

Milan Area Schools

Milan, Michigan

FINANCIAL STATEMENTS

For the Year Ended
June 30, 2009

MILAN AREA SCHOOLS

For the Year Ended June 30, 2009

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report.....	1-2
Management's Discussion and Analysis.....	3-10
Basic Financial Statements:	
District-wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities.....	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds	13
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund.....	17
Statement of Fiduciary Net Assets.....	18
Statement of Changes in Fiduciary Net Assets – Private-Purpose Trust	19
Notes to the Financial Statements	20-35
Combining and Individual Fund Financial Statements:	
Combining Balance Sheet – Nonmajor Governmental Funds	36-37
Combining Statement of Revenue, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	38-39
Combining Statement of Fiduciary Net Assets.....	40
Statement of Changes in Assets and Liabilities – Agency Fund.....	41

MILAN AREA SCHOOLS

For the Year Ended June 30, 2009

TABLE OF CONTENTS (Concluded)

	<u>PAGE</u>
Single Audit	
Schedule of Expenditures of Federal Awards	42-43
Notes to Schedule of Expenditures of Federal Awards.....	44
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	45-46
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	47-48
Schedule of Findings and Questioned Costs	49-50

INDEPENDENT AUDITORS' REPORT

October 12, 2009

Board of Education
Milan Area Schools
Milan, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **MILAN AREA SCHOOLS**, as of and for the year ended June 30, 2009, 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 management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Milan Area Schools, as of June 30, 2009, and the respective changes in financial position thereof and the budgetary comparison for the general fund 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 our report dated October 12, 2009, 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 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.

The Management's Discussion and Analysis on pages 3-10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Milan Area Schools' basic financial statements. The combining and individual fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Milan Area Schools. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION and ANALYSIS

Management's Discussion and Analysis

As management of Milan Area Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2009.

Financial Highlights

- The liabilities of the District exceeded its assets at the close of the most recent fiscal year by (\$996,079) (*net assets*).
- The government's total net assets increased by \$577,749.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$51,766,485, an increase of \$49,255,255 in comparison with the prior year. Approximately 99% or \$51,486,614 is *available for spending* at the government's discretion (*unreserved fund balance*). The majority of the available funds are in the 2009 Capital Projects Fund.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$1,700,179, or 7.8 % percent of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include instruction, support services, food service, athletics and community service. The District has no business-type activities as of and for the year ended June 30, 2009.

Fund financial statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District now maintains nine individual governmental funds with the addition of the 2009 Capital Projects Fund. An additional 2009 Debt Service Fund will be added in 2009-2010 for the repayment of the 2009 bonded debt. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the 2009 Capital Projects Fund, both of which are considered to be major funds. Data from the other seven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. A budgetary comparison statement is provided for the General Fund herein to demonstrate compliance with that budget.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities exceeded assets by (\$996,079) at the close of the most recent fiscal year.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the students it serves; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Having just passed a Capital Projects Bond in February of 2009 and having realized the proceeds of the sale of those bonds in May of 2009, the district has an unusually significant balance in current assets (investments) which will be spent down over the next three years for capital improvements.

District's Net Assets
Governmental Activities

	<u>2008-09</u>	<u>2007-08</u>
Current and other assets	\$ 57,688,801	\$ 8,073,763
Capital assets, net	<u>52,646,280</u>	<u>53,929,877</u>
Total assets	<u>110,335,081</u>	<u>62,003,640</u>
Long-term liabilities outstanding	104,706,197	57,807,412
Other liabilities	<u>6,624,963</u>	<u>5,770,056</u>
Total liabilities	111,331,160	63,577,468
Net assets:		
Invested in capital assets, net of related debt	(2,408,389)	(2,779,220)
Restricted	457,442	565,910
Unrestricted	<u>954,868</u>	<u>639,482</u>
 Total net assets	 <u>\$ (996,079)</u>	 <u>\$ (1,573,828)</u>

The District currently has a negative net asset balance. In other words, if all of our liabilities were due on 6/30/09, liquidation of all capital assets would not be sufficient to meet our obligations.

It is not unusual for districts, such as Milan, that participate in the Michigan School Bond Loan Program/School Loan Revolving Fund to achieve a negative net asset balance. This borrowing allows the district to consistently levy 8.04 mills for debt service. When yearly tax collections for debt retirement exceed interest and principal due, the District will continue to levy 8.04 mills for debt service, using the excess tax collections to repay the School Bond Loan Fund/School Loan Revolving Fund. That was the case in the current year and Milan repaid \$126,533 to the School Bond Loan Fund. However, the remaining balance owed to the School Bond Loan Program/School Loan Revolving Fund is in excess of \$8,000,000. Having taken on additional debt with the 2009 bond issue the District will revert to becoming a borrowing district rather than a repaying district. This will push the final repayment to the Michigan School Bond Loan Program/School Loan Revolving Fund out to the year 2034 by current calculations.

Another aspect of long-term debt that drives down net assets is compensated absences. These are sick and vacation days accumulated by employees, which would be payable if all employees, were to resign on 6/30/09. That unlikely scenario creates an accrued liability of \$839,339.

Retirement incentives which are payable as of the close of the school year also reduce net assets. In 2007/08 the District offered retirement incentives to teachers retiring as of 6/30/08. A portion of the incentive was paid prior to 6/30/08. An additional payout of \$30,000 was made in 2008-2009. The remainder of the payout, \$132,000, will be paid in the year 2011.

In addition to total net assets, another indicator of the district's financial position is unrestricted net assets. The previous table reflects that unrestricted net assets increased in 2008-09, from \$639,482 to \$954,868. The positive balance indicates that funds that are restricted for debt service and other purposes are available at 6/30/09.

The government's net assets increased by \$577,749 during the current fiscal year. The net increase is the result of multiple factors both increasing and decreasing net assets.

District's Changes in Net Assets
Governmental Activities

	<u>2008-09</u>	<u>2007-08</u>
Revenue:		
Program revenue:		
Charges for services	\$ 1,098,587	\$ 1,002,699
Operating grants and contributions	4,039,339	2,795,967
General revenue:		
Property taxes	6,853,280	7,917,313
State school aid	15,877,543	14,856,774
Grants and contributions not restricted to specific programs	487,700	459,247
Unrestricted investment earnings	37,558	165,345
Gain on Sale of capital assets	<u>1,850</u>	<u>1,500</u>
Total revenue	<u>28,395,857</u>	<u>27,198,845</u>
Expenses:		
Instruction	13,067,500	12,627,585
Support services	8,035,738	7,869,228
Community service	439,661	446,957
Athletics	394,077	447,566
Food service	925,166	873,480
Interest on long-term debt	3,311,716	2,945,245
Unallocated depreciation	<u>1,644,250</u>	<u>1,668,847</u>
Total expenses	<u>27,818,108</u>	<u>26,878,912</u>
Change in net assets	577,749	319,933
Net assets, beginning of year	<u>(1,573,828)</u>	<u>(1,893,761)</u>
Net assets, end of year	<u>\$ (996,079)</u>	<u>\$ (1,573,828)</u>

Governmental activities. Net assets increased by \$577,749. The key elements both decreasing and increasing net assets are as follows:

- While operating revenue and operating expense both increased in 2008-2009, the revenue increase was greater than the expense increase. This resulted in an increased fund balance in the General Fund that contributed to a positive change in net assets.
- Due to market conditions interest earnings on investments decreased by \$127,787.
- Depreciation expense of \$1,644,250. Depreciation reduces the stated value of capital assets, also reducing net assets.
- Debt payments of \$2,370,934 served to reduce long-term debt. Since capital assets are stated net of related debt, reducing long-term debt saves capital assets from further reduction.
- In 2007-08 the District began repaying the School Bond Loan Fund, as opposed to borrowing as was done in the past (to pay the excess of current and accrued interest and principal due on bonds over the tax collections for debt service). However, the repayment of \$126,533 was offset by \$386,011 increased interest costs on funds borrowed in previous years. As mentioned above capital assets are stated net of related debt. Increasing debt reduces capital assets as stated.

