value of \$37,100. The future minimum lease payments for these leases are as follows:

| <u>Year Ended</u><br><u>June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------------|------------------|-----------------|--------------|
| 2012                                 | \$ 7,167         | \$ 223          | \$ 7,390     |

**7. Excess of Actual Expenditures Over Budget in Individual Funds**

The following General fund functions had an excess of actual expenditures over budget for the year ended June 30, 2011:

|                                |        |
|--------------------------------|--------|
| <u>Fund 10:</u>                |        |
| Co-Curricular Activities       | \$ 989 |
| Pupil Services                 | 2,229  |
| Instructional Staff Services   | 5,236  |
| General Administration         | 6,126  |
| Insurance and Judgments        | 5,027  |
| Debt Services                  | 2,130  |
| Other Non-Program Transactions | 2,615  |
| <u>Fund 27:</u>                |        |
| Co-Curricular Activities       | 3,964  |
| Pupil Services                 | 1,125  |

**SWALLOW SCHOOL DISTRICT**  
Hartland, Wisconsin

**Notes to Financial Statements**  
June 30, 2011  
(Continued)

**8. Fund Balances**

As of June 30, 2011, fund balance components other than unassigned fund balances consist of the following:

|                                | <u>Nonspendable</u> | <u>Restricted</u> | <u>Committed</u>  | <u>Assigned</u> |
|--------------------------------|---------------------|-------------------|-------------------|-----------------|
| General fund:                  |                     |                   |                   |                 |
| Other post-employment benefits | \$ ---              | \$ ---            | \$ 750,000        | \$ ---          |
| Special revenue trust          | ---                 | ---               | ---               | 28,289          |
| Debt service                   | ---                 | 142,905           | ---               | ---             |
| Food service inventory         | 1,902               | ---               | ---               | ---             |
| Community service              | ---                 | ---               | ---               | 4,868           |
| Capital projects               | ---                 | 124,661           | ---               | ---             |
|                                | <hr/>               | <hr/>             | <hr/>             | <hr/>           |
| Total                          | \$ <u>1,902</u>     | \$ <u>267,566</u> | \$ <u>750,000</u> | <u>33,157</u>   |

**9. Employee Retirement Plans**

All eligible District employees participate in the Wisconsin Retirement System ("WRS"), a cost-sharing multiple-employer defined benefit, public employee retirement system. All permanent employees expected to work at least 600 hours a year (440 hours for teachers and educational support employees) are eligible to participate in the WRS. As of December 31, 2010, covered employees in the General/Teacher/Educational Support Personnel category are required by statute to contribute 6.2% of their salary (3.2% for Executives and Elected Officials, 5.5% for Protective Occupations with Social Security, and 3.9% for Protective Occupations without Social Security) to the Plan. Employers may make these contributions to the Plan on behalf of employees through June 30, 2011. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

The payroll for Swallow School District employees covered by the WRS for the year ended June 30, 2011 was \$2,597,566; the employer's total payroll was \$3,290,583. The total required contribution for the year ended June 30, 2011 was \$295,491, which consisted of \$140,949, or 5.4% of payroll from the employer and \$154,542, or 5.9% of payroll from employees. Total contributions for the year ending June 30, 2010 and 2009 were \$268,107 and \$263,975, respectively, equal to the required contributions for each year.

Employees who retire at or after age 65 (62 for elected officials and 54 for protective occupation employees with less than 25 years of service, 53 for protective occupation employees with more than 25 years of service) are entitled to receive a retirement benefit. Employees may retire at age 55 (50 for protective occupation employees) and receive actuarially reduced benefits. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor. Final average earnings are the average of the employee's three highest years' earnings. Employees terminating covered employment and submitting application before becoming eligible for a retirement benefit may withdraw their contributions and, by doing so, forfeit all rights to any subsequent benefit. For employees beginning participation 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 retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998 are immediately vested.

The WRS also provides death and disability benefits for employees. Eligibility and the amount of all benefits are determined under Chapter 40 of Wisconsin Statutes. The WRS issues an annual financial report which may be obtained by writing to the Department of Employee Trust Funds, P.O. Box 7931, Madison, WI 53707-7931.

