

# Milan Area Schools

Year Ended  
June 30, 2012

Financial  
Statements and  
Single Audit Act  
Compliance

# MILAN AREA SCHOOLS

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**INDEPENDENT AUDITORS' REPORT**

October 9, 2012

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*, (the "District"), as of and for the year ended June 30, 2012, 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 respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Milan Area Schools as of June 30, 2012, and the respective changes in financial position thereof and the respective 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 9, 2012, 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 grants, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as noted in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining nonmajor fund financial statements 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, and is also not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The image shows a handwritten signature in cursive script that reads "Lehmann Johnson". The signature is written in black ink and is positioned in the lower right area of the page.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

# MILAN AREA SCHOOLS

## Management's Discussion and Analysis

As management of the 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, 2012.

### Financial Highlights

- The liabilities of the District exceeded its assets at the close of the most recent fiscal year by (\$10,125,517) (*net assets*).
- The government's total net assets decreased by \$4,595,548.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$8,559,560, a decrease of \$14,326,618 in comparison with the prior year. Approximately 28% or \$2,390,995 is available for spending at the government's discretion.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,194,603 or 9.12 % of total general fund expenditures.

### Overview of the Financial Statements

The 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) district-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) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the district include instruction, support services, community service, athletics and food service. The District has no business-type activities as of and for the year ending June 30, 2012.

# MILAN AREA SCHOOLS

## Management's Discussion and Analysis

**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 seven individual governmental funds. 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, each of which are considered to be a major fund. Data from the five other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major 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. Budgetary comparison statements or schedules have been 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 the 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 (\$10,125,517) at the close of the most recent fiscal year.

# MILAN AREA SCHOOLS

## Management's Discussion and Analysis

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 (property tax collections), 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 spent the major part of 2009-2010 in the planning and bidding stages of Phase I of the capital project. As a result the District started the 2010-2011 year with an unusually significant balance in current assets (investments). During the 2010-2011 year, the Phase I remodeling of three buildings was completed. The planning and bidding stages of Phase II were then executed. The majority of the remaining funds have been drawn down and spent on the new high school wing, the new transportation facility and the athletic buildings.

	District's Net Assets	
	Governmental Activities	
	2012	2011
Current and other assets	\$ 18,716,420	\$30,744,187
Capital assets, net	88,467,735	78,808,880
<b>Total assets</b>	<b>107,184,155</b>	<b>109,553,067</b>
Other liabilities	4,638,955	6,240,869
Long-term liabilities	112,670,717	108,842,167
<b>Total liabilities</b>	<b>117,309,672</b>	<b>115,083,036</b>
Net assets:		
Invested in capital assets, net of related debt (deficit)	(12,395,710)	(8,437,149)
Restricted	1,181,492	1,660,555
Unrestricted	1,088,701	1,246,625
<b>Total net assets (deficit)</b>	<b><u>\$(10,125,517)</u></b>	<b><u>\$(5,529,969)</u></b>

The schedule above reflects a shift from current assets to capital assets, in 2011-2012, as cash was converted to building improvements. However, when accounting for capital assets the District has a threshold of \$5,000. Therefore, expenditures for furnishings, equipment and technology, below \$5,000 per item, are not included in capital asset inventories. As a result, those purchases result in a decrease in net assets, although those items have useful value to the District.

The District currently has a negative net asset balance. In other words, if all of the District's liabilities were due on June 30, 2012, liquidation of all capital assets would not be sufficient to meet our obligations.

# MILAN AREA SCHOOLS

## Management's Discussion and Analysis

It is not unusual for districts, such as Milan, that participate in the Michigan School Bond Loan Fund Program to achieve a negative net asset balance. When yearly tax collections for debt retirement are not sufficient to meet scheduled debt payments, the District borrows as necessary from the Fund. The increase in long-term liabilities above reflects borrowing of \$3,863,519, in 2011-2012. This borrowing allows the District to consistently levy 8.04 mills for debt service. When yearly tax collections 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 Michigan School Bond Loan Fund. The final repayment to the Michigan School Bond Loan Fund Program will occur in the year 2044 by current calculations.

Included in long-term liabilities is the current value of the interest rate swap on the 2002 Bonds. The liability at June 30, 2012 is \$6,282,329. The interest rate swap will have zero value at maturity. As a hedging instrument, this liability is offset by the same amount in assets in the asset section of the Statement of Net Assets.

Another component of long-term liabilities that reduces 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 June 30, 2012. That unlikely scenario creates an accrued liability of \$788,804.

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 decreased in 2011-2012, from \$1,246,625 to \$1,088,701. The positive balance indicates that funds are available for unrestricted activities at June 30, 2012.

The government's net assets decreased by \$4,595,548 during the current fiscal year. While the first chart reflects the changes in assets and liabilities from 2010-2011 to 2011-2012, the next chart reflects the activities resulting in those changes.

	District's Changes in Net Assets	
	Governmental Activities	
	2012	2011
Program revenues:		
Charges for services	\$ 1,191,257	\$ 1,085,752
Operating grants	4,864,077	3,861,249
General revenues:		
Property taxes	6,011,958	6,021,098
State school aid	16,262,183	17,448,719
Grants and contributions	1,230,564	445,604
Interest and investment earnings	20,608	235,729
Gain on sale of capital assets	7,312	2,500
Total revenues	<u>29,587,959</u>	<u>29,100,651</u>

continued...

# MILAN AREA SCHOOLS

## Management's Discussion and Analysis

### Expenses:

Instruction	\$ 13,691,591	\$14,210,969
Support services	10,867,606	11,550,771
Community services	647,147	493,475
Athletics	442,985	339,924
Food service	810,912	825,431
Interest on long-term debt	5,458,272	4,462,581
Unallocated depreciation	<u>2,264,994</u>	<u>1,446,311</u>
Total expenses	<u>34,183,507</u>	<u>33,329,462</u>
Change in net assets	(4,595,548)	(4,228,811)
Net assets (deficit):		
Beginning of year, as restated (2011)	<u>(5,529,969)</u>	<u>(1,301,158)</u>
End of year	<u><u>\$(10,125,517)</u></u>	<u><u>\$(5,529,969)</u></u>

- Overall revenue increased from 2010-2011 to 2011-2012. This is mostly due to Education Jobs funding in 2011-2012.
- Expenditures increased during the same period. The greatest increase was in interest on long-term debt and depreciation. There was a requirement to change the way interest received for Build America Bonds was recorded resulting in a large increase in Interest on Long-term debt. The depreciation is due to a significant amount of the building projects being completed during the year and being added to the depreciation schedule.

### 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, unassigned 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 \$8,559,560, a decrease of \$14,326,618 in comparison with the prior year. Approximately 28% of this total amount (\$2,390,995) is available for spending. The remainder of fund balance is nonspendable because the underlying assets are included in inventory and prepaid expenses and are not available for current expenditure. The decrease in fund balance is mostly due to remodeling expenses in the 2009 Capital Projects Fund. A new instructional wing at the High School and a new transportation facility will be completed in 2013.