Financial Analysis of the Government's Funds

As noted earlier, the district uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$51,766,485, an increase of \$49,255,555 in comparison with the prior year. Approximately 99% of this total amount (\$51,486,614) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is either reserved for a specific program or not available for new spending because the underlying assets are included in inventory and prepaid expenses and are not available for current expenditure. The significant increase in unreserved fund balance is due to the proceeds from the 2009 bond issue, which will be used to fund capital projects over the next three years.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,700,179, while total general fund balance was \$1,972,932. As a measure of the general fund's liquidity, it is useful to compare unreserved fund balance to total general fund expenditures. Unreserved fund balance represents approximately 7.8 percent of total general fund expenditures. While this is a 3.3% increase over 2007/08, an unreserved fund balance of 10-12 % is generally recommended.

The fund balance of the District's general fund increased by \$795,170 during the current fiscal year. The unreserved fund balance increased by \$745,148. While costs in the areas of salaries and fringe benefits continued to rise, an increase in State Aid, including an x2 formula (additional funding for schools that receive the lowest available foundation allowance), increased enrollment and continued efforts in our energy savings program enabled the District to manage rising costs and increase fund balance. In addition, previous reductions in supply and materials budgets and support services were maintained. It should be noted that late in the year prorating of State Aid was made up with Federal Educational Stabilization Funds.

The 2009 Capital Projects Fund has a total unreserved fund balance of \$48,527,067. As mentioned previously, these proceeds from the 2009 bond issue will be spent down over the next three years on capital projects.

The 2002 debt service fund has a total fund balance of \$995,464, unreserved. A high balance is maintained in the 2002 debt fund to make monthly interest payments in the summer months prior to summer tax collections.

General Fund Budgetary Highlights

There were several noteworthy changes between the original and final amended budgets:

- State Aid decreased by approximately \$30,000. However, significant increases due to the increased foundation allowance and increased student population were later offset by a late in the year proration of the state per pupil foundation allowance.
- Federal Aid was increased by \$941,637, in Federal Educational Stabilization Funds, which offset losses in State Aid due to the previously mentioned State Aid Proration.

Once additional information was known, subsequent budget amendments recognized the additional revenue and expense.

Capital Asset and Debt Administration

Capital assets

The District's investment in capital assets for its governmental activities as of June 30, 2009, amounted to \$52,646,280 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles and equipment. This reflects a decrease of \$1,283,597 from the previous year. Modest expenditures for capital assets were offset by depreciation expense of \$1,544,199.

The major capital asset event during the current fiscal year was the purchase of one school bus at \$77,721. In addition, preliminary expenditures out of the 2009 Capital Projects Fund of \$260,602 are currently expressed as Construction in Progress. At the conclusion of the project these expenditures will be appropriately categorized.

District's Capital Assets		
	6/30/09	6/30/08
Capital Assets not being depreciated:		
Land	\$ 1,607,945	\$ 1,607,945
Construction in Progress	260,602	
Capital assets being depreciated (net of depreciation)		
Site Improvements	2,580,924	2,792,254
Buildings	47,319,443	48,401,892
Vehicles	355,672	371,568
Equipment	<u>521,694</u>	<u>756,218</u>
Total	<u>\$ 52,646,280</u>	<u>\$ 53,929,877</u>

Additional information on the District's capital assets can be found in III.C of the notes to this report.

Long-term debt. At the end of the current fiscal year, the District had total bonded debt outstanding of \$98,108,123.

The District's total long-term debt increased by \$46,794,066, (approximately 91%) during the current fiscal year. Once again this significant increase is due to the 2009 Bond Issue.

Additional information on the District's long-term debt can be found in III.F of the notes section to this report.

Factors Bearing on the District's Future

The following factors were considered in preparing the District's budget for the 2009-10 fiscal year:

- The State Aid Foundation Grant was projected to remain flat at \$7,316 per pupil.
- The District budgeted for a slight increase in the student population.
- The District is going into the third year of a three-year contract with the teachers that began 7/1/07. The agreement includes a 2% raise in the third year.
- The District participates in an experience rated health plan. Significantly high experience in 2008 has resulted in a 24% increase in health premiums for 09-10.
- The retirement rate is scheduled to increase from 16.54% of gross wages to 16.94% on 10/1/09.
- The District will continue to contract with energy management consultants and will continue to employ an onsite energy management educator to assist the district in further reducing energy usage and containing utility costs.
- The District, along with the Intermediate School District, will continue to explore cost savings through consolidation of services. During the 2008-2009 year consolidation of some health services was explored. Results showed that the District would realize minimal savings in those areas. The contracting of sub teachers, which was a collaboration of all the districts in the Washtenaw Intermediate School District, beginning in 07-08, continues to be a successful program, which will be continued in 09-10. The District will explore adding other staff groups to the program.
- The District did expand educational opportunities for High School Students by joining with other Districts in the WISD and Eastern Michigan University in the Early College Alliance in 2008-2009. High School Students had the opportunity to earn both High School and College credit while attending the university on a full time basis. While 85% of the student foundation allowance is used for tuition payments to the ECA, 15% of the foundation allowance remains with the District. The program was successful in 2008-2009 and student participation is expected to double to 54 students attending in 2009-2010.
- In the 07-08 school year the District underwent a facilities needs study which resulted in a plan to present a bond proposal to the voters in 2008-09. The bond proceeds would be used for improvements as well as additions to current facilities. The additional debt would not increase the current tax levy, but would return the District to borrowing from the School Loan Revolving Fund and the current debt levy of 8.04 mills would be extended out an additional number of years based on the final amount borrowed. That proposal passed in February of 2009. Bonds were sold in May of 2009. Bond proceeds minus discount were \$48,791,689.

