

Milan Area Schools

Milan, Michigan

FINANCIAL STATEMENTS

For the Year Ended
June 30, 2010

MILAN AREA SCHOOLS

For the Year Ended June 30, 2010

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MILAN AREA SCHOOLS

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INDEPENDENT AUDITORS' REPORT

October 7, 2010

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, 2010, 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, 2010, 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 7, 2010, 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 cursive script that reads "Lehmann Johnson".

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, 2010.

Financial Highlights

- The liabilities of the District exceeded its assets at the close of the most recent fiscal year by (\$1,647,778) (*net assets*).
- The government's total net assets decreased by \$651,699.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$48,793,524, a decrease of \$2,972,961 in comparison with the prior year. Approximately 99% or \$48,527,481 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 \$2,413,102, or 10.8 % 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, 2010.

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 maintains ten individual governmental funds. The 2009 Debt Service Fund was 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 eight 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 (\$1,647,778) at the close of the most recent fiscal year.

Normally 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 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 started the 2009-2010 year with an unusually significant balance in current assets (investments).

During the 2009-2010 year some preliminary expenditures were made while the projects were in the planning and bidding stages. The majority of the remaining funds will be spent down over the next two years.

District's Net Assets
Governmental Activities

	<u>2009-10</u>	<u>2008-09</u>
Current and other assets	\$ 56,716,264	\$ 57,688,801
Capital assets, net	<u>56,304,737</u>	<u>52,646,280</u>
Total assets	<u>113,021,001</u>	<u>110,335,081</u>
Long-term liabilities outstanding	105,965,738	104,706,197
Other liabilities	<u>8,703,041</u>	<u>6,624,963</u>
Total liabilities	114,668,779	111,331,160
Net assets:		
Invested in capital assets, net of related debt	(4,164,006)	(2,408,389)
Restricted	827,281	457,442
Unrestricted	<u>1,688,947</u>	<u>954,868</u>
 Total net assets	 <u>\$ (1,647,778)</u>	 <u>\$ (996,079)</u>

The District currently has a negative net asset balance. In other words, if all of our liabilities were due on 6/30/10, 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 previous two years as Milan, having reached the point where tax collections exceeded current debt obligations, became a repaying district. However, having taken on additional debt with the 2009 bond issue the District in 2009-2010 once again became a borrowing district. The final repayment to the Michigan School Bond Loan Program/School Loan Revolving Fund will occur in 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 6/30/10. That unlikely scenario creates an accrued liability of \$810,024.

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 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 2009-10, from \$954,868 to \$1,640,310. The positive balance indicates that funds that are needed for debt service and other purposes are available at 6/30/10.

The government's net assets decreased by \$651,699 during the current fiscal year. The net decrease is the result of multiple factors both increasing and decreasing net assets.

District's Changes in Net Assets
Governmental Activities

	<u>2009-10</u>	<u>2008-09</u>
Revenue:		
Program revenue:		
Charges for services	\$ 1,039,631	\$ 1,098,587
Operating grants and contributions	4,162,263	4,039,339
General revenue:		
Property taxes	6,018,101	6,853,280
State school aid	16,349,493	15,877,543
Grants and contributions not restricted to specific programs	580,782	487,700
Unrestricted investment earnings	1,050,081	37,558
Gain on Sale of capital assets	<u>3,300</u>	<u>1,850</u>
Total revenue	<u>29,203,650</u>	<u>28,395,857</u>
Expenses:		
Instruction	13,219,240	13,067,500
Support services	8,598,164	8,035,738
Community service	434,164	439,661
Athletics	480,554	394,077
Food service	873,329	925,166
Interest on long-term debt	4,836,727	3,311,716
Unallocated depreciation	<u>1,413,172</u>	<u>1,644,250</u>
Total expenses	<u>29,855,350</u>	<u>27,818,108</u>
Change in net assets	(651,699)	577,749
Net assets, beginning of year	<u>(996,079)</u>	<u>(1,573,828)</u>
Net assets, end of year	<u>\$ (1,647,778)</u>	<u>\$ (996,079)</u>

Governmental activities. Net assets decreased by \$651,699. The key elements both decreasing and increasing net assets are as follows:

- While operating revenue and operating expense both increased in 2009-2010, revenue remained higher than expense. This resulted in an increased fund balance in the General Fund of \$699,458 that contributed to a positive change in net assets.
- Due to a significant investment balance in the 2009 capital projects fund, interest earnings increased by \$1,012,523, also increasing net assets.
- Local property taxable values decreased in 2009. This resulted in lowered property tax collections. Losses to the general fund are made up by the State and therefore do not affect operating revenue. However, losses in the debt fund collections are not made up and do affect our ability to make current debt payments. In 2009-2010 losses of over \$800,000 in tax collections, in the debt funds, resulted in reduced net assets.
- Depreciation expense of \$1,413,172. Depreciation reduces the stated value of capital assets, also reducing net assets.

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 \$48,793,524, a decrease of \$2,972,961 in comparison with the prior year. Approximately 99% of this total amount (\$48,527,481) 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 decrease in unreserved fund balance is mostly due to remodeling expenses in the 2009 Capital Projects Fund. Remodeling in three schools began in June and will continue over the summer break. The majority of unreserved fund balance is in the 2009 Capital Projects fund and will be spent on remodeling and additions over the next two 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 \$2,413,102, while total general fund balance was \$2,672,390. 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 10.8 percent of total general fund expenditures. This is a 3% increase over 2009/10. An unreserved fund balance of 10-12 % is generally recommended.