# MILAN AREA SCHOOLS

## Management's Discussion and Analysis

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,194,603, while total general fund balance was \$2,661,120. As a measure of the general fund's liquidity, it is useful to compare unassigned fund balance to total general fund expenditures. Unassigned fund balance represents approximately 9.1% of total general fund expenditures. This percentage is slightly lower than in 2010-2011. An unassigned fund balance of 10-12 % is generally recommended.

The fund balance of the District's general fund decreased by \$265,691, during the current fiscal year. The unassigned fund balance decreased by \$381,888.

The 2009 capital projects fund has a total spendable fund balance of \$4,716,948. As mentioned previously, these proceeds from the 2009 bond issue will be spent down over the next year on capital projects.

### General Fund Budgetary Highlights

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

- Local Revenue increased by \$567,134. Several factors were involved in this increase including bringing the athletic revenues into the general fund budget and special education, and ACT18 revenue being updated based on revised special education costs. Local Revenue was also affected by the athletics fund revenue being included in the general fund budget.
- Expenses were slightly increased due to more current information on the costs and athletics expenses being budgeted in the final amendment.

Once additional information was known, subsequent budget amendments recognized the additional revenue and changes in expenditure categories.

### Capital Asset and Debt Administration

**Capital Assets.** The District's investment in capital assets for its governmental activities as of June 30, 2012, amounted to \$88,467,735 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles and equipment. This reflects an increase of \$9,658,855 from the previous year.

The major capital asset events that took place during the current fiscal year were the completion of the new transportation facility and athletic buildings including concessions, team buildings, press box and bathrooms. The new high school wing (Milan Center for Innovative Studies) was started but not complete as of June 30, 2012. The majority of the construction in progress is from the high school wing. Once it has been completed, these expenses will be appropriately categorized. The District also purchased and disposed of 2 buses.

# MILAN AREA SCHOOLS

## Management's Discussion and Analysis

Increases to capital assets were offset by depreciation expense of \$2,264,994.

	Capital Assets (Net of Depreciation)	
	2012	2011
Capital assets not being depreciated		
Land	\$ 1,607,945	\$ 1,607,945
Construction in progress	4,853,985	1,421,993
Capital assets being depreciated		
Land improvements	3,149,044	2,373,786
Buildings and improvements	77,183,091	72,559,995
Equipment	1,076,323	620,980
Vehicles	597,347	224,181
Total capital assets, net	<u>\$ 88,467,735</u>	<u>\$78,808,880</u>

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

Long-Term Debt. At the end of the current fiscal year, the District had total bonded debt outstanding of \$86,294,191.

The District's total bonded long-term debt decreased by \$4,038,319, (approximately 3%) during the current fiscal year.

Additional information on the District's long term debt can be found in the notes to this report.

### Factors Bearing on the District's Future

The following factors were also considered in preparing the District's budget for the 2012-13 fiscal year:

- The State Aid Foundation Grant is projected to increase by \$120 per pupil.
- The District projected a loss of 113 students for the preliminary 2012-2013 budget.
- The retirement rate was scheduled to increase from 24.46% to 27.37% for the 2012-2013 year and that is what the preliminary budget is based on. However, the state passed retirement reform that was supposed to cap the District's rate at 24.46%. As of this time, the state has informed us that we will be contributing 25.36% due to a temporary restraining order on the retirement reform.
- For 2012-2013 the State has offered a per pupil monetary incentive, for districts who enact seven out of eight "Best Practices", as defined by the State. The District expects to enact those "Best Practices" and qualify for the incentive.
- 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 continued in 2012-2013. The amount will be lowered if it exceeds the indirect cost cap allowed by the Michigan Department of Education.

## MILAN AREA SCHOOLS

### Management's Discussion and Analysis

- The District has settled with all bargaining groups.
- In light of the preceding information the District passed a \$2,391,419 deficit budget for 2012-2013. This budget would reduce fund balance at June 30, 2013 to \$152,627 or .61% of expenditures. It is not the District's intention to fully implement this budget, but rather, as more information becomes available and the contract negotiation changes are reflected in the budget, the District has the intention of maintaining a 10% fund balance.
- Because of uncertain and possibly dire revenue projections for the 2011-2012 year the District and the teacher and support staff unions did agree to salary and benefit concessions, along with a modest reduction in fund balance to avoid major layoffs of staff. A formula was agreed on to compensate staff in the event that actual revenue was better than projected. At that time all staff agreed to a pay freeze. For 2011-2012 the formula was not enacted due to projections being within the formula. As of June 30, 2012, it was anticipated that a similar formula would be offered to staff for the 2012-2013 school year. In this way the District protects the fund balance and avoids layoffs, but ensures staff that the District will not increase fund balance at the expense of employee compensation. As of this writing the staff accepted the offer of a .75% pay cut if the retirement rate stays capped at 24.46% and up to 2.75% pay cut if the rate goes up to 27.37%. The District has the flexibility to change the pay cut depending on where the retirement rate falls. They also agreed to half step, off scale increases that do not continue unless negotiated in 2013-2014. The 10% health care premium co-pay that began in 2010-11, will increase in 2012-2013 to 20% of illustrative rates along with a change in health insurance deductibles from a \$2,500/\$5,000 deductible to a \$5,000/\$10,000 plan that will save the District by reducing premium costs.
- The District, along with the Intermediate School District, will continue to explore cost savings through consolidation of services. The District has entered into an agreement with the Washtenaw Intermediate School District to purchase financial software as a county-wide software to improve efficiencies in processing payroll and financial data. The District will be among the first group of district's to be trained with a possible implementation date of July 1, 2013.

## MILAN AREA SCHOOLS

### Management's Discussion and Analysis

- 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. Over the summer of 2010 the two elementary buildings and the Middle School underwent extensive remodeling which was substantially completed by the first day of class in September of 2010. In the fall of 2010-2011 the team began planning and eventually bidding contracts for an addition to the High School and a new transportation facility. In June of 2011 preliminary site work began for the new transportation building and it was completed and in use in January of 2012. Preliminary site work for the High School addition started in the fall of 2011. The addition was completed and opened in the fall of 2012. By funding these capital projects with bond dollars the District will upgrade the condition of all facilities and systems resulting in reduced maintenance expense and allow general fund dollars to be dedicated to student education. The same is true for expenditures out of the capital fund for technology and buses. At the same time we are able to provide our students with excellent facilities for learning, extracurricular activities and transportation.
- 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 energy management consultant continues at no cost. The renovations and upgrades achieved through the 2009 bond projects are expected to enhance the savings achieved in previous periods.
- The Milan Area School District continues to be challenged by the poor national economy and especially by the revenue losses in the State of Michigan. By working together with a caring and dedicated staff and community we continue to explore and implement cost saving measures. In this fashion the District has been able to increase to and then maintain a 10% fund balance while enhancing programs and facilities for students.