- While budgeting on the conservative side for student enrollment in 2009-10, we continue to expect moderate growth over the next five to ten years. We are dependent upon that growth and future increases in the foundation grant allowance to maintain our current programs, continue investing in updated curriculum and fund adequate building and maintenance repair budgets. In addition, it is our goal to steadily increase our unreserved fund balance from 7.8% to the generally recommended 10-12%. It will take significant changes in State funding of K-12 education to generate the increased revenue needed to restore supply budgets, recall all employees on lay-off and reduce class sizes.
- Despite District efforts to save and conserve, revenue is not expected to cover expense in 2009-2010. Therefore, the District will not be replacing 4.5 teacher resignations/retirements. In addition the District will lay off two elementary teachers. These expenditure savings will result in increased class sizes. Despite these savings the District has passed a \$422,330 deficit budget for 2009-2010. If the revenue picture does not improve the deficit will be absorbed by the fund balance at 6/30/10.
- In an effort to increase revenue the Washtenaw Intermediate School District, of which Milan Area Schools is a member, will place a five-year, 2 mill enhancement millage on the November 3, 2009 ballot. Should the enhancement millage pass, the resulting revenue of approximately \$1,700,000 per year would insulate the District from the extreme economic concerns facing the State of Michigan. While federal programs in 2008-2010 are replacing lost state funding those federal funds are expected to be depleted or nearly depleted at the end of 2010.
- The District will be in negotiations with all bargaining units in 2009-2010 for agreements to begin in 2010-2011. By the time negotiations begin in the winter of 2010 the District will have knowledge of the status of the enhancement millage mentioned above. The passage or failure of the millage will have a significant impact on negotiations. Even if the millage passes the bleak state economic outlook will be at the forefront of negotiation discussions, with the long-term financial health of the district as it affects the educational process as the focus of discussions.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Superintendent, 100 Big Red Drive, Milan, Michigan 48160.

BASIC FINANCIAL STATEMENTS

DISTRICT-WIDE FINANCIAL STATEMENTS

MILAN AREA SCHOOLS
Statement of Net Assets
June 30, 2009

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 53,107,952
Receivables	4,347,703
Prepaid items and other assets	233,146
Capital assets not being depreciated	1,868,547
Capital assets being depreciated, net	50,777,733
Total assets	110,335,081
 Liabilities	
Accounts payable and accrued liabilities	3,504,149
State aid note payable	3,051,000
Unearned revenue	69,814
Noncurrent liabilities:	
Due within one year	3,868,126
Due in more than one year	100,838,071
Total liabilities	111,331,160
 Net assets (Deficit)	
Invested in capital assets, net of related debt (deficit)	(2,408,389)
Restricted for:	
Debt service	310,276
Construction projects	3,449
Other purposes	143,717
Unrestricted	954,868
Total net assets (deficit)	\$ (996,079)

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

MILAN AREA SCHOOLS
Statement of Activities
For the Year Ended June 30, 2009

<u>Functions / Programs</u>	Program Revenues				<u>Net (Expense) Revenue</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental activities:					
Instruction	\$ 13,067,500	\$ 1,233	\$ 3,545,209	\$ -	\$ (9,521,058)
Supporting services	8,035,738	-	-	-	(8,035,738)
Community service	439,661	498,743	-	-	59,082
Athletics	394,077	-	146,144	-	(247,933)
Food service	925,166	598,611	347,986	-	21,431
Interest on long-term debt	3,311,716	-	-	-	(3,311,716)
Unallocated depreciation	1,644,250	-	-	-	(1,644,250)
Total	<u>\$ 27,818,108</u>	<u>\$ 1,098,587</u>	<u>\$ 4,039,339</u>	<u>\$ -</u>	<u>(22,680,182)</u>
General revenues:					
Property taxes					6,853,280
Unrestricted state aid					15,877,543
Grants and contributions not restricted to specific programs					487,700
Unrestricted investment earnings					37,558
Gain on sale of capital assets					1,850
Total general revenues					<u>23,257,931</u>
Change in net assets					577,749
Net assets (deficit), beginning of year					<u>(1,573,828)</u>
Net assets (deficit), end of year					<u><u>\$ (996,079)</u></u>

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

FUND FINANCIAL STATEMENTS

MILAN AREA SCHOOLS

Balance Sheet

Governmental Funds

June 30, 2009

<u>ASSETS</u>	<u>General</u>	<u>2009 Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Assets				
Cash and cash equivalents	\$ 3,576,832	\$ 48,378,388	\$ 1,152,732	\$ 53,107,952
Accounts receivable	71,925	401,929	361	474,215
Due from other government	3,720,366	-	153,122	3,873,488
Due from other funds	269,487	-	186,177	455,664
Inventory	4,785	-	7,118	11,903
Prepaid expenditures	221,243	-	-	221,243
	<hr/>	<hr/>	<hr/>	<hr/>
<u>TOTAL ASSETS</u>	<u>\$ 7,864,638</u>	<u>\$ 48,780,317</u>	<u>\$ 1,499,510</u>	<u>\$ 58,144,465</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
Liabilities				
Accounts payable	\$ 244,818	\$ -	\$ 16,617	\$ 261,435
Accrued expenditures	301,002	-	-	301,002
Salaries and benefits payable	2,043,294	-	42,649	2,085,943
Due to other funds	186,177	253,250	16,237	455,664
Deferred revenue	65,415	-	157,521	222,936
Notes payable	3,051,000	-	-	3,051,000
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	5,891,706	253,250	233,024	6,377,980
 Fund balances (deficit)				
Reserved for inventory	4,785	-	7,118	11,903
Reserved for prepaid expenditure:	221,243	-	-	221,243
Reserved for Bleacher Project	1,234	-	-	1,234
Reserved for First Steps Program	39,073	-	-	39,073
Reserved - Toyota Donation	6,418	-	-	6,418
Unreserved:				
Undesignated	1,700,179	-	-	1,700,179
Undesignated, reported in nonmajor				
Special revenue funds	-	-	89,874	89,874
Debt service funds	-	-	1,166,045	1,166,045
Capital projects funds	-	48,527,067	3,449	48,530,516
	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balances	1,972,932	48,527,067	1,266,486	51,766,485
	<hr/>	<hr/>	<hr/>	<hr/>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 7,864,638</u>	<u>\$ 48,780,317</u>	<u>\$ 1,499,510</u>	<u>\$ 58,144,465</u>

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

MILAN AREA SCHOOLS
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2009

Fund balances - total governmental funds	\$ 51,766,485
--	---------------

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 in the funds.

Add - capital assets	70,000,944
Deduct - accumulated depreciation	(17,354,664)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add - deferred long-term receivables	153,122
--------------------------------------	---------

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - bonds and loans payable	(106,520,109)
Add - unamortized bond issuance costs	334,754
Add - unamortized loss on refunding	2,164,607
Deduct - unamortized bond premium	(87,421)
Add - unamortized bond discount	373,311
Deduct - accrued interest on bonds payable	(855,769)
Deduct - compensated absences and retirement incentive	(971,339)

Net assets of governmental activities	\$ <u>(996,079)</u>
---------------------------------------	---------------------

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

MILAN AREA SCHOOLS
Statement of Revenue, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2009