**SWALLOW SCHOOL DISTRICT**  
Hartland, Wisconsin

**Notes to Financial Statements**  
June 30, 2011  
(Continued)

**10. Other Post-Employment Benefits**

The District offers voluntary retirement benefits and stipends to its teachers and administrators who have met the age and years of service requirements. In addition, the District's group health insurance plan provides coverage to active employees and retirees (or other qualified terminated employees) at blended premium rates. Both of these result in an other post-employment benefit (OPEB), the later commonly referred to as an implicit rate subsidy. Employees participating in the OPEB benefit consisted of the following at July 1, 2009, the date of the latest actuarial valuation:

|                                   |           |
|-----------------------------------|-----------|
| Retirees                          | 1         |
| Active                            | <u>65</u> |
| Number of participating employees | <u>66</u> |

For fiscal year 2011, the District paid \$14,598 to eligible retirees.

The District's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) 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 to the Retiree Health Plan:

|   |    |                       |
|---|----|-----------------------|
| Annual required contribution                    | \$ | 108,323               |
| Annual supplemental pension costs               |    | 92,438                |
| Interest on net OPEB obligation                 |    | 13,049                |
| Adjustment to annual required contribution      |    | <u>(15,372)</u>       |
| Annual OPEB cost                                |    | 198,438               |
| Contributions made                              |    | <u>(14,598)</u>       |
| Increase in net OPEB obligation                 |    | 183,840               |
| Net OPEB obligation (asset) – beginning of year |    | <u>200,761</u>        |
| Net OPEB obligation (asset) – end of year       | \$ | <u><u>384,601</u></u> |

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2011 were as follows:

| <u>Fiscal Year Ended</u> |    | <u>Annual OPEB Cost</u> | <u>Percentage of Annual OPEB Cost Contributed</u> |    | <u>Net OPEB Obligation (asset)</u> |
|--------------------------|----|-------------------------|---|----|------------------------------------|
| 2010                     | \$ | 200,761                 | 0.0%  | \$ | 200,761                            |
| 2011                     |    | 198,438                 | 7.4%  |    | 384,601                            |

Fiscal year 2010 was the year of implementation of GASB Statement Nos. 43 and 45 and the District has elected to implement prospectively. In future years, three-year trend information will be presented.

As of July 1, 2009, the most recent actuarial valuation date, the plan was 0.0 percent funded. The actuarial accrued liability for benefits was \$1,195,957, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,195,957.

**SWALLOW SCHOOL DISTRICT**  
Hartland, Wisconsin

**Notes to Financial Statements**  
June 30, 2011  
(Continued)

**10. Other Post-employment Benefits (Continued)**

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. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plan by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statements 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used to include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional information as of the latest actuarial valuation follows:

|                               |   |
|-------------------------------|---|
| Actuarial valuation date      | 7/1/2009  |
| Actuarial cost method         | Unit credit                                       |
| Amorization method            | 30 year open level dollar                         |
| Remaining amortization period | 30 years  |
| Asset valuation method        | Market value                                      |
| Actuarial assumptions:        |   |
| Investment rate of return*    | 6.50%   |
| Projected payroll increases   | 3.00%   |
| Medical care trend*           | 10.00% decreasing by 1.00% per year down to 5.00% |
| Dental care trend*            | Level at 4.00%                                    |

\*Implicit in these rates is an assumed rate of inflation of 4.00%

**11. Limitation on School District Revenues**

Wisconsin statutes limit the amount of revenues school districts may derive from general school aids and property taxes unless a higher amount is approved by a referendum. This limitation does not apply to revenues needed for the payment of any general obligation debt service (including refinanced debt) authorized by either of the following:

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

**12. Risk Management**

The Swallow School District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers' compensation; and health care of its employees. All of these risks are covered through the purchase of commercial insurance, with minimal deductibles.

**SWALLOW SCHOOL DISTRICT**  
Hartland, Wisconsin

**Notes to Financial Statements**  
June 30, 2011  
(Continued)

**13. Litigation**

From time to time, the District is involved in legal actions, most of which normally occur in governmental operations. Legal actions are generally defended by the District's various insurance carriers, since most claims brought against the District are covered by insurance policies. In the opinion of District management, any legal actions and any other proceedings known to exist at June 30, 2011, are not likely to have a material adverse impact on the District's financial position.

**14. State Budget**

The State of Wisconsin 2011-2013 budget includes significant cuts in funding to school districts. The budget also provides areas for significant expenditure cuts for the districts. Due to this, the District will likely be experiencing decreases in state aids and expenditures during the next year.

