

Milan Area Schools

Year Ended
June 30, 2014

Financial
Statements and
Single Audit Act
Compliance

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MILAN AREA SCHOOLS

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INDEPENDENT AUDITORS' REPORT

October 22, 2014

To the Board of Education
Milan Area Schools
Milan, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Milan Area Schools* (the "District"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Milan Area Schools as of June 30, 2014, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Milan Area Schools' internal control over financial reporting and compliance.

Rehmann Lobson LLC

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MANAGEMENT'S DISCUSSION AND ANALYSIS

MILAN AREA SCHOOLS

Management's Discussion and Analysis

As management of Milan Area Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2014.

Financial Highlights

- The liabilities of the District exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by (\$19,026,477) (*net position*).
- The government's total net position decreased by \$2,776,540.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,853,450, an increase of \$462,988 in comparison with the prior year. Approximately 67% or \$1,903,914 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 \$1,466,487 or 6.77% 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 position* presents information on all of the District's assets, deferred outflows of resources and liabilities, with the net reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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, supporting services, community service, athletics and food service. The District has no business-type activities as of and for the year ending June 30, 2014.

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 five individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund and the 2002 and 2009 debt service funds, each of which are considered to be a major fund. Data from the two other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining fund financial statements elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. The budgetary comparison statement has 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 fund financial 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 position may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities exceeded assets and deferred outflows of revenues by (\$19,026,477) 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 total assets reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment). Net position invested in capital assets, net of related debt used to acquire those assets that are still outstanding, resulted in a deficit of \$20,673,690 at June 30, 2014. The District uses these capital assets to, provide services to the students it serves; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Net Position	
	Governmental Activities	
	2014	2013
Current and other assets	\$ 10,510,909	\$ 9,331,723
Capital assets, net	86,475,769	89,044,367
Total assets	<u>96,986,678</u>	<u>98,376,090</u>
Deferred charge on refunding	<u>1,349,142</u>	<u>1,499,047</u>
Other liabilities	4,661,959	3,933,727
Long-term liabilities	112,700,338	112,191,347
Total liabilities	<u>117,362,297</u>	<u>116,125,074</u>
Net position (deficit):		
Net investment in capital assets	(20,673,690)	(17,311,607)
Restricted	68,461	91,970
Unrestricted	1,578,752	969,700
Total net position (deficit)	<u><u>\$(19,026,477)</u></u>	<u><u>\$(16,249,937)</u></u>

The District currently has a negative net position balance. In other words, if all of the District's liabilities were due on June 30, 2014, liquidation of all capital assets would not be sufficient to meet our obligations.

It is not unusual for districts, such as Milan, that participate in the Michigan School Bond Loan Fund Program to achieve a negative net position 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 \$3,659,402, in 2013-2014. 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, 2014 is \$3,726,595. 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 Position.

MILAN AREA SCHOOLS

Management's Discussion and Analysis

Another component of long-term liabilities that reduces net position 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, 2014. That unlikely scenario creates an accrued liability of \$475,142.

In addition to total net position, another indicator of the District's financial position is unrestricted net position. The previous table reflects that unrestricted net position increased in 2013-2014, from \$969,700 to \$1,578,752. The positive balance indicates that funds are available for unrestricted activities at June 30, 2014.

The government's net position decreased by \$2,776,540 during the current fiscal year. While the first chart reflects the changes in assets and liabilities from 2012-2013 to 2013-2014, the next chart reflects the activities resulting in those changes.

	Changes in Net Position	
	Governmental Activities	
	2014	2013
Program revenues:		
Charges for services	\$ 1,052,252	\$ 983,427
Operating grants and contributions	4,762,737	4,504,725
General revenues:		
Property taxes	5,653,100	5,488,398
Unrestricted state aid	14,989,986	15,635,746
Grants and contributions not restricted to specific programs	930,133	1,720,957
Unrestricted investment earnings	18,069	558,831
Gain on sale of capital assets	-	5,550
Total revenues	<u>27,406,277</u>	<u>28,897,634</u>
Instruction	11,439,678	13,436,015
Supporting services	8,924,690	11,100,285
Community service	479,327	520,226
Athletics	475,069	453,991
Food service	711,726	756,544
Interest on long-term debt	5,373,071	5,747,332
Unallocated depreciation	2,779,256	2,768,715
Total expenses	<u>30,182,817</u>	<u>34,783,108</u>
Change in net position	(2,776,540)	(5,885,474)
Net position (deficit):		
Beginning of year	(16,249,937)	(10,364,463)
End of year	<u>\$ (19,026,477)</u>	<u>\$ (16,249,937)</u>

MILAN AREA SCHOOLS

Management's Discussion and Analysis

- Overall revenue decreased from 2012-2013 to 2013-2014. This is mostly due to a loss of students, a decrease in grant funding and a significant decrease in interest earnings. The decrease in interest earnings is almost largely due to interest paid relating to the 2002 debt fund in 2012-2013 that was due from previous years.
- Expenditures decreased during the same period. There were a couple of factors that contributed to the decrease in expenditures, the main one being a decrease in salaries and benefits due to right sizing of staff and pay concessions. The other significant decrease was in interest expense due to capital projects being completed.