	<u>General</u>	<u>2009 Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Revenue				
Local sources	\$ 4,477,412	(3,920)	\$ 5,328,277	\$ 9,801,769
State sources	16,309,345	-	67,429	16,376,774
Federal sources	1,930,736	-	300,663	2,231,399
	<u>22,717,493</u>	<u>(3,920)</u>	<u>5,696,369</u>	<u>28,409,942</u>
Expenditures				
Education:				
Instruction	12,971,960	-	-	12,971,960
Support services	8,631,072	-	-	8,631,072
Food service activities	-	-	923,724	923,724
Athletic programs	-	-	393,356	393,356
Capital outlay	-	260,602	-	260,602
Debt service:				
Principal	-	-	2,370,934	2,370,934
Interest	69,232	100	2,326,946	2,396,278
	<u>21,672,264</u>	<u>260,702</u>	<u>6,014,960</u>	<u>27,947,926</u>
Total expenditures	<u>21,672,264</u>	<u>260,702</u>	<u>6,014,960</u>	<u>27,947,926</u>
Revenue over (under) expenditures	<u>1,045,229</u>	<u>(264,622)</u>	<u>(318,591)</u>	<u>462,016</u>
Other financing sources (uses)				
Proceeds from sale of capital assets	1,850	-	-	1,850
Bond proceeds	-	49,165,000	-	49,165,000
Bond discount	-	(373,311)	-	(373,311)
Payment to escrow agent	-	-	-	-
Transfers in	7,552	-	259,461	267,013
Transfers out	(259,461)	-	(7,552)	(267,013)
	<u>(250,059)</u>	<u>48,791,689</u>	<u>251,909</u>	<u>48,793,539</u>
Total other financing sources (uses)	<u>(250,059)</u>	<u>48,791,689</u>	<u>251,909</u>	<u>48,793,539</u>
Net change in fund balances	795,170	48,527,067	(66,682)	49,255,555
Fund balances, beginning of year	<u>1,177,762</u>	<u>-</u>	<u>1,333,168</u>	<u>2,510,930</u>
Fund balances, end of year	<u>\$ 1,972,932</u>	<u>\$ 48,527,067</u>	<u>\$ 1,266,486</u>	<u>\$ 51,766,485</u>

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

MILAN AREA SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2009

Net change in fund balances - total governmental funds \$ 49,255,555

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	360,653
Deduct - depreciation expense	(1,644,250)

The receipt of a long-term receivable represents revenue in the fund financial statements, but is reported as a reduction of the receivable in the statement of activities.

Deduct - payments received on deferred long-term receivables	(15,935)
--	----------

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Deduct - net proceeds from bond issuance	(48,791,689)
Add - principal payments on long-term liabilities	2,370,934

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct - increase in accrued interest payable on bonds and loans	(738,967)
Deduct - amortization of bond issuance costs, loss on refunding, an dbond premium	(176,471)
Deduct - increase in the accrual for compensated absences	(72,081)
Add - decrease in early retirement incentives payable	30,000
	30,000

Change in net assets of governmental activities	\$ 577,749
---	------------

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

MILAN AREA SCHOOLS
Statement of Revenue, Expenditures and Changes in Fund Balance
General Fund
For the Year Ended June 30, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (under) Final Budget</u>
Revenue				
Local sources	\$ 4,338,645	\$ 4,469,257	\$ 4,477,412	\$ 8,155
State sources	16,593,282	16,563,284	16,309,345	(253,939)
Federal sources	721,614	1,705,983	1,930,736	224,753
Total revenue	<u>21,653,541</u>	<u>22,738,524</u>	<u>22,717,493</u>	<u>(21,031)</u>
Expenditures				
Instruction				
Basic programs	10,969,512	11,366,156	11,302,416	(63,740)
Added needs	1,352,218	1,511,427	1,516,357	4,930
Adult and continuing education	171,950	156,332	153,187	(3,145)
Total instruction	<u>12,493,680</u>	<u>13,033,915</u>	<u>12,971,960</u>	<u>(61,955)</u>
Supporting services				
Pupil services	1,989,811	1,882,812	1,863,787	(19,025)
Instructional support	705,747	778,963	746,644	(32,319)
General administration	427,322	356,863	336,911	(19,952)
School administration	1,043,397	1,154,163	1,107,928	(46,235)
Business services	365,902	334,427	237,675	(96,752)
Operations and maintenance	2,696,943	2,663,778	2,562,909	(100,869)
Transportation	1,142,361	1,082,007	1,070,543	(11,464)
Central support	215,136	197,259	186,045	(11,214)
Community Services	581,919	573,578	518,630	(54,948)
Tuition	-	-	-	-
Total supporting services	<u>9,168,538</u>	<u>9,023,850</u>	<u>8,631,072</u>	<u>(392,778)</u>
Debt service				
Interest and fiscal charges	-	-	69,232	69,232
Total expenditures	<u>21,662,218</u>	<u>22,057,765</u>	<u>21,672,264</u>	<u>(385,501)</u>
Revenue over expenditures	<u>(8,677)</u>	<u>680,759</u>	<u>1,045,229</u>	<u>364,470</u>
Other financing sources (uses)				
Proceeds from sale of capital assets	-	-	1,850	1,850
Transfers in	-	-	7,552	7,552
Transfers out	(269,003)	(292,464)	(259,461)	33,003
Total other financing uses	<u>(269,003)</u>	<u>(292,464)</u>	<u>(250,059)</u>	<u>42,405</u>
Net change in fund balance	<u>(277,680)</u>	<u>388,295</u>	<u>795,170</u>	<u>406,875</u>
Fund balances, beginning of year	<u>1,177,762</u>	<u>1,177,762</u>	<u>1,177,762</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 900,082</u></u>	<u><u>\$ 1,566,057</u></u>	<u><u>\$ 1,972,932</u></u>	<u><u>\$ 406,875</u></u>

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

MILAN AREA SCHOOLS
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2009

	<u>Private- Purpose Trust Fund</u>	
	<u>Scholarships</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$ 22,490	<u>\$ 380,715</u>
Liabilities		
Due to student groups	<u>-</u>	<u>\$ 380,715</u>
Net assets		
Unrestricted	<u>\$ 22,490</u>	

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

MILAN AREA SCHOOLS
Statement of Changes in Fiduciary Net Assets
Private-Purpose Trust Fund
For the Year Ended June 30, 2009

	Scholarships
Additions	
Earnings on deposits and investments	\$ 234
 Deductions	
Scholarships	3,234
Decrease in net assets	(3,000)
Net assets, beginning of year	25,490
Net assets, end of year	\$ 22,490

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

NOTES to the FINANCIAL STATEMENTS

MILAN AREA SCHOOLS

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The Milan Area Schools (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statements No. 14 and No. 39 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

B. District-wide and fund financial statements

The District-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended June 30, 2009.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

MILAN AREA SCHOOLS

Notes to the Financial Statements

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

Property taxes, intergovernmental revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *2009 capital projects fund* accounts for the financial resources to be used for the acquisition or construction of major capital facilities and improvements in relation to the 2009 bonds.

Additionally, the District reports the following fund types:

The *special revenue funds* are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes, where there is a need to determine the results of operations, specifically, athletics and food service.

The *debt service funds* are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

The *capital projects funds* are used to account for financial resources to be used for the acquisition or construction of major capital facilities and improvements.

The *private-purpose trust funds* account for amounts entrusted to the District for scholarship awards and similar trust activities.

The *agency funds* account for assets held for student activity groups and organizations and are custodial in nature.

MILAN AREA SCHOOLS

Notes to the Financial Statements

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the District-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

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

D. Assets, liabilities and equity

1. Deposits and investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the District are reported at fair value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

3. Inventories and prepaid items

All inventories are valued at cost using the first-in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both District-wide and fund financial statements.

MILAN AREA SCHOOLS

Notes to the Financial Statements

4. *Capital assets*

Capital assets, which include property and equipment, are reported in the governmental activities column in the District-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	10-20
Buildings and improvements	25-50
Equipment	5-20
Licensed vehicles	8

5. *Compensated absences*

It is the District's policy to permit employees to accumulate various earned but unused vacation and sick pay benefits. These are accrued when incurred in the District-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Employees accrue 10-13 days of sick leave, per year, which accumulates if not used. Sick time is paid upon termination only to employees who have ten or more years of service with the District. The maximum payout upon termination varies, depending on the employee's classification (teacher, administrator, etc.).