The fund balance, of the District's general fund, increased by \$699,458 during the current fiscal year. The unreserved fund balance increased by \$712,923. It was an uncertain year for revenue, with an overall increase of \$563,886. Federal funding was down while State funding was up only due to increased enrollment. The increased enrollment generated some increased expense and salary and fringe benefit costs continued to rise. Despite rising costs the expenditures increase was only slightly higher than the revenues increase. As a result we were able to maintain the revenue over expense budget of the previous year. Previous reductions in supply and materials budgets and support services were also maintained. Utility and fuel rates were down from the previous year and that along with our energy management program contributed to our savings.

The 2009 Capital Projects Fund has a total unreserved fund balance of \$44,499,975. As mentioned previously, these proceeds from the 2009 bond issue will be spent down over the next two years on capital projects.

The 2002 debt service fund has a total fund balance of \$1,201,872, 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 \$495,378. Mid-year cuts in State Aid were only partially offset by increased enrollment.
- Federal Aid decreased by \$495,378. Although federal funds continued to offset state cuts the federal grants were reduced from the previous year.

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, 2010, amounted to \$56,304,737 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles and equipment. This reflects an increase of \$3,658,457 from the previous year. While preliminary remodeling of three buildings increased capital assets, that increase was offset by depreciation expense of \$1,413,172.

The major capital asset event during the current fiscal year was the beginning of renovations of three buildings after the last day of school in June. Since these projects are not complete as of 6/30/2010 they are expressed as Construction in Progress in the chart below. At the conclusion of the project these expenditures will be appropriately categorized. The District also purchased two new buses.

District's Capital Assets		
	6/30/10	6/30/09
Capital Assets not being depreciated:		
Land	\$ 1,607,945	\$ 1,607,945
Construction in Progress	5,112,684	260,602
Capital assets being depreciated (net of depreciation)		
Site Improvements	2,541,030	2,580,924
Buildings	46,080,373	47,319,443
Vehicles	453,347	355,672
Equipment	509,358	521,694
	<hr/>	<hr/>
Total	<u>\$ 56,304,737</u>	<u>\$ 52,646,280</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 \$94,239,997.

The District's total bonded long-term debt decreased by \$3,868,126, (approximately 4%) during the current fiscal year.

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 2010-11 fiscal year:

- The State Aid Foundation Grant was projected to carry forward the \$165 per pupil proration with an additional \$268 per pupil proration.
- The District budgeted for a flat student population.
- The District participates in an experience rated health plan. Significantly high experience in 2009 has resulted in a 17.27% increase in health premiums for 10-11.
- The retirement rate is scheduled to increase from 16.94% of gross wages to 19.41% on 10/1/2010.
- The State has proposed a retirement incentive to encourage veteran staff to retire and allow districts to achieve savings through attrition and/or hiring new staff at lower wages. The deadline for retirement notifications will be after the District passes the 2010-2011 budget.
- The District will be in negotiations with all bargaining groups given that all bargaining agreements expire at 6/30/2010.
- In light of the preceding information the District passed a \$1,900,000 deficit budget for 2010-2011. This budget would reduce fund balance at 6/30/11 to \$691,214 or 3% of expenditures. It is not the District's intention to implement this budget, but rather, as more information becomes available it is the intention of the District to achieve savings through adjustments and staff concessions.
- Beginning in 2009-2010 the Food Service Fund transferred \$50,000 to the General Fund as compensation for indirect costs. The same transfer will be required in 2010-2011. The amount will be lowered if it exceeds the indirect cost cap allowed by the Michigan Department of Education.
- The Paddock Early Childhood Center, which is a self-funded program, will be required to transfer \$25,000 to the General Fund for indirect costs.
- 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. Having fulfilled the original consulting contract, the consulting contact continues at no cost.
- The District, along with the Intermediate School District, will continue to explore cost savings through consolidation of services. During the 2009-2010 year consolidation of Transportation 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 10-11. The District hopes to add sub paraprofessionals to the program in 2010-2011.

- 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 2009-2010 and student participation is expected to increase to 81 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. Early in 2009-2010 the District contracted with architects, construction management and owners representation. Once the project team was together, planning and bidding of bond projects progressed. Projects started after the last day of class in June of 2010 and will continue over the summer of 2010. The first projects are renovations of our two elementary buildings and the Middle School. In the fall of 2010-2011 the team will begin planning and eventually bidding contracts for an addition to the High School and a completely new transportation facility.
- While budgeting on the conservative side for student enrollment in 2010-11, 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. However, the revenue picture for the State of Michigan continues to be uncertain and the Federal ARRA funding (which has replaced state funding in the last two years) will eventually run out. As a result the 10% to 12% fund balance goal is ever more important. With adequate fund balance we are able to weather the ongoing funding crisis and have time to make thoughtful and intelligent adjustments. It will take significant changes in State funding of K-12 education to get Michigan schools back to a stable funding model.
- Since 6/30/2010 the District has been negotiating with all bargaining units. Because of uncertain and possibly dire revenue projections the District and the teacher and support staff unions did agreed to salary and benefit concessions, along with a modest reduction in fund balance to avoid major layoffs of staff. A formula has been agreed on to compensate staff in the event that actual revenue is better than projected. As of this writing all staff have agreed to a 2% pay cut as well as a 10% co-pay on health insurance premiums.