**REQUIRED SUPPLEMENTARY INFORMATION**

**SWALLOW SCHOOL DISTRICT**

Hartland, Wisconsin

**Budgetary Comparison Schedule**

**General Fund**

Year Ended June 30, 2011

|   | <u>Budgeted Amounts</u> |                     | <u>Actual</u>       | <u>Variance</u>                          |
|---|-------------------------|---------------------|---------------------|--|
|   | <u>Original</u>         | <u>Final</u>        |                     | <u>Favorable</u><br><u>(Unfavorable)</u> |
| <b>Revenues:</b>                            |                         |                     |                     |  |
| Local                                       | \$ 4,943,066            | \$ 4,943,066        | \$ 4,877,554        | \$ (65,512)                              |
| Interdistrict                               | 357,600                 | 357,600             | 325,556             | (32,044)                                 |
| Intermediate                                | ---                     | 0                   | 654                 | 654                                      |
| State                                       | 1,418,177               | 1,418,177           | 1,423,180           | 5,003                                    |
| Federal                                     | 426,453                 | 189,395             | 420,519             | 231,124                                  |
| Other                                       | 500                     | 500                 | 51,466              | 50,966                                   |
| <b>Total revenues</b>                       | <b>7,145,796</b>        | <b>6,908,738</b>    | <b>7,098,929</b>    | <b>190,191</b>                           |
| <b>Expenditures:</b>                        |                         |                     |                     |  |
| Instruction:                                |                         |                     |                     |  |
| Current                                     | 3,947,459               | 3,959,854           | 3,785,029           | 174,825                                  |
| Interdistrict                               | 390,232                 | 390,232             | 365,244             | 24,988                                   |
| Capital Outlay                              | 5,225                   | 5,225               | ---                 | 5,225                                    |
| Support Services:                           |                         |                     |                     |  |
| Current                                     | 3,014,762               | 2,254,501           | 2,158,188           | 96,313                                   |
| Capital Outlay                              | 143,800                 | 143,800             | 149,145             | (5,345)                                  |
| Debt Service                                | 13,020                  | 10,886              | 13,016              | (2,130)                                  |
| Community Service                           | ---                     | ---                 | ---                 | ---                                      |
| <b>Total expenditures</b>                   | <b>7,514,498</b>        | <b>6,764,498</b>    | <b>6,470,622</b>    | <b>293,876</b>                           |
| <b>Excess of revenues over expenditures</b> | <b>(368,702)</b>        | <b>144,240</b>      | <b>628,307</b>      | <b>484,067</b>                           |
| <b>Other Financing sources (uses):</b>      |                         |                     |                     |  |
| Operating transfers                         | ---                     | ---                 | (4,952)             | (4,952)                                  |
| Total other financing sources (uses)        | ---                     | ---                 | (4,952)             | (4,952)                                  |
| <b>Net change in fund balance</b>           | <b>(368,702)</b>        | <b>144,240</b>      | <b>623,355</b>      | <b>479,115</b>                           |
| <b>Fund Balance - Beginning of year</b>     | <b>2,725,511</b>        | <b>2,725,511</b>    | <b>2,725,511</b>    | <b>---</b>                               |
| <b>Fund Balance - End of year</b>           | <b>\$ 2,356,809</b>     | <b>\$ 2,869,751</b> | <b>\$ 3,348,866</b> | <b>\$ 479,115</b>                        |

See Independent Auditors' Report

**Swallow School District**

Hartland, Wisconsin

**Schedule of Funding Progress**

Year Ended June 30, 2011

| <u>Actuarial<br/>Valuation<br/>Date</u> | <u>Actuarial<br/>Valuation of<br/>Plan Assets</u> | <u>Actuarial<br/>Accrued<br/>Liability (AAL)</u> | <u>Unfunded<br/>Actuarial<br/>Accrued<br/>Liability (UAAL)</u> | <u>Funded<br/>Ratio</u> | <u>Covered<br/>Payroll</u> | <u>UAAL as a<br/>Percentage<br/>of Covered<br/>Payroll</u> |
|---|---|--|--|-------------------------|----------------------------|--|
| July 1, 2009                            | \$ ---  | \$ 1,195,957                                     | \$ 1,195,957   | ---                     | \$ 2,506,963               | 209.6%   |

The District is required to present the above information for the three most recent actuarial studies. The above-referenced study was performed as of July 1, 2009 and was the first and only study performed. Once there have been three actuarial studies completed, information pertaining to the three most recent actuarial studies will be presented.

The data presented in this schedule was taken from the report issued by the actuary, except the covered payroll data which was supplied by the District.