Administrators and other support staff working year-round accrue vacation time in varying amounts. Teachers and other personnel working less than twelve months during the year do not receive paid vacation time, but are paid only for the number of days they are required to work each year. Upon termination, an employee may elect to receive the unused portion of his/her vacation time in cash.

MILAN AREA SCHOOLS

Notes to the Financial Statements

6. *Long-term obligations*

In the District-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

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

7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. **Budgetary information**

The General and Special Revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted annually on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the General and Special Revenue Funds are adopted on a functional basis.

All annual appropriations lapse at fiscal year end.

MILAN AREA SCHOOLS

Notes to the Financial Statements

B. Excess of expenditures over appropriations

P. A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2009, the government incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund -			
Instruction -			
Added needs	\$ 1,511,427	\$ 1,516,357	\$ 4,930

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

Statement of Net Assets	
Cash and cash equivalents	\$ 53,107,952
Statement of Fiduciary Net Assets	
Cash and cash equivalents	<u>403,205</u>
	<u>\$ 53,511,157</u>
Cash on hand	\$ 136
Deposits (checking accounts and certificates of deposit)	16,375,169
Investments, in securities, mutual funds and similar vehicles	<u>37,135,852</u>
	<u>\$ 53,511,157</u>

Statutory Authority

Michigan law authorizes the District to deposit and invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.

MILAN AREA SCHOOLS

Notes to the Financial Statements

- (b) Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy allow for all of these types of investments.

Deposit and investment risk

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$2,232,145 of the District's bank balance of \$16,453,857 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. Following is a summary of the District's investments as of June 30, 2009:

U.S. agencies	\$ 33,469,734
Michigan Liquid Asset Fund (MILAF)	1,915,454
Money Market	<u>1,750,664</u>
	<u><u>\$ 37,135,852</u></u>

For an investment, custodial credit risk 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. State law does not require and the District does not have a policy for investment custodial credit risk.

MILAN AREA SCHOOLS

Notes to the Financial Statements

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment credit risk. Credit risk ratings on investments are noted above. As of June 30, 2009, the District's investments in securities of U.S. agencies were rated AAA by Standard & Poor's and its investment in the Michigan Liquid Asset Fund (MILAF) was rated AAAM by Standard & Poor's. Ratings are not required for money market accounts.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. At June 30, 2009, the District had greater than 5% of its total investment portfolio concentrated as follows:

<u>Investment Type</u>	<u>Issuer</u>	<u>% of Portfolio</u>
U.S. Agency	Federal Home Loan Bank	15.3%
	Federal National Mortgage Association	43.1%
	Federal Home Loan Mortgage Corporation	31.7%
Mone market	Michigan Liquid Asset Fund	5.2%

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. As of June 30, 2009 all of the District's debt maturities were maturing in 1-5 years.

B. Receivables

Receivables as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	<u>General</u>	<u>2009 Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Accounts receivable	\$ 71,925	\$ 401,929	\$ 361	\$ 474,215
Due from other governments	3,720,366	-	153,122	3,873,488
	<u>\$ 3,792,291</u>	<u>\$ 401,929</u>	<u>\$ 153,483</u>	<u>\$ 4,347,703</u>

MILAN AREA SCHOOLS

Notes to the Financial Statements

C. Capital assets

Capital assets activity for the year ended June 30, 2009 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 1,607,945	\$ -	\$ -	\$ 1,607,945
Construction in progress	-	260,602	-	260,602
Total capital assets not being depreciated	<u>1,607,945</u>	<u>260,602</u>	<u>-</u>	<u>1,868,547</u>
Capital assets being depreciated:				
Land improvements	5,585,757	-	-	5,585,757
Buildings and improvements	58,339,816	5,335	-	58,345,151
Equipment	2,966,167	17,995	-	2,984,162
Vehicles	1,183,582	76,721	42,976	1,217,327
Total capital assets being depreciated	<u>68,075,322</u>	<u>100,051</u>	<u>42,976</u>	<u>68,132,397</u>
Less accumulated depreciation for:				
Land improvements	2,793,503	211,330	-	3,004,833
Buildings and improvements	9,937,924	1,087,784	-	11,025,708
Equipment	2,209,949	252,519	-	2,462,468
Vehicles	812,014	92,617	42,976	861,655
Total accumulated depreciation	<u>15,753,390</u>	<u>1,644,250</u>	<u>42,976</u>	<u>17,354,664</u>
Total capital assets being depreciated, net	<u>52,321,932</u>	<u>(1,544,199)</u>	<u>-</u>	<u>50,777,733</u>
Governmental activities capital assets, net	<u>\$ 53,929,877</u>	<u>\$ (1,283,597)</u>	<u>\$ -</u>	<u>\$ 52,646,280</u>

Depreciation expense of \$1,644,250 was charged to the function "Unallocated Depreciation," and not allocated to other functions.

MILAN AREA SCHOOLS

Notes to the Financial Statements

D. Payables

Accounts payable and accrued liabilities as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	General	Other Governmental Funds	Totals
Accounts payable	\$ 244,818	\$ 16,617	\$ 261,435
Accrued expenditures	301,002	-	301,002
Salaries and benefits payable	2,043,294	42,649	2,085,943
	\$ 2,589,114	\$ 59,266	2,648,380
Accrued interest on long-term debt			855,769
Governmental activities			\$ 3,504,149

E. Interfund receivables, payables and transfers

At June 30, 2009, interfund receivables and payables consisted of the following:

	Due from	Due to
General Fund	\$ 269,487	\$ 186,177
2009 Capital projects	-	253,250
Nonmajor governmental funds	186,177	16,237
	\$ 455,664	\$ 455,664

The District often reports interfund balances between many of its funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

MILAN AREA SCHOOLS

Notes to the Financial Statements

For the year ended June 30, 2009, interfund transfers consisted of the following:

	<u>Transfers out</u>	<u>Transfers in</u>
General Fund	\$ 259,461	\$ 7,552
Nonmajor governmental funds	<u>7,552</u>	<u>259,461</u>
	<u>\$ 267,013</u>	<u>\$ 267,013</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended June 30, 2009, the District transferred funds to subsidize the athletics program. Also, a transfer was made from the food service fund to the general fund to cover certain allocable costs.

F. Long-term debt

The following is a summary of bond, note, and compensated absence transactions of the District for the year ended June 30, 2009:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
General Obligation bonds	\$ 51,314,057	\$ 49,165,000	\$ 2,370,934	\$ 98,108,123	\$ 3,868,126
Less:					
Unamortized bond issuance costs	(366,690)	-	(31,936)	(334,754)	-
Unamortized loss on refunding	(2,330,997)	-	(166,390)	(2,164,607)	-
Unamortized bond proceeds	109,276	-	21,855	87,421	-
Unamortized bond discount	-	(373,311)	-	(373,311)	-
School Bond loan fund	8,152,508	386,011	126,533	8,411,986	-
Compensated absences	767,258	72,081	-	839,339	-
Early retirement incentives	162,000	-	30,000	132,000	-
	<u>\$ 57,807,412</u>	<u>\$ 49,249,781</u>	<u>\$ 2,350,996</u>	<u>\$ 104,706,197</u>	<u>\$ 3,868,126</u>

MILAN AREA SCHOOLS

Notes to the Financial Statements

Compensated absences and early retirement incentives are typically liquidated by the general fund.