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, 2010

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 52,375,355
Receivables	4,116,285
Prepaid items and other assets	224,624
Capital assets not being depreciated	6,720,629
Capital assets being depreciated, net	<u>49,584,108</u>
Total assets	<u>113,021,001</u>
 Liabilities	
Accounts payable and accrued liabilities	6,550,880
State aid note payable	2,131,000
Unearned revenue	21,161
Noncurrent liabilities:	
Due within one year	4,036,613
Due in more than one year	<u>101,929,125</u>
Total liabilities	<u>114,668,779</u>
 Net assets (Deficit)	
Invested in capital assets, net of related debt (deficit)	(4,164,006)
Restricted for:	
Debt service	699,598
Other purposes	127,683
Unrestricted	<u>1,688,947</u>
Total net assets (deficit)	<u><u>\$ (1,647,778)</u></u>

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

MILAN AREA SCHOOLS
Statement of Activities
For the Year Ended June 30, 2010

<u>Functions / Programs</u>	<u>Program Revenues</u>			<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	\$ 13,219,240	\$ 1,910	\$ 3,598,080	\$ -	\$ (9,619,250)
Supporting services	8,598,164	-	-	-	(8,598,164)
Community service	434,164	490,841	-	-	56,677
Athletics	480,554	-	170,022	-	(310,532)
Food service	873,329	546,880	394,161	-	67,712
Interest on long-term debt	4,836,727	-	-	-	(4,836,727)
Unallocated depreciation	1,413,172	-	-	-	(1,413,172)
Total	<u>\$ 29,855,350</u>	<u>\$ 1,039,631</u>	<u>\$ 4,162,263</u>	<u>\$ -</u>	<u>(24,653,456)</u>
General revenues:					
Property taxes					6,018,101
Unrestricted state aid					16,349,493
Grants and contributions not restricted to specific programs					580,782
Unrestricted investment earnings					1,050,081
Gain on sale of capital assets					3,300
Total general revenues					<u>24,001,757</u>
Change in net assets					(651,699)
Net assets (deficit), beginning of year					<u>(996,079)</u>
Net assets (deficit), end of year					<u>\$ (1,647,778)</u>

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

FUND FINANCIAL STATEMENTS

MILAN AREA SCHOOLS

Balance Sheet

Governmental Funds

June 30, 2010

<u>ASSETS</u>	<u>General</u>	<u>2009 Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Assets				
Cash and cash equivalents	\$ 3,856,027	\$ 46,884,069	\$ 1,635,259	\$ 52,375,355
Accounts receivable	71,408	398,578	52,381	522,367
Due from other government	3,538,922	-	54,996	3,593,918
Due from other funds	9,064	-	77,442	86,506
Inventory	4,969	-	6,755	11,724
Prepaid expenditures	212,900	-	-	212,900
	<hr/>	<hr/>	<hr/>	<hr/>
<u>TOTAL ASSETS</u>	<u>\$ 7,693,290</u>	<u>\$ 47,282,647</u>	<u>\$ 1,826,833</u>	<u>\$ 56,802,770</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
Liabilities				
Accounts payable	\$ 188,153	\$ 2,782,672	\$ 17,606	\$ 2,988,431
Accrued expenditures	92,568	-	-	92,568
Salaries and benefits payable	2,579,361	-	55,223	2,634,584
Due to other funds	13,036	-	73,470	86,506
Deferred revenue	16,782	-	59,375	76,157
Notes payable	2,131,000	-	-	2,131,000
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	5,020,900	2,782,672	205,674	8,009,246
 Fund balances				
Reserved for inventory	4,969	-	6,755	11,724
Reserved for prepaid expenditure:	212,900	-	-	212,900
Reserved for First Steps Program	41,419	-	-	41,419
Unreserved:				
Undesignated	2,413,102	-	-	2,413,102
Undesignated, reported in nonmajor				
Special revenue funds	-	-	79,509	79,509
Debt service funds	-	-	1,534,895	1,534,895
Capital projects funds	-	44,499,975	-	44,499,975
	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balances	2,672,390	44,499,975	1,621,159	48,793,524
	<hr/>	<hr/>	<hr/>	<hr/>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 7,693,290</u>	<u>\$ 47,282,647</u>	<u>\$ 1,826,833</u>	<u>\$ 56,802,770</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, 2010

Fund balances - total governmental funds	\$ 48,793,524
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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	74,985,453
Deduct - accumulated depreciation	(18,680,716)

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	54,996
--------------------------------------	--------

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	(107,617,562)
Add - unamortized bond issuance costs	302,818
Add - unamortized loss on refunding	1,998,217
Deduct - unamortized bond premium	(65,566)
Add - unamortized bond discount	358,379
Deduct - accrued interest on bonds payable	(835,297)
Deduct - compensated absences and retirement incentive	(942,024)

Net assets of governmental activities	<u>\$ (1,647,778)</u>
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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, 2010