#### 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

# MILAN AREA SCHOOLS

## Statement of Net Assets

June 30, 2012

	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents	\$ 8,096,405
Receivables	3,896,000
Prepaid items and other assets	6,724,015
Capital assets not being depreciated	6,461,930
Capital assets being depreciated, net	<u>82,005,805</u>
<b>Total assets</b>	<u>107,184,155</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	4,516,392
Unearned revenue	122,563
Noncurrent liabilities:	
Due within one year	4,174,191
Due in more than one year	<u>108,496,526</u>
<b>Total liabilities</b>	<u>117,309,672</u>
<b>Net assets (deficit)</b>	
Invested in capital assets, net of related debt (deficit)	(12,395,710)
Restricted for:	
Debt service	1,063,671
Other purposes	117,821
Unrestricted	<u>1,088,701</u>
<b>Total net assets (deficit)</b>	<u><u>\$ (10,125,517)</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, 2012

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instruction	\$ 13,691,591	\$ 2,178	\$ 4,391,815	\$ (9,297,598)
Supporting services	10,867,606	-	55,974	(10,811,632)
Community service	647,147	741,731	-	94,584
Athletics	442,985	-	-	(442,985)
Food service	810,912	447,348	416,288	52,724
Interest on long-term debt	5,458,272	-	-	(5,458,272)
Unallocated depreciation	2,264,994	-	-	(2,264,994)
<b>Total governmental activities</b>	<b>\$ 34,183,507</b>	<b>\$ 1,191,257</b>	<b>\$ 4,864,077</b>	<b>(28,128,173)</b>
General revenues:				
Property taxes				6,011,958
Unrestricted state aid				16,262,183
Grants and contributions not restricted to specific programs				1,230,564
Unrestricted investment earnings				20,608
Gain on sale of capital assets				7,312
<b>Total general revenues</b>				<b>23,532,625</b>
Change in net assets				(4,595,548)
Net assets (deficit), beginning of year				(5,529,969)
Net assets (deficit), end of year				<b>\$ (10,125,517)</b>

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

# MILAN AREA SCHOOLS

## Balance Sheet

Governmental Funds  
June 30, 2012

	General	2009 Capital Projects	Other Governmental Funds	Totals
<b>Assets</b>				
Cash and cash equivalents	\$ 1,279,549	\$ 5,801,681	\$ 1,015,175	\$ 8,096,405
Accounts receivable	90,687	25,992	-	116,679
Taxes receivable	6,689	-	9,031	15,720
Due from other governments	3,744,410	-	19,191	3,763,601
Due from other funds	10,919	54	15,372	26,345
Inventory	13,013	-	6,444	19,457
Prepaid expenditures	257,112	-	165,117	422,229
<b>Total assets</b>	<b>5,402,379</b>	<b>5,827,727</b>	<b>1,230,330</b>	<b>12,460,436</b>
<b>Liabilities</b>				
Accounts payable	290,845	1,110,779	16,974	1,418,598
Accrued expenditures	96,105	-	-	96,105
Salaries and health insurance payable	2,218,074	-	-	2,218,074
Due to other funds	15,426	-	10,919	26,345
Deferred revenue	120,809	-	20,945	141,754
<b>Total liabilities</b>	<b>2,741,259</b>	<b>1,110,779</b>	<b>48,838</b>	<b>3,900,876</b>
<b>Fund balances</b>				
Nonspendable	270,125	-	171,561	441,686
Restricted for:				
Food service	-	-	61,377	61,377
Debt service fund	-	-	948,554	948,554
Capital projects	-	4,716,948	-	4,716,948
Assigned for:				
First Steps	22,684	-	-	22,684
Paddock Early Childhood Center	30,784	-	-	30,784
Summer camp	18,698	-	-	18,698
Curriculum	124,226	-	-	124,226
Unassigned	2,194,603	-	-	2,194,603
<b>Total fund balances</b>	<b>2,661,120</b>	<b>4,716,948</b>	<b>1,181,492</b>	<b>8,559,560</b>
<b>Total liabilities and fund balances</b>	<b>\$ 5,402,379</b>	<b>\$ 5,827,727</b>	<b>\$ 1,230,330</b>	<b>\$ 12,460,436</b>

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

# MILAN AREA SCHOOLS

## Reconciliation

Fund Balances of Governmental Funds  
to Net Assets of Governmental Activities  
June 30, 2012

Fund balances - total governmental funds \$ 8,559,560

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.

Capital assets	109,510,772
Accumulated depreciation	(21,043,037)

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

Deferred long-term receivables	19,191
--------------------------------	--------

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

Bonds and loans payable	(107,810,625)
Unamortized bond issuance costs	238,946
Unamortized loss on refunding	1,665,437
Unamortized bond premium	(21,856)
Unamortized bond discount	328,514
Accrued interest on bonds payable	(783,615)
Compensated absences and retirement incentive	(788,804)

Net assets (deficit) of governmental activities \$ (10,125,517)

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, 2012

	General	2009 Capital Projects	Other Governmental Funds	Totals
<b>Revenue</b>				
Local sources	\$ 4,876,976	\$ 14,920	\$ 4,378,498	\$ 9,270,394
State sources	17,350,795	-	51,239	17,402,034
Federal sources	1,512,556	-	1,413,981	2,926,537
<b>Total revenue</b>	<b>23,740,327</b>	<b>14,920</b>	<b>5,843,718</b>	<b>29,598,965</b>
<b>Expenditures</b>				
Education:				
Instruction	13,529,926	-	-	13,529,926
Support services	10,082,194	-	-	10,082,194
Food service activities	-	-	812,475	812,475
Athletic programs	443,767	-	-	443,767
Capital outlay	-	13,596,784	-	13,596,784
Debt service:				
Principal	-	-	4,038,319	4,038,319
Interest	7,443	-	4,589,406	4,596,849
<b>Total expenditures</b>	<b>24,063,330</b>	<b>13,596,784</b>	<b>9,440,200</b>	<b>47,100,314</b>
Revenue under expenditures	(323,003)	(13,581,864)	(3,596,482)	(17,501,349)
<b>Other financing sources (uses)</b>				
Proceeds from sale of capital assets	7,312	-	-	7,312
Bond proceeds	-	-	3,167,419	3,167,419
Transfers in	50,000	-	-	50,000
Transfers out	-	-	(50,000)	(50,000)
<b>Total other financing sources (uses)</b>	<b>57,312</b>	<b>-</b>	<b>3,117,419</b>	<b>3,174,731</b>
<b>Net change in fund balances</b>	<b>(265,691)</b>	<b>(13,581,864)</b>	<b>(479,063)</b>	<b>(14,326,618)</b>
Fund balances, beginning of year	2,926,811	18,298,812	1,660,555	22,886,178
<b>Fund balances, end of year</b>	<b>\$ 2,661,120</b>	<b>\$ 4,716,948</b>	<b>\$ 1,181,492</b>	<b>\$ 8,559,560</b>

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

# MILAN AREA SCHOOLS

## Reconciliation

Net Changes in Fund Balances of Governmental Funds  
to Change in Net Assets of Governmental Activities  
For the Year Ended June 30, 2012

Net change in fund balances - total governmental funds \$ (14,326,618)

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

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

Capital outlay	11,966,003
Depreciation expense	(2,264,994)
Loss on disposal of capital assets	(42,154)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Payments received on deferred long-term receivables	(18,318)
---	----------

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.