Bonds payable at June 30, 2009, are comprised of the following issues:

General Obligation Bonds:

* \$286,311 1998 Durant School Improvement Bonds, due in annual installments of \$15,934 to \$98,126 through 2013; interest at 4.80%	\$ 153,123
\$49,915,000 2000 New construction of high school and remodeling to all existing buildings, due in annual installments at \$1,025,000 to \$1,150,000 through 2010; interest at 5.62% to 5.75%	1,150,000
2002 Refunding Bonds, due in annual installments of \$210,000 to \$2,290,000 through 2030; interest at 4.418%	43,360,000
2003 Refunding Bonds, due in annual installments of \$1,025,000 to \$1,070,000 through 2013, interest at 3.0% to 4.0%.	4,280,000
2009 Bonds, due in annual installments of \$1,305,000 to \$3,100,000 through 2034, interest at 2.5% to 7.1%.	<u>49,165,000</u>
	<u>\$ 98,108,123</u>

- * The Durant School Improvement Bonds are serviced from funds made available to Michigan School Districts by an annual appropriation by the Michigan State Legislature. If the Legislature does not appropriate the funding required, the District is not liable to pay the debt service.

MILAN AREA SCHOOLS

Notes to the Financial Statements

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year</u> <u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 3,868,126	\$ 4,123,465	\$ 7,991,591
2011	3,907,487	3,969,720	7,877,207
2012	4,038,319	3,833,533	7,871,852
2013	4,174,191	3,689,391	7,863,582
2014	3,190,000	3,533,665	6,723,665
2015-2019	17,855,000	15,746,282	33,601,282
2020-2024	21,270,000	11,783,237	33,053,237
2025-2029	23,315,000	6,935,371	30,250,371
2030-2034	16,490,000	2,126,004	18,616,004
	<u><u>\$ 98,108,123</u></u>	<u><u>\$ 55,740,668</u></u>	<u><u>\$ 153,848,791</u></u>

Interest Rate Swap. The District has entered into an interest rate swap agreement (the “Swap”) in order to modify interest rates in connection with its 2002 refunding bonds. The notional amount of the swap is \$43,360,000 as of June 30, 2009. The notional amount of the Swap declines according to the amortization schedule of the bonds payable. The Swap was entered into on September 6, 2002, and the stated termination date is May 1, 2030. Under the terms of the Swap, the District effectively pays interest calculated at a fixed rate of 4.103% to the lender, UBS Investment Bank.

The School Bond Loan Fund represents amounts borrowed from the State of Michigan School Bond loan program to supplement property tax revenue for making payments on the District’s general obligation bonds. Although interest accrues each year, no payment is due until such time as the District’s property tax revenue is sufficient to support the Debt Service requirements on the general obligation bonds. Changes to the School Bond Loan Fund for the year ended June 30, 2009, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Beginning balance	\$ 6,764,888	\$ 1,387,620	\$ 8,152,508
Additions	-	386,011	386,011
Reductions	-	(126,533)	(126,533)
Ending balance	<u><u>\$ 6,764,888</u></u>	<u><u>\$ 1,647,098</u></u>	<u><u>\$ 8,411,986</u></u>

At June 30, 2009, the balance of the year 2000 bonds considered to be defeased is \$40,765,000.

MILAN AREA SCHOOLS

Notes to the Financial Statements

G. Short-Term Debt

During the year, the District financed certain of its operations through the issuance of property tax and State Aid Anticipation Notes. These notes were issued for terms of less than one year, and accordingly are recorded as liabilities of the respective funds from which they were issued.

Changes in short-term state aid notes for the year ended June 30, 2009, were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
State aid note	<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>	<u>\$3,000,000</u>

The state aid note is due August 20, 2009 and carries an interest rate of 1.70%. Interest in the amount of \$51,000 has been accrued at June 30, 2009. On August 20, 2009 the District borrowed two state aid notes in the amount of \$2,000,000 and \$1,000,000, which carry interest rates of 2.96% and 1.63% respectively, and both are due August 20, 2010.

H. Leases

Operating leases – The District has commitments under operating lease agreements that provide for annual minimum lease payments as follows:

	<u>Amount</u>
2010	\$ 46,500
2011	46,500
2012	46,500
2013	46,500
2014	23,251
	<u>\$ 209,251</u>

Rental expense for all operating leases aggregated \$78,691 for the year ended June 30, 2009.

IV. OTHER INFORMATION

A. Risk management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty and health claims and is self-insured for claims relating to employee injuries/workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

MILAN AREA SCHOOLS

Notes to the Financial Statements

An independent third party administers the District's self-insured workers' compensation program.

Changes in the balances of claims liabilities during the past two years are as follows:

	<u>2009</u>	<u>2008</u>
Accrued claims, beginning of year	\$ 87,000	\$ 87,000
Incurred claims	484,074	484,055
Claim payments	<u>(484,074)</u>	<u>(484,055)</u>
Accrued claims, end of year	<u>\$ 87,000</u>	<u>\$ 87,000</u>

B. Property taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of July 1 and December 1, and are due upon receipt of the billing by the taxpayer. The actual due dates are September 14, and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied to the extent that they result in current receivables (collected within sixty days after year end). Amounts received subsequent to August 31 are recognized as revenue when collected.

C. Defined benefit pension plan

Plan Description

The Milan Area Schools contributes to the Michigan Public School Employees Retirement System (MPSERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPSERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

MILAN AREA SCHOOLS

Notes to the Financial Statements

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members first hired July 1, 2008 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 6.4% of all wages over \$15,000. Basic Plan members make no contributions. The Milan Area Schools is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 16.54% of annual covered payroll. The contribution requirements of plan members and the Milan Area Schools are established by Michigan State statute and may be amended only by action of the State Legislature. The School District's contributions to MPERS for the years ended June 30, 2009, 2008 and 2007 were \$2,183,188, \$2,173,894 and \$2,181,674, respectively, equal to the required contributions for each year.

Other Postemployment Benefits

Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

D. Sinking Fund

The Sinking Fund Capital Project Fund records capital project activities funded with Sinking Fund millage. For this fund, the District has complied with the applicable provisions of §1212(1) of the Michigan Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.

E. Subsequent event

A tax adjustment settlement with ACH Corporation (formally Visteon) was recently awarded and the District may be liable for a tax refund from the debt service funds for tax years 2006 through 2008 in the amount of approximately \$505,000.