	<u>General</u>	<u>2009 Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Revenue				
Local sources	\$ 4,663,446	1,044,539	\$ 4,444,311	\$ 10,152,296
State sources	16,884,306	-	185,992	17,070,298
Federal sources	1,732,627	-	343,256	2,075,883
 Total revenue	 <u>23,280,379</u>	 <u>1,044,539</u>	 <u>4,973,559</u>	 <u>29,298,477</u>
Expenditures				
Education:				
Instruction	13,193,988	-	-	13,193,988
Support services	9,082,563	-	-	9,082,563
Food service activities	-	-	873,916	873,916
Athletic programs	-	-	480,847	480,847
Capital outlay	-	5,071,631	3,450	5,075,081
Debt service:				
Principal	-	-	3,868,126	3,868,126
Interest	74,777	-	4,092,573	4,167,350
 Total expenditures	 <u>22,351,328</u>	 <u>5,071,631</u>	 <u>9,318,912</u>	 <u>36,741,871</u>
 Revenue over (under) expenditures	 <u>929,051</u>	 <u>(4,027,092)</u>	 <u>(4,345,353)</u>	 <u>(7,443,394)</u>
Other financing sources (uses)				
Proceeds from sale of capital assets	3,300	-	-	3,300
Bond proceeds	-	-	4,467,133	4,467,133
Transfers in	50,000	-	563,655	613,655
Transfers out	(282,893)	-	(330,762)	(613,655)
 Total other financing sources (uses)	 <u>(229,593)</u>	 <u>-</u>	 <u>4,700,026</u>	 <u>4,470,433</u>
 Net change in fund balances	 699,458	 (4,027,092)	 354,673	 (2,972,961)
Fund balances, beginning of year	<u>1,972,932</u>	<u>48,527,067</u>	<u>1,266,486</u>	<u>51,766,485</u>
 Fund balances, end of year	 <u><u>\$ 2,672,390</u></u>	 <u><u>\$ 44,499,975</u></u>	 <u><u>\$ 1,621,159</u></u>	 <u><u>\$ 48,793,524</u></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, 2010

Net change in fund balances - total governmental funds \$ (2,972,961)

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	5,071,629
Deduct - depreciation expense	(1,413,172)

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	(98,126)
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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	(4,467,133)
Add - principal payments on long-term liabilities	3,868,126

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	(477,974)
Deduct - amortization of bond issuance costs, loss on refunding, and bond premium	(191,403)
Add - decrease in the accrual for compensated absences	29,315
	29,315

Change in net assets of governmental activities	\$ (651,699)
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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, 2010

	Original Budget	Final Budget	Actual	Over (under) Final Budget
Revenue				
Local sources	\$ 4,396,794	\$ 4,564,919	\$ 4,663,446	\$ 98,527
State sources	17,364,834	16,869,456	16,884,306	14,850
Federal sources	979,726	1,820,599	1,732,627	(87,972)
Total revenue	<u>22,741,354</u>	<u>23,254,974</u>	<u>23,280,379</u>	<u>25,405</u>
Expenditures				
Instruction				
Basic programs	11,655,595	11,667,015	11,541,401	(125,614)
Added needs	1,570,311	1,633,696	1,506,681	(127,015)
Adult and continuing education	187,718	148,841	145,906	(2,935)
Total instruction	<u>13,413,624</u>	<u>13,449,552</u>	<u>13,193,988</u>	<u>(255,564)</u>
Supporting services				
Pupil services	2,111,683	2,300,769	2,275,253	(25,516)
Instructional support	798,524	879,835	767,450	(112,385)
General administration	368,138	372,256	351,613	(20,643)
School administration	1,183,820	1,212,620	1,204,754	(7,866)
Business services	336,923	263,105	245,647	(17,458)
Operations and maintenance	2,817,720	2,593,953	2,484,108	(109,845)
Transportation	1,063,482	1,067,679	1,021,544	(46,135)
Central support	204,712	206,219	186,080	(20,139)
Community Services	575,089	566,649	546,114	(20,535)
Total supporting services	<u>9,460,091</u>	<u>9,463,085</u>	<u>9,082,563</u>	<u>(380,522)</u>
Debt service				
Interest and fiscal charges	-	74,777	74,777	-
Total expenditures	<u>22,873,715</u>	<u>22,987,414</u>	<u>22,351,328</u>	<u>(636,086)</u>
Revenue over expenditures	<u>(132,361)</u>	<u>267,560</u>	<u>929,051</u>	<u>661,491</u>
Other financing sources (uses)				
Proceeds from sale of capital assets	-	-	3,300	3,300
Transfers in	-	50,000	50,000	-
Transfers out	(289,967)	(302,993)	(282,893)	20,100
Total other financing sources (uses)	<u>(289,967)</u>	<u>(252,993)</u>	<u>(229,593)</u>	<u>23,400</u>
Net change in fund balance	(422,328)	14,567	699,458	684,891
Fund balances, beginning of year	<u>1,972,932</u>	<u>1,972,932</u>	<u>1,972,932</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 1,550,604</u></u>	<u><u>\$ 1,987,499</u></u>	<u><u>\$ 2,672,390</u></u>	<u><u>\$ 684,891</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, 2010

	<u>Private- Purpose Trust Fund</u>	
	<u>Scholarships</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$ 21,224	<u>\$ 380,765</u>
Liabilities		
Due to student groups	<u>-</u>	<u>\$ 380,765</u>
Net assets		
Unrestricted	<u>\$ 21,224</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, 2010

	Scholarships
Additions	
Earnings on deposits and investments	\$ 9
 Deductions	
Scholarships	1,275
Decrease in net assets	(1,266)
Net assets, beginning of year	22,490
Net assets, end of year	\$ 21,224

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, 2010.

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

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	\$ 52,375,355
Statement of Fiduciary Net Assets	
Cash and cash equivalents	<u>401,989</u>
	<u>\$ 52,777,344</u>
Cash on hand	\$ 117
Deposits (checking accounts and certificates of deposit)	15,339,174
Investments, in securities, mutual funds and similar vehicles	<u>37,438,053</u>
	<u>\$ 52,777,344</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.
- (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.

MILAN AREA SCHOOLS

Notes to the Financial Statements

- (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, \$2,689,966 of the District's bank balance of \$15,386,975 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, 2010:

U.S. agencies	\$ 32,736,548
Michigan Liquid Asset Fund (MILAF)	1,154,118
Money Market	<u>3,547,387</u>
	<u>\$ 37,438,053</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.