**Schedule of Employer Contributions**

Year Ended June 30, 2011

| <u>Year Ended<br/>June 30,</u> | <u>Annual Required<br/>Contribution</u> | <u>Actual<br/>Contribution</u> | <u>Percent<br/>Contributed</u> |
|--------------------------------|---|--------------------------------|--------------------------------|
| 2010                           | \$ 200,761                              | \$ ---                         | 0%                             |
| 2011                           | \$ 200,761                              | \$ 14,598                      | 7%                             |

See Independent Auditors' Report.

**OTHER SUPPLEMENTARY INFORMATION**

**SWALLOW SCHOOL DISTRICT**

Hartland, Wisconsin

**Combining Balance Sheet  
Nonmajor Governmental Funds**

As of June 30, 2011

|  | <b>Special<br/>Revenue<br/>Fund</b> | <b>Debt<br/>Service<br/>Fund</b> | <b>Food<br/>Service<br/>Fund</b> | <b>Community<br/>Service<br/>Fund</b> | <b>Capital<br/>Projects<br/>Fund</b> | <b>Total<br/>Non-Major<br/>Governmental<br/>Funds</b> |
|--|-------------------------------------|----------------------------------|----------------------------------|---------------------------------------|--------------------------------------|---|
| <b>Assets:</b>                                 |                                     |                                  |                                  |                                       |                                      |   |
| Cash and Investments                           | \$ 28,943                           | \$ 142,905                       | \$ 8,472                         | \$ 4,868                              | \$ 124,661                           | \$ 309,849  |
| Accounts receivable                            | ---                                 | ---                              | 42                               | ---                                   | ---                                  | 42  |
| Inventories                                    | ---                                 | ---                              | 1,902                            | ---                                   | ---                                  | 1,902   |
| <b>Total assets</b>                            | <b>\$ 28,943</b>                    | <b>\$ 142,905</b>                | <b>\$ 10,416</b>                 | <b>\$ 4,868</b>                       | <b>\$ 124,661</b>                    | <b>\$ 311,793</b>                                     |
| <b>Liabilities and Fund Balances:</b>          |                                     |                                  |                                  |                                       |                                      |   |
| <b>Liabilities:</b>                            |                                     |                                  |                                  |                                       |                                      |   |
| Accounts payable                               | \$ 654                              | \$ ---                           | \$ 107                           | \$ ---                                | \$ ---                               | \$ 761  |
| Deferred revenue                               | ---                                 | ---                              | 10,309                           | ---                                   | ---                                  | 10,309  |
| <b>Total liabilities</b>                       | <b>654</b>                          | <b>---</b>                       | <b>10,416</b>                    | <b>---</b>                            | <b>---</b>                           | <b>11,070</b>   |
| <b>Fund Balances:</b>                          |                                     |                                  |                                  |                                       |                                      |   |
| Nonspendable                                   | ---                                 | ---                              | 1,902                            | ---                                   | ---                                  | 1,902   |
| Restricted                                     | ---                                 | 142,905                          | ---                              | ---                                   | 124,661                              | 267,566   |
| Assigned                                       | 28,289                              | ---                              | ---                              | 4,868                                 | ---                                  | 33,157  |
| Unassigned                                     | ---                                 | ---                              | (1,902)                          | ---                                   | ---                                  | (1,902)   |
| <b>Total fund balance</b>                      | <b>28,289</b>                       | <b>142,905</b>                   | <b>---</b>                       | <b>4,868</b>                          | <b>124,661</b>                       | <b>300,723</b>  |
| <b>Total liabilities and fund<br/>balances</b> | <b>\$ 28,943</b>                    | <b>\$ 142,905</b>                | <b>\$ 10,416</b>                 | <b>\$ 4,868</b>                       | <b>\$ 124,661</b>                    | <b>\$ 311,793</b>                                     |

See Independent Auditors' Report.