Net proceeds from bond issuance	(3,167,419)
Principal payments on long-term liabilities	4,038,319

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 governmental funds.

Change in accrued interest payable on bonds and loans	(669,389)
Change in amortization of bond issuance costs, loss on refunding, and bond premium	(192,034)
Change in the accrual for compensated absences	78,182
Change in the early retirement incentive payable	2,874

Change in net assets of governmental activities \$ (4,595,548)

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

# MILAN AREA SCHOOLS

## Statement of Revenue, Expenditures and Changes in Fund Balances

Budget and Actual - General Fund  
For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Over (under) Final Budget
<b>Revenue</b>				
Local sources	\$ 4,401,916	\$ 4,969,050	\$ 4,876,976	\$ (92,074)
State sources	17,480,335	17,471,457	17,350,795	(120,662)
Federal sources	1,523,003	1,546,139	1,512,556	(33,583)
<b>Total revenue</b>	<b>23,405,254</b>	<b>23,986,646</b>	<b>23,740,327</b>	<b>(246,319)</b>
<b>Expenditures</b>				
<b>Instruction:</b>				
Basic programs	12,259,213	12,014,284	11,831,842	(182,442)
Added needs	1,675,324	1,762,391	1,599,522	(162,869)
Adult and continuing education	117,844	116,565	98,562	(18,003)
<b>Total instruction</b>	<b>14,052,381</b>	<b>13,893,240</b>	<b>13,529,926</b>	<b>(363,314)</b>
<b>Supporting services:</b>				
Pupil services	2,658,488	2,688,806	2,721,632	32,826
Instructional support	892,336	894,916	991,814	96,898
General administration	362,419	415,596	407,657	(7,939)
School administration	1,200,199	1,179,630	1,150,761	(28,869)
Business services	432,501	331,060	301,860	(29,200)
Operations and maintenance	2,385,639	2,469,037	2,458,881	(10,156)
Transportation	1,155,019	1,105,292	1,085,991	(19,301)
Central support	208,017	275,039	244,933	(30,106)
Community services	567,427	726,778	718,665	(8,113)
<b>Total supporting services</b>	<b>9,862,045</b>	<b>10,086,154</b>	<b>10,082,194</b>	<b>(3,960)</b>
<b>Debt service</b>				
Interest and fiscal charges	-	-	7,443	7,443
<b>Athletics</b>	<b>372,656</b>	<b>439,710</b>	<b>443,767</b>	<b>4,057</b>
<b>Total expenditures</b>	<b>24,287,082</b>	<b>24,419,104</b>	<b>24,063,330</b>	<b>(355,774)</b>
<b>Revenue over (under) expenditures</b>	<b>(881,828)</b>	<b>(432,458)</b>	<b>(323,003)</b>	<b>109,455</b>
<b>Other financing sources (uses)</b>				
Proceeds from sale of capital assets	-	-	7,312	7,312
Transfers in	50,000	50,000	50,000	-
Transfers out	(576)	(576)	-	576
<b>Total other financing sources (uses)</b>	<b>49,424</b>	<b>49,424</b>	<b>57,312</b>	<b>7,888</b>
<b>Net change in fund balance</b>	<b>(832,404)</b>	<b>(383,034)</b>	<b>(265,691)</b>	<b>117,343</b>
<b>Fund balances, beginning of year</b>	<b>2,926,811</b>	<b>2,926,811</b>	<b>2,926,811</b>	<b>-</b>
<b>Fund balances, end of year</b>	<b>\$ 2,094,407</b>	<b>\$ 2,543,777</b>	<b>\$ 2,661,120</b>	<b>\$ 117,343</b>

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

# MILAN AREA SCHOOLS

## Statement of Fiduciary Net Assets June 30, 2012

	Private- Purpose Trust Fund	
	Scholarships	Agency Funds
<b>Assets</b>		
Cash and cash equivalents	\$ 15,862	\$ 483,568
<b>Liabilities</b>		
Accounts payable	-	\$ 25,831
Due to student groups	-	457,737
<b>Total liabilities</b>	<b>-</b>	<b>\$ 483,568</b>
<b>Net assets</b>		
Unrestricted	<u>\$ 15,862</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, 2012

	Scholarships
<b>Additions</b>	
Earnings on deposits and investments	\$ 8
<b>Deductions</b>	
Scholarships	2,080
Other expense	475
	<hr/> 2,555
 Decrease in net assets	 (2,547)
 Net assets, beginning of year	 <hr/> 18,409
 Net assets, end of year	 <hr/> <hr/> \$ 15,862

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

## NOTES TO FINANCIAL STATEMENTS

# MILAN AREA SCHOOLS

## Notes to Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

The Milan Area Schools (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 14 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.

#### *Government-Wide and Fund Financial Statements*

The government-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 2012.

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 government wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

#### *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The government-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 the 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.

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.

# MILAN AREA SCHOOLS

## Notes to Financial Statements

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 and reported in another fund.

The *2009 capital projects fund* is used to account for all financial resources restricted, committed or assigned to expenditure for the acquisition or construction of capital assets in relation to the 2009 bonds.

Additionally, the District reports the following fund types:

The *special revenue fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

The *debt service* funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest.

The *private-purpose trust fund* accounts 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.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

The effect of interfund activity has been eliminated from the government wide financial statements.

### Assets, liabilities and equity

#### *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 are reported at fair value.

#### *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 either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non current portion of interfund loans).

# MILAN AREA SCHOOLS

## Notes to Financial Statements

Accounts payable and other payables reflected in the financial statements are based on when the liability is incurred.

### *Inventory*

Inventory is valued at the lower of cost (first in, first out) or market. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute “available spendable resources” even though they are a component of net current assets.

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.

### *Capital assets*

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-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 District are depreciated using the straight line method over the following estimated useful lives:

	Years
Land improvements	10-20
Buildings and improvements	25-50
Equipment	5-20
Licensed vehicles	8

### *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 Financial Statements

### *Long-term obligations*

In the government-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 on 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 debt proceeds received, are reported as debt service expenditures.