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, 2010, the District's investments in securities of U.S. agencies were rated AAa by Moody'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, 2010, the District had greater than 5% of its total investment portfolio concentrated as follows:

MILAN AREA SCHOOLS

Notes to the Financial Statements

<u>Investment Type</u>	<u>Issuer</u>	<u>% of Portfolio</u>
U.S. Agency	Federal Home Loan Bank	14.8%
	Federal National Mortgage Association	41.8%
	Federal Home Loan Mortgage Corporation	30.8%
Money market	Michigan Liquid Asset Fund	9.5%

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, 2010 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	\$ 71,408	\$ 398,578	\$ 52,381	\$ 522,367
Due from other governments	3,538,922	-	54,996	3,593,918
	<u>\$ 3,610,330</u>	<u>\$ 398,578</u>	<u>\$ 107,377</u>	<u>\$ 4,116,285</u>

Of the amount due from other governmental units above, \$37,510 will not be collected within one year.

MILAN AREA SCHOOLS

Notes to the Financial Statements

C. Capital assets

Capital assets activity for the year ended June 30, 2010 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	4,852,082	-	5,112,684
Total capital assets not being depreciated	<u>1,868,547</u>	<u>4,852,082</u>	<u>-</u>	<u>6,720,629</u>
Capital assets being depreciated:				
Land improvements	5,585,757	-	-	5,585,757
Buildings and improvements	58,345,151	-	-	58,345,151
Equipment	2,984,162	65,861	-	3,050,023
Vehicles	1,217,327	153,686	87,120	1,283,893
Total capital assets being depreciated	<u>68,132,397</u>	<u>219,547</u>	<u>87,120</u>	<u>68,264,824</u>
Less accumulated depreciation for:				
Land improvements	3,004,833	39,894	-	3,044,727
Buildings and improvements	11,025,708	1,239,070	-	12,264,778
Equipment	2,462,468	134,208	-	2,596,676
Vehicles	861,655	-	87,120	774,535
Total accumulated depreciation	<u>17,354,664</u>	<u>1,413,172</u>	<u>87,120</u>	<u>18,680,716</u>
Total capital assets being depreciated, net	<u>50,777,733</u>	<u>(1,193,625)</u>	<u>-</u>	<u>49,584,108</u>
Governmental activities capital assets, net	<u>\$ 52,646,280</u>	<u>\$ 3,658,457</u>	<u>\$ -</u>	<u>\$ 56,304,737</u>

Depreciation expense of \$1,413,172 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:

	<u>General</u>	<u>2009 Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Accounts payable	\$ 188,153	\$ 2,782,672	\$ 17,606	\$ 2,988,431
Accrued expenditures	92,568	-	-	92,568
Salaries and benefits payable	<u>2,579,361</u>	<u>-</u>	<u>55,223</u>	<u>2,634,584</u>
	<u>\$ 2,860,082</u>	<u>\$ 2,782,672</u>	<u>\$ 72,829</u>	5,715,583
Accrued interest on long-term debt				<u>835,297</u>
Governmental activities				<u>\$ 6,550,880</u>

E. Interfund receivables, payables and transfers

At June 30, 2010, interfund receivables and payables consisted of the following:

	<u>Due from</u>	<u>Due to</u>
General Fund	\$ 9,064	\$ 13,036
Nonmajor governmental funds	<u>77,442</u>	<u>73,470</u>
	<u>\$ 86,506</u>	<u>\$ 86,506</u>

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, 2010, interfund transfers consisted of the following:

	<u>Transfers out</u>	<u>Transfers in</u>
General Fund	\$ 282,893	\$ 50,000
Nonmajor governmental funds	<u>330,762</u>	<u>563,655</u>
	<u>\$ 613,655</u>	<u>\$ 613,655</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, 2010, 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, 2010:

	<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	\$ 98,108,123	\$ -	\$ 3,868,126	\$ 94,239,997	\$ 3,907,487
Less:					
Unamortized bond issuance costs	(334,754)	-	(31,936)	(302,818)	-
Unamortized loss on refunding	(2,164,607)	-	(166,390)	(1,998,217)	-
Unamortized bond proceeds	87,421	-	21,855	65,566	-
Unamortized bond discount	(373,311)	-	(14,932)	(358,379)	-
School Bond loan fund	8,411,986	4,965,579	-	13,377,565	-
Compensated absences	839,339	-	29,315	810,024	-
Early retirement incentives	132,000	-	-	132,000	129,126
	<u>\$ 104,706,197</u>	<u>\$ 4,965,579</u>	<u>\$ 3,706,038</u>	<u>\$ 105,965,738</u>	<u>\$ 4,036,613</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, 2010, are comprised of the following issues:

General Obligation Bonds:

* \$286,311 1998 Durant School Improvement Bonds, due in annual installments of \$15,934 to \$19,191 through 2013; interest at 4.80%	\$ 54,997
2002 Refunding Bonds, due in annual installments of \$1,520,000 to \$2,290,000 through 2030; interest at 4.418%	43,130,000
2003 Refunding Bonds, due in annual installments of \$1,060,000 to \$1,070,000 through 2013, interest at 3.0% to 4.0%.	3,195,000
2009 Bonds, due in annual installments of \$1,310,000 to \$3,100,000 through 2034, interest at 2.5% to 7.1%.	<u>47,860,000</u>
	<u>\$ 94,239,997</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 Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	3,295,000	3,415,362	6,710,362
2016-2020	18,550,000	15,039,105	33,589,105
2021-2025	21,810,000	10,872,182	32,682,182
2026-2030	23,665,000	5,894,743	29,559,743
2031-2034	11,610,000	1,369,502	12,979,502
	<u><u>\$ 94,239,997</u></u>	<u><u>\$ 51,617,203</u></u>	<u><u>\$ 145,857,200</u></u>

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, 2010, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Beginning balance	\$ 6,764,888	\$ 1,647,098	\$ 8,411,986
Additions	4,467,133	498,446	4,965,579
Reductions	-	-	-
Ending balance	<u><u>\$ 11,232,021</u></u>	<u><u>\$ 2,145,544</u></u>	<u><u>\$ 13,377,565</u></u>

At June 30, 2010, 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, 2010, 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>\$ -</u>	<u>\$ 900,000</u>	<u>\$2,100,000</u>

The notes payable caption on the general fund balance sheet includes accrued interest of \$31,000.