**SWALLOW SCHOOL DISTRICT**  
Hartland, Wisconsin

**Combining Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
For the Year Ended June 30, 2011

|   | <u>Special<br/>Revenue<br/>Trust</u> | <u>Debt<br/>Service<br/>Fund</u> | <u>Food<br/>Service<br/>Fund</u> | <u>Community<br/>Service<br/>Fund</u> | <u>Capital<br/>Projects<br/>Fund</u> | <u>Total<br/>Non-Major<br/>Governmental<br/>Funds</u> |
|---|--------------------------------------|----------------------------------|----------------------------------|---------------------------------------|--------------------------------------|---|
| <b>Revenues:</b>                                  |                                      |                                  |                                  |                                       |                                      |   |
| Local   | \$ 32,300                            | \$ 502,277                       | \$ 117,746                       | \$ ---                                | \$ 374                               | \$ 652,697  |
| State   | ---                                  | ---                              | 2,030                            | ---                                   | ---                                  | 2,030   |
| Federal   | ---                                  | ---                              | 26,447                           | ---                                   | ---                                  | 26,447  |
| Other   | ---                                  | ---                              | 1,603                            | ---                                   | ---                                  | 1,603   |
| Total revenues                                    | <u>32,300</u>                        | <u>502,277</u>                   | <u>147,826</u>                   | <u>---</u>                            | <u>374</u>                           | <u>682,777</u>  |
| <b>Expenditures:</b>                              |                                      |                                  |                                  |                                       |                                      |   |
| Instruction:                                      |                                      |                                  |                                  |                                       |                                      |   |
| Current   | 13,811                               | ---                              | ---                              | ---                                   | ---                                  | 13,811  |
| Support Services:                                 |                                      |                                  |                                  |                                       |                                      |   |
| Current   | 20,687                               | ---                              | 162,450                          | 12,000                                | ---                                  | 195,137   |
| Debt Service                                      | ---                                  | 509,261                          | ---                              | ---                                   | ---                                  | 509,261   |
| Total expenditures                                | <u>34,498</u>                        | <u>509,261</u>                   | <u>162,450</u>                   | <u>12,000</u>                         | <u>---</u>                           | <u>718,209</u>  |
| Excess (deficit) of revenues<br>over expenditures | (2,198)                              | (6,984)                          | (14,624)                         | (12,000)                              | 374                                  | (35,432)  |
| <b>Other Financing sources (uses):</b>            |                                      |                                  |                                  |                                       |                                      |   |
| Operating transfers in                            | ---                                  | ---                              | 4,952                            | ---                                   | ---                                  | 4,952   |
| Fund Balance - Beginning of year                  | <u>30,487</u>                        | <u>149,889</u>                   | <u>9,672</u>                     | <u>16,868</u>                         | <u>124,287</u>                       | <u>331,203</u>  |
| Fund Balance - End of year                        | <u>\$ 28,289</u>                     | <u>\$ 142,905</u>                | <u>\$ ---</u>                    | <u>\$ 4,868</u>                       | <u>\$ 124,661</u>                    | <u>\$ 300,723</u>                                     |

See Independent Auditors' Report.

**SWALLOW SCHOOL DISTRICT**

Hartland, Wisconsin

**Agency Funds - Schedule of Changes in Assets and Liabilities**

June 30, 2011

|                               | <b>Balance</b>        |                         |                          |    | <b>Balance</b>        |
|-------------------------------|-----------------------|-------------------------|--------------------------|----|-----------------------|
|                               | <b><u>6/30/10</u></b> | <b><u>Additions</u></b> | <b><u>Deductions</u></b> |    | <b><u>6/30/11</u></b> |
| <b>Assets:</b>                |                       |                         |                          |    |                       |
| Cash                          | \$ 11,025             | \$ 12,076               | \$ 9,947                 | \$ | 13,154                |
|                               | <hr/> <hr/>           |                         |                          |    |                       |
| <b>Liabilities:</b>           |                       |                         |                          |    |                       |
| Due to student organizations: |                       |                         |                          |    |                       |
| Swallow School                | \$ 11,025             | \$ 12,076               | \$ 9,947                 | \$ | 13,154                |
|                               | <hr/> <hr/>           |                         |                          |    |                       |

See Independent Auditors' Report.