### *Fund equity*

Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually require to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, or laws or regulations of other governments. *Committed fund balance*, if any, is reported for amounts that can be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority, the Board of Education. A formal resolution of the Board of Education is required to establish, modify or rescind a fund balance commitment. The District reports *assigned fund balance* for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. *Unassigned fund balance* is the residual classification for the general fund.

When the District incurs an expenditure for purposes for which various fund balance classifications can be used, it is the District's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

## 2. 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.

Variances from the final amended budget are shown in the Statement of Revenues, Expenditures and Changes in Fund Balance for the General Fund.

All annual appropriations lapse at fiscal year end.

# MILAN AREA SCHOOLS

## Notes to Financial Statements

### 3. 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	\$ 8,096,405
Statement of Fiduciary Net Assets	
Cash and cash equivalents	<u>499,430</u>
Total	<u>\$ 8,595,835</u>
Deposits and investments	
Cash on hand	\$ 47
Deposits (checking accounts and certificates of deposit)	1,650,976
Investments in securities, mutual funds and similar vehicles	<u>6,944,812</u>
Total	<u>\$ 8,595,835</u>

#### Statutory Authority

State statutes authorize the District to invest in:

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.

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.

Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.

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.

Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.

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.

# MILAN AREA SCHOOLS

## Notes to Financial Statements

### 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, \$491,097 of the District’s bank balance of \$1,700,514 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, 2012:

U.S. Agencies	\$ 1,210,915
Michigan Liquid Asset Fund (MILAF)	733,712
Money Market	<u>5,000,185</u>
	<u>\$ 6,944,812</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. As of June 30, 2012, 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, 2012, the District had greater than 5% of its total investment portfolio concentrated as follows:

Investment type	Issuer	% of Portfolio
U.S. Agencies	Federal Home Loan Mortgage Corporation	17.4%
Money Market	Various	72.0%
Money Market	Michigan Liquid Asset Fund	10.6%

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments 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 maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. As of June 30, 2012 all of the District’s debt maturities were maturing in less than one year.

# MILAN AREA SCHOOLS

## Notes to Financial Statements

### 4. RECEIVABLES

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

	General Fund	2009 Capital Projects	Other Governmental Funds	Totals
Accounts receivable	\$ 90,687	\$ 25,992	\$ -	\$ 116,679
Taxes receivable	6,689	-	9,031	15,720
Due from other governments	3,744,410	-	19,191	3,763,601
	<u>\$ 3,841,786</u>	<u>\$ 25,992</u>	<u>\$ 28,222</u>	<u>\$ 3,896,000</u>

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

### 5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Additions	Disposals	Reclass	Ending Balance
Capital assets, not being depreciated:					
Land	\$ 1,607,945	\$ -	\$ -	\$ -	\$ 1,607,945
Construction in progress	1,421,993	3,935,801	503,809	-	4,853,985
	<u>3,029,938</u>	<u>3,935,801</u>	<u>503,809</u>	<u>-</u>	<u>6,461,930</u>
Capital assets, being depreciated:					
Land improvements	5,626,058	1,015,660	56,205	-	6,585,513
Buildings and improvements	84,869,507	7,249,534	79,522	-	92,039,519
Equipment	2,884,046	107,779	5,637	-	2,986,188
Vehicles	1,374,898	161,038	98,314	-	1,437,622
	<u>94,754,509</u>	<u>8,534,011</u>	<u>239,678</u>	<u>-</u>	<u>103,048,842</u>
Less accumulated depreciation for:					
Land improvements	3,252,272	205,599	14,051	(7,351)	3,436,469
Buildings and improvements	12,309,512	1,807,459	79,522	818,979	14,856,428
Equipment	2,659,865	155,529	5,637	(899,892)	1,909,865
Vehicles	753,918	96,407	98,314	88,264	840,275
	<u>18,975,567</u>	<u>2,264,994</u>	<u>197,524</u>	<u>-</u>	<u>21,043,037</u>
Total capital assets being depreciated, net	<u>75,778,942</u>	<u>6,269,017</u>	<u>42,154</u>	<u>-</u>	<u>82,005,805</u>
Governmental activities capital assets, net	<u>\$ 78,808,880</u>	<u>\$ 10,204,818</u>	<u>\$ 545,963</u>	<u>\$ -</u>	<u>\$ 88,467,735</u>

# MILAN AREA SCHOOLS

## Notes to Financial Statements

Depreciation expense of \$2,264,994 was charged to the function “Unallocated Depreciation,” and not allocated to other functions. Amounts in the restatement column are determined from a revaluation of the Districts capital assets during the year ended June 30, 2012.

### 6. PAYABLES

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

	General	2009 Capital Projects	Other Governmental Funds	Totals
Fund Financial Statements:				
Accounts payable	\$ 290,845	\$ 1,110,779	\$ 16,974	\$ 1,418,598
Accrued expenditures	96,105	-	-	96,105
Salaries and benefits payable	2,218,074	-	-	2,218,074
	<u>\$ 2,605,024</u>	<u>\$ 1,110,779</u>	<u>\$ 16,974</u>	<u>3,732,777</u>
Government-Wide Financial Statements - Accrued interest on long-term debt				<u>783,615</u>
				<u>\$ 4,516,392</u>

### 7. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

At June 30, 2012, interfund receivables and payables consisted of the following:

	Due from Other Funds	Due to Other Funds
General Fund	\$ 10,919	\$ 15,426
2009 Capital Projects Fund	54	-
Nonmajor governmental funds	15,372	10,919
	<u>\$ 26,345</u>	<u>\$ 26,345</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 Financial Statements

For the year ended June 30, 2012, interfund transfers consisted of the following:

	Transfers out	Transfers in
General Fund	\$ -	\$ 50,000
Nonmajor governmental funds	50,000	-
	<u>\$ 50,000</u>	<u>\$ 50,000</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.

The District often reports interfund balances between many of its funds. These interfund balances result 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. For the year ended June 30, 2012, the District transferred funds from the food service fund to the general fund to cover certain allocable costs.