* * * * *

**COMBINING and INDIVIDUAL FUND
FINANCIAL STATEMENTS**

MILAN AREA SCHOOLS
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2009

	Special Revenue		2000
<u>ASSETS</u>	Athletics	Food Service	Debt Service
Assets			
Cash and cash equivalents	\$ 27,571	\$ 124,784	\$ 41,085
Accounts receivable	361	-	-
Due from other governments	-	-	-
Due from other funds	-	9,788	47,837
Inventory	-	7,118	-
<u>TOTAL ASSETS</u>	\$ 27,932	\$ 141,690	\$ 88,922
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities			
Accounts payable	\$ -	\$ 16,577	\$ 11
Salaries and benefits payable	-	42,649	-
Due to other funds	-	9,005	5,857
Deferred revenue	-	4,399	-
Total liabilities	-	72,630	5,868
Fund balances (deficit)			
Reserved for inventory	-	7,118	-
Unreserved, undesignated (deficit)	27,932	61,942	83,054
Total fund balances	27,932	69,060	83,054
<u>TOTAL LIABILITIES</u> <u>AND FUND BALANCES</u>	\$ 27,932	\$ 141,690	\$ 88,922

Debt Service			Capital Projects	
2002 Debt Service	2003 Debt Service	Durant Debt Service	Sinking Fund	Total
\$ 918,682	\$ 37,161	\$ -	\$ 3,449	\$ 1,152,732
-	-	-	-	361
-	-	153,122	-	153,122
76,782	51,770	-	-	186,177
-	-	-	-	7,118
<u>\$ 995,464</u>	<u>\$ 88,931</u>	<u>\$ 153,122</u>	<u>\$ 3,449</u>	<u>\$ 1,499,510</u>
\$ 17	\$ 12	\$ -	\$ -	\$ 16,617
-	-	-	-	42,649
821	554	-	-	16,237
-	-	153,122	-	157,521
<u>838</u>	<u>566</u>	<u>153,122</u>	<u>-</u>	<u>233,024</u>
-	-	-	-	7,118
<u>994,626</u>	<u>88,365</u>	<u>-</u>	<u>3,449</u>	<u>1,259,368</u>
<u>994,626</u>	<u>88,365</u>	<u>-</u>	<u>3,449</u>	<u>1,266,486</u>
<u>\$ 995,464</u>	<u>\$ 88,931</u>	<u>\$ 153,122</u>	<u>\$ 3,449</u>	<u>\$ 1,499,510</u>

MILAN AREA SCHOOLS
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2009

	<u>Special Revenue</u>		<u>2000 Debt Service</u>
	<u>Athletics</u>	<u>Food Service</u>	
Revenue			
Local sources:			
Taxes	\$ -	\$ -	\$ 1,238,728
Earnings from investments and deposits	-	1,043	3,375
Food sales	-	580,657	-
Athletic admissions	146,144	-	-
Other local revenue	-	17,954	-
State aid	-	47,323	-
Federal sources	-	300,663	-
	<u>146,144</u>	<u>947,640</u>	<u>1,242,103</u>
Expenditures			
Food service activities	-	923,724	-
Athletic programs	393,356	-	-
Debt service:			
Principal repayment	-	-	1,075,000
Interest and fiscal charges	-	-	128,177
	<u>393,356</u>	<u>923,724</u>	<u>1,203,177</u>
Revenue over (under) expenditures	<u>(247,212)</u>	<u>23,916</u>	<u>38,926</u>
Other financing sources (uses)			
Transfers in	259,055	406	-
Transfers to other funds	-	(7,552)	-
	<u>259,055</u>	<u>(7,146)</u>	<u>-</u>
Net change in fund balances	11,843	16,770	38,926
Fund balances, beginning of year	<u>16,089</u>	<u>52,290</u>	<u>44,128</u>
Fund balances, end of year	<u>\$ 27,932</u>	<u>\$ 69,060</u>	<u>\$ 83,054</u>

<u>Debt Service</u>			<u>Capital Projects</u>	
<u>2002</u>	<u>2003</u>	<u>Durant</u>	<u>Sinking</u>	<u>Total</u>
<u>Debt</u>	<u>Debt</u>	<u>Debt Service</u>	<u>Fund</u>	
<u>Service</u>	<u>Service</u>			
\$ 1,988,268	\$ 1,340,586	\$ -	\$ -	\$ 4,567,582
8,433	-	-	28	12,879
-	-	-	-	580,657
-	-	-	-	146,144
-	3,061	-	-	21,015
-	-	20,106	-	67,429
-	-	-	-	300,663
<u>1,996,701</u>	<u>1,343,647</u>	<u>20,106</u>	<u>28</u>	<u>5,696,369</u>
-	-	-	-	923,724
-	-	-	-	393,356
220,000	1,060,000	15,934	-	2,370,934
<u>1,991,509</u>	<u>203,088</u>	<u>4,172</u>	<u>-</u>	<u>2,326,946</u>
<u>2,211,509</u>	<u>1,263,088</u>	<u>20,106</u>	<u>-</u>	<u>6,014,960</u>
<u>(214,808)</u>	<u>80,559</u>	<u>-</u>	<u>28</u>	<u>(318,591)</u>
-	-	-	-	259,461
-	-	-	-	(7,552)
-	-	-	-	251,909
<u>(214,808)</u>	<u>80,559</u>	<u>-</u>	<u>28</u>	<u>(66,682)</u>
<u>1,209,434</u>	<u>7,806</u>	<u>-</u>	<u>3,421</u>	<u>1,333,168</u>
<u>\$ 994,626</u>	<u>\$ 88,365</u>	<u>\$ -</u>	<u>\$ 3,449</u>	<u>\$ 1,266,486</u>

MILAN AREA SCHOOLS
Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2009

	<u>Agency Funds</u>			<u>Total</u>
	<u>Elementary School Activities</u>	<u>Middle School Activities</u>	<u>High School Activities</u>	
Assets				
Cash and cash equivalents	<u>\$ 152,761</u>	<u>\$ 76,692</u>	<u>\$ 151,262</u>	<u>\$ 380,715</u>
Liabilities				
Due to student groups	<u>\$ 152,761</u>	<u>\$ 76,692</u>	<u>\$ 151,262</u>	<u>\$ 380,715</u>

MILAN AREA SCHOOLS
Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2009

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>End of Year</u>
Elementary School Activities				
Assets				
Cash and cash equivalents	\$ 148,000	\$ 170,930	\$ 166,169	\$ 152,761
Liabilities				
Due to student groups	\$ 148,000	\$ 170,930	\$ 166,169	\$ 152,761
Middle School Activities				
Assets				
Cash and cash equivalents	\$ 86,306	\$ 122,875	\$ 132,489	\$ 76,692
Liabilities				
Due to student groups	\$ 86,306	\$ 122,875	\$ 132,489	\$ 76,692
High School Activities				
Assets				
Cash and cash equivalents	\$ 154,414	\$ 215,011	\$ 218,163	\$ 151,262
Liabilities				
Due to student groups	\$ 154,414	\$ 215,011	\$ 218,163	\$ 151,262
Total - All Activities				
Assets				
Cash and cash equivalents	\$ 388,720	\$ 508,816	\$ 516,821	\$ 380,715
Liabilities				
Due to student groups	\$ 388,720	\$ 508,816	\$ 516,821	\$ 380,715