**SWALLOW SCHOOL DISTRICT**

Hartland, Wisconsin

**Schedule of Expenditures of State Awards**

Year Ended June 30, 2011

| <b>Awarding Agency</b>                      | <b>State</b>         | <b>Accrued or</b>        |                      |                        | <b>State</b>               | <b>Accrued or</b>        |
|---|----------------------|--------------------------|----------------------|------------------------|----------------------------|--------------------------|
| <b>Pass-Through Agency</b>                  | <b>I.D.</b>          | <b>(Deferred)</b>        |                      |                        | <b>Disbursements/</b>      | <b>(Deferred)</b>        |
| <b><u>Award Description</u></b>             | <b><u>Number</u></b> | <b><u>Revenue at</u></b> | <b><u>7/1/10</u></b> | <b><u>Receipts</u></b> | <b><u>Expenditures</u></b> | <b><u>Revenue at</u></b> |
|   |                      |                          |                      |                        |                            | <b><u>6/30/11</u></b>    |
| <b>WI Dept. of Public Instruction</b>       |                      |                          |                      |                        |                            |                          |
| Special education and school-age parents ** | 255.101              | \$ ---                   | \$ 86,891            | \$ 86,891              | \$ 86,891                  | \$ ---                   |
| State school lunch                          | 255.102              | ---                      | 2,030                | 2,030                  | 2,030                      | ---                      |
| Common school fund library aid              | 255.103              | ---                      | 13,891               | 13,891                 | 13,891                     | ---                      |
| Pupil transportation                        | 255.107              | ---                      | 9,200                | 9,200                  | 9,200                      | ---                      |
| Equalization aids                           | 255.201              | 17,580                   | 1,542,822            | 1,547,395              | 1,547,395                  | 22,153                   |
| <b>Total WI Dept. of Public Instruction</b> |                      | <u>17,580</u>            | <u>1,654,834</u>     | <u>1,659,407</u>       | <u>1,659,407</u>           | <u>22,153</u>            |
| <b>Total</b>                                |                      | <u>\$ 17,580</u>         | <u>\$ 1,654,834</u>  | <u>\$ 1,659,407</u>    | <u>\$ 1,659,407</u>        | <u>\$ 22,153</u>         |

\*\* Total DPI aidable expenditures for the year ended June 30, 2011 were \$333,467.

See Independent Auditors' Report.

**SWALLOW SCHOOL DISTRICT**

Hartland, Wisconsin

**Schedule of Expenditures of Federal Awards**

Year Ended June 30, 2011

| <b>Awarding Agency</b>                                     | <b>Federal</b>       | <b>Accrued or</b>        |                        |                            | <b>Federal</b>           | <b>Accrued or</b>     |
|--|----------------------|--------------------------|------------------------|----------------------------|--------------------------|-----------------------|
| <b>Pass-Through Agency</b>                                 | <b>Catalog</b>       | <b>(Deferred)</b>        |                        |                            | <b>Disbursements/</b>    | <b>(Deferred)</b>     |
| <b><u>Award Description</u></b>                            | <b><u>Number</u></b> | <b><u>Revenue at</u></b> | <b><u>Receipts</u></b> | <b><u>Expenditures</u></b> | <b><u>Revenue at</u></b> | <b><u>6/30/11</u></b> |
| <b>U.S. Department of Agriculture</b>                      |                      |                          |                        |                            |                          |                       |
| Passed through Wisconsin Department of Public Instruction: |                      |                          |                        |                            |                          |                       |
| <i>Child Nutrition Cluster</i>                             |                      |                          |                        |                            |                          |                       |
| Donated Commodities  | 10.555               | \$ ---                   | \$ 11,503              | \$ 11,503                  | \$ ---                   |                       |
| Food Service Aid - Lunch                                   | 10.555               | 492                      | 15,435                 | 14,943                     | ---                      |                       |
| <b>Total U.S. Department of Agriculture</b>                |                      | 492                      | 26,938                 | 26,446                     | ---                      |                       |
| <b>U.S. Department of Education</b>                        |                      |                          |                        |                            |                          |                       |
| Small Rural Achievement Program                            | 84.358A              | ---                      | ---                    | 52,381                     | 52,381                   |                       |
| Passed through Wisconsin Department of Public Instruction: |                      |                          |                        |                            |                          |                       |
| Title IV-A - Safe and Drug Free Schools Act                | 84.186               | 946                      | 946                    | ---                        | ---                      |                       |
| ESEA Title II-A Teacher Principal Training                 | 84.367               | 6,544                    | 6,544                  | 6,596                      | 6,596                    |                       |
| ESEA Title I-A Basic                                       | 84.010               | 14,543                   | 14,543                 | ---                        | ---                      |                       |
| <i>Special Education Cluster</i>                           |                      |                          |                        |                            |                          |                       |
| Idea Flow Through  | 84.027               | 68,457                   | 68,457                 | 69,875                     | 69,875                   |                       |
| REACH  | 84.027               | 8,000                    | 8,000                  | 6,000                      | 6,000                    |                       |
| Idea Preschool Entitlement                                 | 84.392               | 5,073                    | 5,073                  | ---                        | ---                      |                       |
| ARRA - IDEA Flow through                                   | 84.391               | 40,619                   | 40,619                 | 34,588                     | 34,588                   |                       |
| <i>Subtotal Special Education Cluster</i>                  |                      | 122,149                  | 122,149                | 110,463                    | 110,463                  |                       |
| <i>Education Technology State Grants Cluster</i>           |                      |                          |                        |                            |                          |                       |
| Title II-D Education Technology                            | 84.318               | 129                      | 129                    | 188                        | 188                      |                       |
| Passed through Wisconsin Department of Administration:     |                      |                          |                        |                            |                          |                       |
| Education Jobs in Funding                                  | 84.410               | ---                      | 140,144                | 237,058                    | 96,914                   |                       |
| <b>Total U.S. Department of Education</b>                  |                      | 144,311                  | 284,455                | 406,686                    | 266,542                  |                       |
| <b>U.S. Department of Health and Human Services</b>        |                      |                          |                        |                            |                          |                       |
| Passed through Wisconsin Medicaid and Badgercare Programs  |                      |                          |                        |                            |                          |                       |
| Medical Assistance Program                                 | 93.778               | 8,561                    | 12,738                 | 13,833                     | 9,656                    |                       |
| <b>Total U.S. Department of Health and Human Services</b>  |                      | 8,561                    | 12,738                 | 13,833                     | 9,656                    |                       |
| <b>Total</b>   |                      | \$ 153,364               | \$ 324,131             | \$ 446,965                 | \$ 276,198               |                       |