## 8. LONG-TERM DEBT

The following is a summary of bond, note, and compensated absence transactions of the District for the year ended June 30, 2012:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
General obligation bonds	\$ 90,332,510	\$ -	\$ 4,038,319	\$ 86,294,191	\$ 4,174,191
Less:					
Unamortized bond issuance costs	(271,512)	-	(32,566)	(238,946)	-
Unamortized loss on refunding	(1,831,827)	-	(166,390)	(1,665,437)	-
Unamortized bond premium	43,711	-	21,855	21,856	-
Unamortized bond discount	(343,447)	-	(14,933)	(328,514)	-
Interest rate swap	2,389,957	3,892,372	-	6,282,329	-
School Bond loan fund	17,652,915	3,863,519	-	21,516,434	-
Compensated absences	866,986	-	78,182	788,804	-
Early retirement incentives	2,874	-	2,874	-	-
	<u>\$ 108,842,167</u>	<u>\$ 7,755,891</u>	<u>\$ 3,927,341</u>	<u>\$ 112,670,717</u>	<u>\$ 4,174,191</u>

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

# MILAN AREA SCHOOLS

## Notes to Financial Statements

Bonds payable consist of the following issues:

General Obligation Bonds:

*	\$286,311 1998 Durant School Improvement Bonds, due in one remaining installment of \$19,191; interest at 4.80%	\$ 19,191
	2002 Refunding Bonds, due in annual installments of \$1,520,000 to \$2,290,000 through 2030; interest at 4.418%	39,990,000
	2003 Refunding Bonds, due in annual installments of \$1,060,000 to \$1,070,000 through 2013, interest at 3.0% to 4.0%.	1,070,000
	2009 Bonds, due in annual installments of \$1,310,000 to \$3,100,000 through 2034, interest at 2.5% to 7.1%.	<u>45,215,000</u>
	Total general obligation bonds	<u>\$ 86,294,191</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.

**Hedging Derivative Instrument** - The District has an interest rate swap agreement in connection with its \$44.845 million 2002 variable rate bonds. A swap agreement was entered into September 2002, with an effective date that coincided with the issuance date of the bonds in October 2002. The intention of the swap was to effectively hedge the changes in cash flows related to the interest payments on the variable rate bonds. At June 30, 2012, the swap's notional amount of \$39,990,000 matched the \$39,990,000 outstanding balance of the variable rate bonds. The notional value of the swap and the principal amount of the associated debt decline at the same rate until maturity or May 1, 2030. Under the swap, the District pays the counterparty a fixed payment of 3.3665% and receives a variable payment computed at Securities Industry and Financial Market Association Municipal Swap Index TM (SIFMA) rate. The bond's variable rate coupons are determined by the remarketing agent based on the rate necessary to remarket the bonds. The rate approximates the SIFMA rate at June 30, 2012. At June 30, 2012, the SIFMA swap had a negative fair value of \$6,282,329, which was recorded in other long-term liabilities on the statement of net assets. As the swap is a hedging instrument, the change in fair value is considered outflow and is included in assets on the statement of net assets.

**Fair value** - The fair value of the swap was estimated using the zero coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero coupon bonds due on the date of each future net settlement on the swap.

**Credit risk** - The counterparty holding the swap was rated A by Fitch and Standard & Poor's as of June 30, 2012. In the event that the counterparty were to default on the swap agreement, the District would have the option to enter into another swap agreement. At June 30, 2012, the District was not exposed to credit risk related to the SIFMA swap as the fair market value of the swap was negative.

**Interest rate risk** - The District is exposed to interest rate risk on the swap agreement, since changes in the interest rate market will affect the fair value of the agreement. In the event the swap agreement that guarantees the fixed rate terminates prior to final maturity of the bonds, interest rate risk would exist at this point. The District could decide to seek a new fixed rate or continue in a variable rate mode.

# MILAN AREA SCHOOLS

## Notes to Financial Statements

*Basis risk* - The SIFMA swap exposes the District to basis risk because the variable rate payments received by the District on the hedging derivative instrument are based on an index other than interest rates the District pays on its hedged variable rate debt, which is remarketed every day.

*Termination risk* - Termination risk is the risk that the swap could be terminated as a result of any of several events, which may include a ratings downgrade for the District, the State of Michigan or the counterparty, covenant violation by either party, bankruptcy or either party, swap payment default by either party, and default events defined in the District’s bond indenture.

If the SIFMA swap is terminated, the variable rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the SIFMA swap has a negative fair value, the District would be liable to the counterparty for a payment equal to the swap’s fair value.

All of the termination events of the District are within the District’s control, except for the credit rating downgrade provision. The termination fee may be covered by a debt levy that may result in a debt millage needed to participate in the School Bond Qualification and Loan program.

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

Year Ended June 30,	Principal	Interest	Total
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	3,435,000	3,290,727	6,725,727
2017	3,570,000	3,157,761	6,727,761
2018-2022	19,960,000	13,495,146	33,455,146
2023-2027	22,650,000	8,952,754	31,602,754
2028-2032	19,955,000	3,856,178	23,811,178
2033-2034	6,065,000	422,966	6,487,966
<b>Totals</b>	<b>\$ 86,294,191</b>	<b>\$ 43,813,950</b>	<b>\$ 130,108,141</b>

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, 2012, are as follows:

# MILAN AREA SCHOOLS

## Notes to Financial Statements

	Principal	Interest	Total
Beginning balance	\$ 13,379,387	\$ 2,474,983	\$ 17,654,747
Additions	3,167,419	694,268	3,861,687
Reductions	-	-	-
Ending balance	<u>\$ 16,546,806</u>	<u>\$ 3,169,251</u>	<u>\$ 21,516,434</u>

At June 30, 2012, the balance of the year 2000 bonds considered to be defeased is \$40,765,000.

### 9. 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, 2012, were as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
State aid note	<u>\$ 1,632,640</u>	<u>\$ 1,000,000</u>	<u>\$ 2,632,640</u>	<u>\$ -</u>

### 10. LEASES

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

2013	\$ 45,049
2014	<u>23,005</u>
	<u>\$ 68,054</u>

Rental expense for all operating leases aggregated \$46,500 for the year ended June 30, 2012.

### 11. NET ASSETS INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT

The composition of net assets invested in capital assets, net of related debt as of June 30, 2012, was as follows:

Capital assets, net	\$ 88,467,735
Bonds and related debt payable	(107,810,625)
Durant bonds not serviced by District	19,191
Unexpended bond proceeds	4,716,948
Deferred bond costs	<u>2,211,041</u>
Invested in capital assets, net of related debt	<u>\$ (12,395,710)</u>

# MILAN AREA SCHOOLS

## Notes to Financial Statements

### 12. 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:

	2012	2011
Accrued claims, beginning of year	\$ 87,000	\$ 87,000
Incurred claims	459,732	\$ 456,452
Claim payments	<u>(459,732)</u>	<u>(456,452)</u>
Accrued claims, end of year	<u>\$ 87,000</u>	<u>\$ 87,000</u>

### 13. 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.

### 14. DEFINED BENEFIT PENSION PLAN

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

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

## MILAN AREA SCHOOLS

### Notes to Financial Statements

*Funding Policy.* Member contribution rates vary based on date of hire and certain voluntary elections. 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 through June 30, 2008 contribute at the following graduated permanently fixed contribution rates: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000. Members first hired July 1, 2008 through June 30, 2010 contribute at the following graduated permanently fixed contribution rates: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 6.4 percent of all wages over \$15,000. Basic Plan members make no contributions. Members first enrolled on or after July 1, 2010 are enrolled in the Pension Plus Plan which contains a defined contribution component. Member contributions are matched at a rate of 50 percent by the employer, up to a maximum of one percent. The District 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 rates for the year ended June 30, 2012 as a percentage of payroll ranged from 20.66 to 24.46 percent for the MIP members and 19.16 to 23.23 percent for the Pension Plus members. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District’s contributions to MPERS under all retirement plans for the years ended June 30, 2012, 2011, and 2010 were \$3,317,464, \$2,532,632, and \$2,250,682, respectively, equal to the required contributions for each year.