The state aid notes are due August 20, 2010 and carry interest rates of 2.96% and 1.63% respectively. Interest in the amount of \$13,000 has been accrued at June 30, 2010. On August 20, 2010 the District borrowed three state aid notes in the amount of \$1,000,000, \$825,000 and \$625,000, which carry interest rates of .977%, 2.29% and 2.29% respectively, and all are due August 20, 2011.

H. Leases

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

	<u>Amount</u>
2011	\$ 46,500
2012	46,500
2013	46,500
2014	<u>23,251</u>
	<u>\$ 162,751</u>

Rental expense for all operating leases aggregated \$84,108 for the year ended June 30, 2010.

MILAN AREA SCHOOLS

Notes to the Financial Statements

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.

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>2010</u>	<u>2009</u>
Accrued claims, beginning of year	\$ 87,000	\$ 87,000
Incurred claims	458,656	484,055
Claim payments	<u>(458,656)</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.

MILAN AREA SCHOOLS

Notes to the Financial Statements

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.

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 16.94% 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 MPSERS for the years ended June 30, 2010, 2009 and 2008 were \$2,250,682, \$2,183,188 and \$2,173,894, 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 MPSERS 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.

**COMBINING and INDIVIDUAL FUND
FINANCIAL STATEMENTS**

MILAN AREA SCHOOLS
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2010

	Special Revenue		
<u>ASSETS</u>	Athletics	Food Service	2000 Debt Service
Assets			
Cash and cash equivalents	\$ -	\$ 103,863	\$ 64,406
Accounts receivable	-	52,381	-
Due from other governments	-	-	-
Due from other funds	-	9,537	-
Inventory	-	6,755	-
<u>TOTAL ASSETS</u>	\$ -	\$ 172,536	\$ 64,406
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities			
Accounts payable	\$ -	\$ 17,606	\$ -
Salaries and benefits payable	-	55,223	-
Due to other funds	-	9,064	64,406
Deferred revenue	-	4,379	-
Total liabilities	-	86,272	64,406
Fund balances			
Reserved for inventory	-	6,755	-
Unreserved, undesignated	-	79,509	-
Total fund balances	-	86,264	-
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	\$ -	\$ 172,536	\$ 64,406

Debt Service			Capital Projects		
2002 Debt Service	2003 Debt Service	2009 Debt Service	Durant Debt Service	Sinking Fund	Total
\$ 1,135,072	\$ 264,985	\$ 66,933	\$ -	\$ -	\$ 1,635,259
-	-	-	-	-	52,381
-	-	-	54,996	-	54,996
66,800	544	561	-	-	77,442
-	-	-	-	-	6,755
<u>\$ 1,201,872</u>	<u>\$ 265,529</u>	<u>\$ 67,494</u>	<u>\$ 54,996</u>	<u>\$ -</u>	<u>\$ 1,826,833</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,606
-	-	-	-	-	55,223
-	-	-	-	-	73,470
-	-	-	54,996	-	59,375
-	-	-	54,996	-	205,674
-	-	-	-	-	6,755
<u>1,201,872</u>	<u>265,529</u>	<u>67,494</u>	<u>-</u>	<u>-</u>	<u>1,614,404</u>
<u>1,201,872</u>	<u>265,529</u>	<u>67,494</u>	<u>-</u>	<u>-</u>	<u>1,621,159</u>
<u>\$ 1,201,872</u>	<u>\$ 265,529</u>	<u>\$ 67,494</u>	<u>\$ 54,996</u>	<u>\$ -</u>	<u>\$ 1,826,833</u>

MILAN AREA SCHOOLS
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2010

	<u>Special Revenue</u>		
	<u>Athletics</u>	<u>Food Service</u>	<u>2000 Debt Service</u>
Revenue			
Local sources:			
Taxes	\$ -	\$ -	\$ 500,164
Earnings from investments and deposits	-	79	407
Food sales	-	545,206	-
Athletic admissions	170,022	-	-
Other local revenue	-	1,674	-
State aid	-	50,905	-
Federal sources	-	343,256	-
	<u>170,022</u>	<u>941,120</u>	<u>500,571</u>
Expenditures			
Food service activities	-	873,916	-
Athletic programs	480,847	-	-
Capital outlay	-	-	-
Debt service:			
Principal repayment	-	-	1,150,000
Interest and fiscal charges	-	-	67,965
	<u>480,847</u>	<u>873,916</u>	<u>1,217,965</u>
Revenue over (under) expenditures	<u>(310,825)</u>	<u>67,204</u>	<u>(717,394)</u>
Other financing sources (uses)			
Bond proceeds	-	-	915,102
Transfers in	282,893	-	-
Transfers out	-	(50,000)	(280,762)
-27-			
Total other financing sources (uses)	<u>282,893</u>	<u>(50,000)</u>	<u>634,340</u>
Net change in fund balances	(27,932)	17,204	(83,054)
Fund balances, beginning of year	<u>27,932</u>	<u>69,060</u>	<u>83,054</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 86,264</u>	<u>\$ -</u>