See Independent Auditors' Report.

**SWALLOW SCHOOL DISTRICT**  
Hartland, Wisconsin

**Notes to Schedules of Expenditures of Federal and State Awards**  
June 30, 2011

**1. General**

The accompanying schedule of expenditures of federal and state awards represents the activity of all federal and state financial awards programs of the District. All federal and state awards received directly from federal and state agencies as well as federal and state financial awards passed through other government agencies are included on the schedule.

**2. Basis of Accounting**

The accompanying schedule of expenditures of federal and state awards is presented using the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recorded as liabilities when incurred. The District applies all GASB pronouncements in accounting and reporting.

Steven C. Barney  
Steven R. Volz  
Daniel R. Brophy  
Thomas G. Wieland  
Michael W. Van Wagenen



David A. Grotkin  
Joel A. Joyce  
Brian J. Mechenich  
Carrie A. Gindt  
Patrick G. Hoffert

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors  
Swallow School District  
Hartland, Wisconsin

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Swallow School District ("District") as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 01, 2011. 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.

### Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting described in the accompanying schedule of findings and questioned costs as items 2011-1 and 2011-2 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention to those charged with governance.

## **Compliance and Other Matters**

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

We noted certain other matters that we have reported to management of the District in a separate letter dated November 01, 2011.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

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

November 01, 2011  
Milwaukee, Wisconsin

Steven C. Barney  
Steven R. Volz  
Daniel R. Brophey  
Thomas G. Wieland  
Michael W. Van Wagenen



David A. Grotkin  
Joel A. Joyce  
Brian J. Mechenich  
Carrie A. Gindt  
Patrick G. Hoffert

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR STATE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE WISCONSIN PUBLIC SCHOOL DISTRICT AUDIT MANUAL**

Board of Directors  
Swallow School District  
Hartland, Wisconsin

**Compliance**

We have audited the compliance of Swallow School District (District) with the types of compliance requirements described in the *Wisconsin Public School District Audit Manual*, issued by the Wisconsin Department of Public Instruction, that could have a direct and material effect to its designated state major aid programs for the year ended June 30, 2011. Compliance with the requirements of laws, regulations and contracts applicable to its state programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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; and compliance requirements as prescribed by the Wisconsin Department of Public Instruction and the *Wisconsin Public School District Audit Manual*. Those standards and compliance requirements 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 the designated state major aid programs. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

Compliance requirements applicable to the state designated major aid programs were identified as follows:

- Cost
- Teacher and Teacher Aid Certification

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its designated state major aid programs for the year ended June 30, 2011.

## Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to the state designated major aid programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on the state designated major programs to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the *Wisconsin Public School District Audit Manual* , 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 Districts' internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

*A deficiency in internal control over compliance* 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 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2011-1 to be significant deficiencies . A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged governance.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

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

November 01, 2011  
Milwaukee, Wisconsin

**SWALLOW SCHOOL DISTRICT**  
Hartland, Wisconsin

**Schedule of Prior Audit Findings**  
Year Ended June 30, 2011

**10-1 Financial Statement Preparation**

*Condition and Criteria:* We were requested to prepare the financial statements and footnote disclosures for the District, because the District currently does not internally possess the expertise to prepare these statements and footnote disclosures in accordance with accounting principles generally accepted in the United States of America.