#### 15. OTHER POSTEMPLOYMENT BENEFITS

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

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

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

#### 16. BONDED CONSTRUCTION COST

The Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For the capital projects, the District has complied with the applicable provisions of §1351a of the Michigan Revised School Code, and the applicable sections of the revised Bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.

#### 17. COMMITMENTS

Related to the 2009 Capital Projects fund, there are outstanding construction and renovation commitments of approximately \$3,708,000 as of June 30, 2012.

# MILAN AREA SCHOOLS

## Notes to Financial Statements

### 18. SUBSEQUENT EVENT

On August 20, 2012 the District issued a state aid note for \$1,000,000 with an interest rate of .4% which is due August 20, 2013.

■ ■ ■ ■ ■

**COMBINING FUND  
STATEMENTS**

MILAN AREA SCHOOLS

Combining Balance Sheet  
 Nonmajor Governmental Funds  
 June 30, 2012

	Special Revenue	Debt Service				Total
	Food Service	2002 Debt Service	2003 Debt Service	2009 Debt Service	Durant Debt Service	
<b>Assets</b>						
Cash and cash equivalents	\$ 74,247	\$ 813,561	\$ 24,905	\$ 102,462	\$ -	\$ 1,015,175
Taxes receivable	-	6,130	526	2,375	-	9,031
Due from other governments	-	-	-	-	19,191	19,191
Due from other funds	15,372	-	-	-	-	15,372
Inventory	6,444	-	-	-	-	6,444
Prepaid items	50,000	115,117	-	-	-	165,117
<b>Total assets</b>	<b>\$ 146,063</b>	<b>\$ 934,808</b>	<b>\$ 25,431</b>	<b>\$ 104,837</b>	<b>\$ 19,191</b>	<b>\$ 1,230,330</b>
<b>Liabilities</b>						
Accounts payable	\$ 16,974	\$ -	\$ -	\$ -	\$ -	\$ 16,974
Due to other funds	9,514	958	87	360	-	10,919
Deferred revenue	1,754	-	-	-	19,191	20,945
<b>Total liabilities</b>	<b>28,242</b>	<b>958</b>	<b>87</b>	<b>360</b>	<b>19,191</b>	<b>48,838</b>
<b>Fund balances</b>						
Nonspendable	56,444	115,117	-	-	-	171,561
Restricted	61,377	818,733	25,344	104,477	-	1,009,931
<b>Total fund balances</b>	<b>117,821</b>	<b>933,850</b>	<b>25,344</b>	<b>104,477</b>	<b>-</b>	<b>1,181,492</b>
<b>Total liabilities and fund balances</b>	<b>\$ 146,063</b>	<b>\$ 934,808</b>	<b>\$ 25,431</b>	<b>\$ 104,837</b>	<b>\$ 19,191</b>	<b>\$ 1,230,330</b>

MILAN AREA SCHOOLS

**Combining Statement of Revenue, Expenditures  
and Changes in Fund Balances - Nonmajor Governmental Funds  
For the Year Ended June 30, 2012**

	Special Revenue	Debt Service				Total
	Food Service	2002 Debt Service	2003 Debt Service	2009 Debt Service	Durant Debt Service	
<b>Revenue</b>						
Local sources:						
Taxes	\$ -	\$ 2,672,992	\$ 244,069	\$ 1,009,342	\$ -	\$ 3,926,403
Earnings from investments and deposits	29	3,939	-	-	-	3,968
Food sales	446,134	-	-	-	-	446,134
Other local revenue	1,214	-	320	459	-	1,993
State aid	31,134	-	-	-	20,105	51,239
Federal sources	385,154	-	-	1,028,827	-	1,413,981
<b>Total revenue</b>	<b>863,665</b>	<b>2,676,931</b>	<b>244,389</b>	<b>2,038,628</b>	<b>20,105</b>	<b>5,843,718</b>
<b>Expenditures</b>						
Food service activities	812,475	-	-	-	-	812,475
Debt service:						
Principal repayment	-	1,620,000	1,065,000	1,335,000	18,319	4,038,319
Interest and fiscal charges	-	1,560,877	82,960	2,943,783	1,786	4,589,406
<b>Total expenditures</b>	<b>812,475</b>	<b>3,180,877</b>	<b>1,147,960</b>	<b>4,278,783</b>	<b>20,105</b>	<b>9,440,200</b>
Revenue over (under) expenditures	51,190	(503,946)	(903,571)	(2,240,155)	-	(3,596,482)
<b>Other financing sources (uses)</b>						
Bond proceeds	-	-	836,341	2,331,078	-	3,167,419
Transfers out	(50,000)	-	-	-	-	(50,000)
<b>Total other financing sources (uses)</b>	<b>(50,000)</b>	<b>-</b>	<b>836,341</b>	<b>2,331,078</b>	<b>-</b>	<b>3,117,419</b>
<b>Net change in fund balances</b>	<b>1,190</b>	<b>(503,946)</b>	<b>(67,230)</b>	<b>90,923</b>	<b>-</b>	<b>(479,063)</b>
Fund balances, beginning of year	116,631	1,437,796	92,574	13,554	-	1,660,555
<b>Fund balances, end of year</b>	<b>\$ 117,821</b>	<b>\$ 933,850</b>	<b>\$ 25,344</b>	<b>\$ 104,477</b>	<b>\$ -</b>	<b>\$ 1,181,492</b>