	<u>Debt Service</u>			<u>Capital Projects</u>	
<u>2002</u>	<u>2003</u>	<u>2009</u>	<u>Durant</u>	<u>Sinking</u>	<u>Total</u>
<u>Debt</u>	<u>Debt</u>	<u>Debt</u>	<u>Debt</u>	<u>Fund</u>	
<u>Service</u>	<u>Service</u>	<u>Service</u>	<u>Service</u>		
\$ 2,036,028	\$ 510,147	\$ 677,808	\$ -	\$ -	\$ 3,724,147
2,078	-	-	-	1	2,565
-	-	-	-	-	545,206
-	-	-	-	-	170,022
-	406	291	-	-	2,371
-	-	-	135,087	-	185,992
-	-	-	-	-	343,256
<u>2,038,106</u>	<u>510,553</u>	<u>678,099</u>	<u>135,087</u>	<u>1</u>	<u>4,973,559</u>
-	-	-	-	-	873,916
-	-	-	-	-	480,847
-	-	-	-	3,450	3,450
230,000	1,085,000	1,305,000	98,126	-	3,868,126
<u>1,881,622</u>	<u>163,338</u>	<u>1,942,687</u>	<u>36,961</u>	<u>-</u>	<u>4,092,573</u>
<u>2,111,622</u>	<u>1,248,338</u>	<u>3,247,687</u>	<u>135,087</u>	<u>3,450</u>	<u>9,318,912</u>
<u>(73,516)</u>	<u>(737,785)</u>	<u>(2,569,588)</u>	<u>-</u>	<u>(3,449)</u>	<u>(4,345,353)</u>
-	914,949	2,637,082	-	-	4,467,133
280,762	-	-	-	-	563,655
-	-	-	-	-	(330,762)
<u>280,762</u>	<u>914,949</u>	<u>2,637,082</u>	<u>-</u>	<u>-</u>	<u>4,700,026</u>
207,246	177,164	67,494	-	(3,449)	354,673
<u>994,626</u>	<u>88,365</u>	<u>-</u>	<u>-</u>	<u>3,449</u>	<u>1,266,486</u>
<u>\$ 1,201,872</u>	<u>\$ 265,529</u>	<u>\$ 67,494</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,621,159</u>

MILAN AREA SCHOOLS
Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2010

	<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>\$ 169,388</u>	<u>\$ 88,935</u>	<u>\$ 122,442</u>	<u>\$ 380,765</u>
Liabilities				
Due to student groups	<u>\$ 169,388</u>	<u>\$ 88,935</u>	<u>\$ 122,442</u>	<u>\$ 380,765</u>

MILAN AREA SCHOOLS
Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2010

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>End of Year</u>
Elementary School Activities				
Assets				
Cash and cash equivalents	\$ 152,761	\$ 254,765	\$ 238,138	\$ 169,388
Liabilities				
Due to student groups	\$ 152,761	\$ 254,765	\$ 238,138	\$ 169,388
Middle School Activities				
Assets				
Cash and cash equivalents	\$ 76,692	\$ 117,549	\$ 105,306	\$ 88,935
Liabilities				
Due to student groups	\$ 76,692	\$ 117,549	\$ 105,306	\$ 88,935
High School Activities				
Assets				
Cash and cash equivalents	\$ 151,262	\$ 215,994	\$ 244,814	\$ 122,442
Liabilities				
Due to student groups	\$ 151,262	\$ 215,994	\$ 244,814	\$ 122,442
Total - All Activities				
Assets				
Cash and cash equivalents	\$ 380,715	\$ 588,308	\$ 588,258	\$ 380,765
Liabilities				
Due to student groups	\$ 380,715	\$ 588,308	\$ 588,258	\$ 380,765

SINGLE AUDIT

MILAN AREA SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

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-	40,753	\$ -	\$ 38,259	\$ 38,259	\$ -
Bonus Commodities	10.555	-n/a-	2,473	-	2,473	2,473	-
				-	40,732	40,732	-
Passed-through Michigan Department of Education:							
2008-2009 School Breakfast	10.553	091970	5,670	5,670	5,670	-	-
2009-2010 School Breakfast	10.553	091970	2,140	-	2,140	2,140	-
2009-2010 School Breakfast	10.553	101970	38,010	-	38,011	38,011	-
				5,670	45,821	40,151	-
National School Lunch:							
2008-2009 Section 4	10.555	091950	7,740	4,856	4,856	-	-
2009-2010 Section 4	10.555	091950	4,961	-	4,961	4,961	-
2009-2010 Section 4	10.555	101950	47,264	-	47,264	47,264	-
2008-2009 Section 11	10.555	091960	152,896	29,901	29,901	-	-
2009-2010 Section 11	10.555	091960	18,893	-	18,893	18,893	-
2009-2010 Section 11	10.555	101960	191,256	-	191,256	191,256	-
				34,757	297,131	262,374	-
Total U.S. Department of Agriculture							
				40,427	383,684	343,257	-
U.S. Department of Labor							
Passed-through Washtenaw Community College-							
ARRA No Worker Left Behind	17.260	-n/a-	45,300	-	31,695	45,026	13,331
U.S. Department of Education							
Passed-through Michigan Department of Education:							
2008-2009 Adult Basic Education Instruction	84.002	091130-910667	15,000	3,920	3,920	-	-
2009-2010 Adult Basic Education Instruction	84.002	101130-101667	15,000	-	10,751	15,000	4,249
2008-2009 ABE Institutional Programs	84.002	091190-910667	103,000	33,201	33,201	-	-
2009-2010 ABE Institutional Programs	84.002	101190-101667	75,000	-	45,838	75,000	29,162
				37,121	93,710	90,000	33,411
2008-2009 Title I, Part A	84.010	091530-0809	192,919	76,216	76,216	-	-
2009-2010 Title I, Part A	84.010	101530-0910	167,538	-	102,001	168,121	66,120
				76,216	178,217	168,121	66,120
ARRA 2009-2010 Title I, Part A	84.389	101535-0910	92,269	-	26,577	45,573	18,996
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	29,933	29,933	-	-
2008-2009 Title II, Part A	84.367	090520-0809	74,458	39,797	39,797	-	-
2009-2010 Title II, Part A	84.367	100520-0910	67,041	-	36,083	50,278	14,195
				39,797	75,880	50,278	14,195
ARRA 2009-2010 Title II, Part A	84.386	104295-0910	3,401	-	-	3,401	3,401
ARRA Education Stabilization Fund	84.394	092525-0809	941,637	941,637	941,637	-	-
ARRA Education Stabilization Fund	84.394	102525-0910	710,071	-	710,071	710,071	-
				941,637	1,651,708	710,071	-