*Effect:* Condition could result in the possibility of undetected errors and irregularities.

*Cause:* Management and the accounting staff of the District have adequate knowledge and experience in governmental accounting and interim reporting requirements; however, their limited knowledge and training limits their ability to prepare GAAP basis financial statements.

*Auditor's recommendation:* We recommend management continue using external sources to prepare the financial statements if cost of training is not feasible to the District.

*District Response:* The District will continue to rely on the expertise of an accounting firm to prepare the financial statements.

*Status:* No change.

**10-2 Segregation of Duties**

*Condition and Criteria:* The size of the District's administrative staff limits the duties that can be properly segregated.

*Effect:* The lack of segregation of duties could result in the possibility of undetected errors or irregularities

*Cause:* Limitations in staff size.

*Auditor's Recommendation:* It is important for management to be aware of this condition and to realize that the concentration of duties and responsibilities in one or two individuals is not desirable from a control standpoint. Under these conditions, the most effective controls rest in management's knowledge and monitoring of matters relating to the District's financial affairs.

*District's Response:* The District will continue to use other controls, where practical to compensate for this limitation.

*Status:* No change.

**SWALLOW SCHOOL DISTRICT**  
Hartland, Wisconsin

**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Section I - Summary of Auditor's Results**

**Financial Statements**

- |   |             |
|---|-------------|
| 1. Type of auditor's report issued:   | Unqualified |
| 2. Internal control over financial reporting:                                     |             |
| A. Material weakness identified?  | No          |
| B. Significant deficiency(s) identified not considered to be material weaknesses? | Yes         |
| 3. Noncompliance material to the financial statements?                            | No          |

**State Awards**

- |  |             |
|--|-------------|
| 4. Internal control over financial reporting:  |             |
| A. Material weakness identified?   | No          |
| B. Significant deficiency(s) identified not considered to be material weaknesses?                                  | Yes         |
| 5. Type of auditor's report issued on compliance for major programs?   | Unqualified |
| 6. Any audit findings disclosed that are required to be reported in accordance with State Single Audit Guidelines? | No          |
| 7. Identification of major state programs:   |             |

| State Identification Number | Name of Federal Program or Cluster        |
|-----------------------------|---|
| 255.101                     | Handicapped Pupils and School-Age Parents |
| 255.201                     | Equalization Aid                          |

**Section II - Financial Statement**

**Finding 2011-1 Segregation of Duties**

*Condition and Criteria:* The size of the District's administrative staff limits the duties that can be properly segregated.

*Effect:* The lack of segregation of duties could result in the possibility of undetected errors or irregularities.

*Cause:* Limitations in staff size.

*Auditor's Recommendation:* It is important for management to be aware of this condition and to realize that the concentration of duties and responsibilities in one or two individuals is not desirable from a control standpoint. Under these conditions, the most effective controls rest in management's knowledge and monitoring of matters relating to the District's financial affairs.

*District's Response:* The District will continue to use other controls, where practical to compensate for this limitation.

**SWALLOW SCHOOL DISTRICT**  
Hartland, Wisconsin

**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Section II - Financial Statement (continued)**

**Finding 2011-2 Financial Statement Preparation**

*Condition and Criteria:* We were requested to prepare the financial statements and footnote disclosures for the District, because the District currently does not internally possess the expertise to prepare these statements and footnote disclosures in accordance with accounting principles generally accepted in the United States of America.

*Effect:* Condition could result in the possibility of undetected errors and irregularities.

*Cause:* Management and the accounting staff of the District have adequate knowledge and experience in governmental accounting and interim reporting requirements; however, their limited knowledge and training limits their ability to prepare GAAP basis financial statements.

*Auditor's recommendation:* We recommend management continue using external sources to prepare the financial statements if cost of training is not feasible to the District.

*District Response:* The District will continue to rely on the expertise of an accounting firm to prepare the financial statements.

**Section III - State Award Findings**

See 2011-1 above.

**Section IV – Other Issues**

1. Does the auditor's report or the notes to the financial statements include disclosure with regard to substantial doubt as to the auditee's ability to continue as a going concern? No

2. Does the audit report show audit issues (i.e., material noncompliance, nonmaterial noncompliance, 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 Public Instruction Yes

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

4. Name and signature of partner \_\_\_\_\_  
Carrie A. Gindt

5. Date of Report November 01, 2011