SINGLE AUDIT

MILAN AREA SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

Federal Grantor/ Pass-Through Grantor/ Program Title	CFDA Number	Pass- Through Grantor's Number	Approved Award/Grant Amount	Accrued Revenue Beginning of Year	Current Year Receipts	Current Year Expenditures	Accrued Revenue End of Year
U.S. Department of Agriculture							
Direct Program - Food Distribution:							
Food distribution - non-cash assistance:							
Entitlement Commodities	10.555	-n/a-	42,717	\$ -	\$ 42,717	\$ 42,717	\$ -
Bonus Commodities	10.555	-n/a-	5,700	-	5,700	5,700	-
				-	48,417	48,417	-
Passed-through Michigan Department of Education:							
2007-2008 School Breakfast	10.553	081970	5,070	5,070	5,070	-	-
2008-2009 School Breakfast	10.553	081970	2,755	-	2,755	2,755	-
2008-2009 School Breakfast	10.553	091970	29,618	-	23,948	29,618	5,670
				5,070	31,773	32,373	5,670
National School Lunch:							
2007-2008 Section 4	10.555	081950	5,216	5,216	5,216	-	-
2008-2009 Section 4	10.555	081950	6,020	-	6,020	6,020	-
2008-2009 Section 4	10.555	091950	41,254	-	36,398	41,254	4,856
2007-2008 Section 11	10.555	081960	26,688	26,688	26,688	-	-
2008-2009 Section 11	10.555	081960	19,703	-	19,703	19,703	-
2008-2009 Section 11	10.555	091960	152,896	-	122,995	152,896	29,901
				31,904	217,020	219,873	34,757
Total U.S. Department of Agriculture							
				36,974	297,210	300,663	40,427
U.S. Department of Education							
Passed-through Michigan Department of Education:							
2007-2008 Adult Basic Education Instruction	84.002	081130-810667	15,000	3,599	3,599	-	-
2008-2009 Adult Basic Education Instruction	84.002	091130-910667	15,000	-	11,080	15,000	3,920
2007-2008 ABE Institutional Programs	84.002	081190-810667	95,000	37,611	37,611	-	-
2008-2009 ABE Institutional Programs	84.002	091190-910667	103,000	-	69,799	103,000	33,201
				41,210	122,089	118,000	37,121
2007-2008 Title I, Part A	84.010	081530-0708	81,261	25,270	25,270	-	-
2008-2009 Title I, Part A	84.010	091530-0809	192,919	-	116,703	192,919	76,216
				25,270	141,973	192,919	76,216
2008-2009 Title II, Part D	84.318	094290-0809	1,670	-	-	1,670	1,670
2008-2009 Reading First Statewide Activities	84.357	092900-03	113,850	-	83,917	113,850	29,933
2007-2008 Title II, Part A	84.367	080520-0708	63,116	22,646	22,646	-	-
2008-2009 Title II, Part A	84.367	090520-0809	74,458	-	34,661	74,458	39,797
				22,646	57,307	74,458	39,797
Education Stabilization Fund	84.394	092525-0809	941,637	-	-	941,637	941,637

continued...

MILAN AREA SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

Federal Grantor/ Pass-Through Grantor/ Program Title	CFDA Number	Pass- Through Grantor's Number	Approved Award/Grant Amount	Accrued Revenue Beginning of Year	Current Year Receipts	Current Year Expenditures	Accrued Revenue End of Year
U.S. Department of Education (concluded)							
Passed-through Livingston Educational Service Agency: 2008-2009 Drug-Free Schools	84.186	SDFSCA	4,858	\$ -	\$ 4,858	\$ 4,858	\$ -
Passed-through Monroe Public Schools: 2008-2009 Title III	84365	90580-0809	3,052	-	-	1,189	1,189
Passed-through Traverse Bay Area Intermediate School District: 2007-2008 Title II, Part D, Carryforward	84.318	084250-0708	2,000	(1,499)	-	1,499	-
Passed-through Washtenaw Intermediate School District: 2007-2008 IDEA Flowthrough	84.027A	080450-0708	476,018	141,494	141,494	-	-
2008-2009 IDEA Flowthrough	84.027A	090450-0809	452,624	-	108,864	452,624	343,760
				<u>141,494</u>	<u>250,358</u>	<u>452,624</u>	<u>343,760</u>
2007-2008 Preschool Incentive	84.173	080460-0708	22,248	7,068	7,068	-	-
2008-2009 Preschool Incentive	84.173	090460-0809	15,570	-	6,057	15,570	9,513
				<u>7,068</u>	<u>13,125</u>	<u>15,570</u>	<u>9,513</u>
2007-2008 IDEA Part C, Early On	84.181A	081340-190	11,148	2,787	2,787	-	-
2008-2009 IDEA Part C, Early On	84.181A	091340-190	11,148	-	8,361	11,148	2,787
				<u>2,787</u>	<u>11,148</u>	<u>11,148</u>	<u>2,787</u>
Total U.S. Department of Education				<u>238,976</u>	<u>684,775</u>	<u>1,929,422</u>	<u>1,483,623</u>
U.S. Department of Health and Human Services							
Passed-through Michigan Department of Community Health Medicaid Outreach	93.778	-n/a-	1,314	-	1,314	1,314	-
Total Expenditures of Federal Awards				<u>\$ 275,950</u>	<u>\$ 983,299</u>	<u>\$ 2,231,399</u>	<u>\$ 1,524,050</u>

1. Expenditures in this schedule are in agreement with amounts reported in the financial statements and the financial reports submitted to the MDE.
2. The amounts reported on the R7120 (Grants Section Auditor's Report) reconcile with this schedule.
3. The amounts reported on the Recipient Entitlement Balance (PAL) Report agree with this schedule for USDA donated food commodities and are reported in the current year receipts column.
4. Expenditures include spoilage or pilferage.

MILAN AREA SCHOOLS

Notes To Schedule Of Expenditures Of Federal Awards

1. SECTION I - SUMMARY OF AUDITORS' RESULTS

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of Milan Area Schools (the "District"). Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the Schedule.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The reporting entity of Milan Area Schools is defined in Note I of the District's basic financial statements.

2. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting which is described in Note I of the District's basic financial statements.

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

October 12, 2009

Board of Education
Milan Area Schools
Milan, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *MILAN AREA SCHOOLS* as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 12, 2009. 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 Milan Area School'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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. Our report did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Milan Area Schools' 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 or other matters that are required to be reported under Government Auditing Standards.

However, we noted other matters involving the internal control over compliance, financial reporting and/or operating efficiency that we have reported to management of Milan Area Schools in a separate letter dated October 12, 2009.

This report is intended solely for the information and use of the audit committee, management, the Board of Education, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive style with a large, prominent 'L' and 'J'.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

October 12, 2009

Board of Education
Milan Area Schools
Milan, Michigan

Compliance

We have audited the compliance of **MILAN AREA SCHOOLS** with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. Milan Area Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Milan Area Schools' management. Our responsibility is to express an opinion on Milan Area Schools' 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Milan Area Schools' 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 Milan Area Schools' compliance with those requirements.

In our opinion, Milan Area Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Milan Area Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Milan Area School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in an entity's 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, the Board of Education, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Lehmann Johnson". The signature is written in a cursive, flowing style.

MILAN AREA SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2009

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified
not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements
noted? _____ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified
not considered to be material weaknesses? _____ yes X none reported

Type of auditors' report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section 510(a)? _____ yes X no

MILAN AREA SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Concluded)

FOR THE YEAR ENDED JUNE 30, 2009

SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555	Child Nutrition Cluster
84.394	State Fiscal Stabilization Fund (ARRA)
Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$300,000</u>
Auditee qualified as low-risk auditee?	<u> X </u> yes <u> </u> no

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

SECTION IV – PRIOR YEAR FINDINGS

No matters were reported.

* * * * *