## SINGLE AUDIT ACT COMPLIANCE

MILAN AREA SCHOOLS

**Schedule of Expenditures of Federal Awards**

For the Year Ended June 30, 2012

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Approved Awards Amount	Accrued (Deferred) Revenue at July 1, 2011	Current Year Receipts	Adjustments	Current Year Expenditures	Accrued (Deferred) Revenue at June 30, 2012
U.S. Department of Agriculture									
Nutrition Cluster:									
Non-Cash Assistance									
Food Distribution									
Entitlement	10.555	MDE	-n/a-	\$ 44,061	\$ -	\$ 44,061	\$ -	\$ 44,061	\$ -
Bonus	10.555	MDE	-n/a-	-	-	2,401	-	2,401	-
					-	46,462		46,462	-
Cash Assistance									
National School Breakfast Program	10.553	MDE	111970	8,615	8,615	8,615	-	-	-
National School Breakfast Program	10.553	MDE	111970	4,357	-	4,357	-	4,357	-
National School Breakfast Program	10.553	MDE	121970	45,956	-	45,956	-	45,956	-
					8,615	58,928		50,313	-
National School Lunch Program	10.555	MDE	111960	37,778	37,778	37,778	-	-	-
National School Lunch Program	10.555	MDE	111960	31,187	-	31,187	-	31,187	-
National School Lunch Program	10.555	MDE	121960	257,190	-	257,190	-	257,190	-
					37,778	326,155		288,377	-
Total U.S. Department of Agriculture - Nutrition Cluster					46,393	431,545	-	385,152	-
U.S. Department of Education									
Adult Basic Education Instruction	84.002A	MDE	111130-111667	13,500	2,872	1,372	(1,500)	-	-
Institutional Adults	84.002A	MDE	111190-111667	67,500	19,090	11,590	(7,500)	-	-
Adult Basic Education Instruction	84.002	MDE	121130-121667	16,275	-	11,852	-	15,921	4,069
Institutional Adults	84.002	MDE	121190-121667	81,375	-	67,784	-	81,206	13,422
					21,962	92,598	(9,000)	97,127	17,491
Title I Cluster:									
Title I, Part A - Improving Basic Programs	84.010	MDE	111530-1011	199,150	68,095	86,647	-	18,552	-
Title I, Part A - Improving Basic Programs	84.010	MDE	121530-1112	206,051	-	124,292	-	206,051	81,759
ARRA - Title I, Part A - Carryover	84.389	MDE	111535-1011	42,837	16,237	16,237	-	-	-
					84,332	227,176		224,603	81,759

continued...

MILAN AREA SCHOOLS

**Schedule of Expenditures of Federal Awards**

For the Year Ended June 30, 2012

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Approved Awards Amount	Accrued (Deferred) Revenue at July 1, 2011	Current Year Receipts	Adjustments	Current Year Expenditures	Accrued (Deferred) Revenue at June 30, 2012
U.S. Department of Education (concluded)									
Title II:									
Title II, Part A - Improving Teacher Quality	84.367	MDE	110520-1011	76,236	\$ 11,528	\$ 27,699	\$ -	\$ 16,171	\$ -
Title II, Part A - Improving Teacher Quality	84.367	MDE	120520-1112	87,420	-	35,771	-	44,407	8,636
					<u>11,528</u>	<u>63,470</u>		<u>60,578</u>	<u>8,636</u>
Education Jobs Fund	84.410A	MDE	112545-1011	583,220	-	583,220	-	583,220	-
Title III - English Language Acquisition	84.365A	MPS	110580-1011	11,780	508	508	-	-	-
Special Education Cluster:									
IDEA Flow-through	84.027A	WISD	100450-0910	16,464	10,092	10,092	-	-	-
IDEA Flow-through	84.027A	WISD	110450-1011	505,031	193,986	193,986	-	-	-
IDEA Flow-through	84.027A	WISD	120450-1112	534,093	-	312,143	-	533,485	221,342
ARRA - IDEA Flowthrough	84.391A	WISD	100455-0910	295,663	102,872	102,872	-	-	-
IDEA Pre-school Grant	84.173A	WISD	100460-1011	17,140	6,295	6,295	-	-	-
IDEA Pre-school Grant	84.173A	WISD	120460-1112	13,545	-	13,545	-	13,545	-
ARRA - IDEA Preschool	84.392A	WISD	100465-0910	8,495	3,073	3,073	-	-	-
					<u>316,318</u>	<u>642,006</u>	<u>-</u>	<u>547,030</u>	<u>221,342</u>
Total U.S. Department of Education					<u>434,648</u>	<u>1,608,978</u>	<u>(9,000)</u>	<u>1,512,558</u>	<u>329,228</u>
Total Expenditures of Federal Awards					<u>\$ 481,041</u>	<u>\$ 2,040,523</u>	<u>\$ (9,000)</u>	<u>\$ 1,897,710</u>	<u>\$ 329,228</u>
Reconciling item - Build America Bonds	N/A		N/A					<u>1,028,827</u>	
Total Federal Revenue					<u>\$ 481,041</u>	<u>\$ 2,040,523</u>	<u>\$ (9,000)</u>	<u>\$ 2,926,537</u>	<u>\$ 329,228</u>

See notes to schedule of expenditures of federal awards.

# MILAN AREA SCHOOLS

## Notes to Schedule of Expenditures of Federal Awards

### 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the Milan Area Schools (the "District") under programs of the federal government for the year ended June 30, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets or cash flows of the District.

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting, which is described in Note 1 to the District's financial statements. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been incurred and all grant requirements have been met.

The Schedule has been arranged to provide information on both actual cash received and the revenue recognized. Accordingly, the effects of accruals of accounts receivable, deferred revenue and accounts payable items at both the beginning and end of the fiscal year have been reported.

Expenditures are in agreement with amounts reported in the financial statements and the financial reports. The amounts reported on the Grant Auditor Report reconcile with this Schedule.

### 3. PASS-THROUGH AGENCIES

The District receives certain federal grant as subawards from non-federal entities. Pass-through entities, where applicable, have been identified in the Schedule with an abbreviation, defined as follows:

Pass-through Agency Abbreviation	Pass-through Agency Name
MDE	Michigan Department of Education
MPS	Monroe Public Schools
WISD	Washtenaw Intermediate School District

### 4. ADJUSTMENT

The District incurred adjustments to the Adult Basic Education Instruction and the Institutional Adult programs to account for amounts that were required to be withheld during fiscal year 2010-2011, however these amounts were reported as expenditures on the 2010-2011 Schedule of Federal Expenditures, therefore overstating the expenditures. The adjustments are reflected in the current year.



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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 9, 2012

To the Board of Education  
Milan Area Schools  
Milan, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *Milan Area Schools* (the "District"), as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements of the District, and have issued our report thereon dated October 9, 2012. 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

Management of the Milan Area Schools District is responsible for establishing and maintaining effective 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 in 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*.

We noted certain other matters that we reported to management of the District in a separate letter dated October 9, 2012.

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

A handwritten signature in black ink that reads "Lehmann Lobson". The signature is written in a cursive style with a large initial 'L'.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT  
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

October 9, 2012

To the Board of Education  
Milan Area Schools  
Milan, Michigan

Compliance

We have audited the compliance of the Milan Area Schools (the "District") with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2012. The District's major federal programs are identified in the summary of auditors' 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, the Milan Area Schools complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

## 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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with 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.

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



# MILAN AREA SCHOOLS

## Schedule of Findings and Questioned Costs For the Year Ended June 30, 2012

### 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? \_\_\_\_\_ yes  X  none reported

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

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.553 and 10.555	Child Nutrition Cluster
84.410A	Education Jobs Fund
Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u> X </u> yes _____ no

### SECTION II - FINANCIAL STATEMENT FINDINGS

None reported

### SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported

# MILAN AREA SCHOOLS

## Summary Schedule of Prior Audit Findings For the Year Ended June 30, 2012

None reported

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