continued...

MILAN AREA SCHOOLS
Schedule of Expenditures of Federal Awards (Concluded)
For the Year Ended June 30, 2010

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 - 2009-2010 Drug-Free Schools	84.186	SDFSCA	5,813	\$ -	\$ 5,813	\$ 5,813	\$ -
Passed-through Monroe Public Schools - 2008-2009 Title III	84365	90580-0809	3,052	1,189	1,189	-	-
Passed-through Washtenaw Intermediate School District:							
2008-2009 IDEA Flowthrough	84.027	090450-0809	452,624	343,760	343,760	-	-
2009-2010 IDEA Flowthrough	84.027	100450-0910	432,022	-	237,966	415,558	177,592
				<u>343,760</u>	<u>581,726</u>	<u>415,558</u>	<u>177,592</u>
ARRA 2009-2010 IDEA Flowthrough	84.391	100455-0910	461,660	-	95,959	165,997	70,038
2008-2009 Preschool Incentive	84.173	090460-0809	15,570	9,513	9,513	-	-
2009-2010 Preschool Incentive	84.173	100460-0910	12,067	-	6,734	11,650	4,916
				<u>9,513</u>	<u>16,247</u>	<u>11,650</u>	<u>4,916</u>
ARRA 2009-2010 Preschool Incentive	84.392	100465-0910	16,756	-	4,900	8,261	3,361
2008-2009 IDEA Part C, Early On	84.181A	091340-190	11,148	2,787	2,787	-	-
2009-2010 IDEA Part C, Early On	84.181A	101340-190	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>1,483,623</u>	<u>2,774,677</u>	<u>1,685,871</u>	<u>394,817</u>
U.S. Department of Health and Human Services							
Passed-through Michigan Department of Community Health - Medicaid Outreach	93.778	-n/a-	1,729	-	1,729	1,729	-
Total Expenditures of Federal Awards				<u>\$ 1,524,050</u>	<u>\$ 3,191,785</u>	<u>\$ 2,075,883</u>	<u>\$ 408,148</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 7, 2010

To the Board of Education of
Milan Area Schools
Milan Area Schools, 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, 2010, which collectively comprise the District's financial statements, and have issued our report thereon dated October 7, 2010. 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 the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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

Compliance and Other Matters

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

In addition, we noted certain matters that we reported to management of the District in a separate letter dated October 7, 2010.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, 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, flowing style.

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

October 7, 2010

To the Board of Education of
Milan Area Schools
Milan Area Schools, Michigan

Compliance

We have audited the compliance of Milan Area Schools with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. The District's 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 the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and 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 the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's 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, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2010-1.

Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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. However, we identified a certain deficiency in internal control over compliance, which we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2010-1. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report is intended solely for the information and use of management, the Board of Education, others within the entity, 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, flowing style.

MILAN AREA SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2010

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? _____ 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? X yes _____ 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)? X yes _____ no

MILAN AREA SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

FOR THE YEAR ENDED JUNE 30, 2010

SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010, 84.389	Title I, Part A Cluster
84.027, 84.173, 84.391, 84.392	Special Education Cluster
84.394	State Fiscal Stabilization Fund (ARRA)

Dollar threshold used to distinguish
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X yes no

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2010-1 Allocation and Certification of Payroll Expenditures

Criteria: Office of Management and Budget Circular No. A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, requires that when employees work on multiple activities, the distribution of their salaries or wages must be supported by personnel activity reports or a statistical sampling system that has been approved by the cognizant Federal agency. The Circular also requires that where employees are expected to work solely on a single federal award, charges for their salaries must be supported by at least semi-annual certifications that they worked solely on that program for the period covered by the certification.

MILAN AREA SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Concluded)

FOR THE YEAR ENDED JUNE 30, 2010

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Concluded)

- Condition:** During the year ended June 30, 2010, one employee did not complete the semi-annual certifications.
- Cause:** The District believed that they had obtained all semi-annual certifications for all employees that were being charged to the Title I, Part A program.
- Effect:** This condition increases the risk that the District could report an incorrect amount for expenditures related to federal grant programs.
- Recommendation:** We recommend that the District require the semi-annual certifications to be signed at the end of the period covered by the certification.
- Management's response:** In the next fiscal year, the District will require certifications prepared in accordance with the above recommendation.

SECTION IV – PRIOR YEAR FINDINGS

No matters were reported.

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