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 \$2,853,450, an increase of \$462,988 in comparison with the prior year. Approximately 67% of this total amount (\$1,903,914) is available for spending. The remainder of fund balance is nonspendable because the underlying assets are included in inventory and prepaid expenses, or is restricted for food service and debt service, and are not available for current expenditure. The increase in fund balance is mostly due to the concessions given by employees in 2013-2014.

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 \$1,466,487, while total general fund balance was \$2,109,246. 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 6.77% of total general fund expenditures. This percentage is slightly higher than in 2012-2013. An unassigned fund balance of 10-12 % is generally recommended.

The fund balance of the District's general fund increased by \$530,099, during the current fiscal year. The unassigned fund balance decreased by \$728,116.

General Fund Budgetary Highlights

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

- Local revenue decreased by \$89,445 mainly due to property tax adjustments that came through during the year. We had a increase in state funding due to us having less of a student loss than expected. We also had a decrease in federal sources of \$143,170 due to decreases in federal grant funding.
- Expenses were decreased by \$1,051,105 due to more current information on the costs and implementing pay concessions by staff from contracts that were settled after original budget was completed.

MILAN AREA SCHOOLS

Management's Discussion and Analysis

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, 2014, amounted to \$86,475,769 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment and vehicles. This reflects an decrease of \$2,568,598 from the previous year.

There were no major capital asset events that took place during the current fiscal year.

Any increase to capital assets was offset by depreciation expense of \$2,779,256.

	Capital Assets (Net of Depreciation)	
	2014	2013
Capital assets not being depreciated -		
Land	\$ 1,607,945	\$ 1,607,945
Capital assets being depreciated:		
Land improvements	4,882,696	5,273,363
Buildings and improvements	78,502,368	80,553,255
Equipment	960,935	966,402
Vehicles	521,825	643,402
Total capital assets, net	<u>\$ 86,475,769</u>	<u>\$ 89,044,367</u>

Additional information on the District’s capital assets can be found in Note 5 to this report.

Long-term Debt. At the end of the current fiscal year, the District had total bonded debt outstanding of \$78,930,000. Also, there was an additional borrowing from the School Bond Loan Fund of \$3,659,402.

The District’s total bonded long-term debt decreased by \$3,190,000, (approximately 3.88%) during the current fiscal year.

Additional information on the District’s long term debt can be found in Note 8 to this report.

Factors Bearing on the District's Future

The following factors were also considered in preparing the District’s budget for the 2014-15 fiscal year:

- The State Aid Foundation Grant is projected to increase by \$100 per pupil and receive \$125 per pupil in equity funding.
- The District projected a loss of 80 students for the preliminary 2014-2015 budget.
- The retirement rate was budgeted at 31% to reflect an average of the retirement expense the District has to pay out on behalf of all of the staff and the different retirement plans that they choose. An additional 8.63% will have to be added to the revenue and expense budget for 2014-2015 to account for increased retirement costs that the State is offsetting the cost of through state aid.

MILAN AREA SCHOOLS

Management's Discussion and Analysis

- The State has again offered a per pupil monetary incentive, for districts who enact eight out of nine “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 transfer amount varies depending on how much expense is incurred by the food service fund and was \$41,749 in 2013-2014. We expect that the amount will be similar in 2014-2015.
- The District has settled with all bargaining groups.
- In light of the preceding information the District passed a balanced budget for 2014-2015. The District built in an estimate for minor increases for employees into budget figures. These figures will be adjusted to reflect the actual increases received.
- A significant change was negotiated to the teacher's contract for 2014-2015. The structure of the teacher's pay was changed completely and the entire step system was eliminated. Teacher's will now receive increases/decreases based on their effectiveness. The same kind of system was put in place for the administrators. The rest of the groups received a slight increase and steps. The formula was continued to compensate staff in the event that actual revenue was better than projected. For 2013-2014 the formula was enacted and the staff received 1.7% back. As of this writing, all unions are settled. All groups continue to contribute the same percentage of health insurance as they did in 2013-2014 at either 20% or 30% of the illustrative rates.
- 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 went "live" on the financial software on February 1, 2014. We are in the process of parallel testing on the payroll software and fully expect to "go live" on that on January 1, 2015.
- 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.
- Milan Area School District has been 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. Because of these sacrifices, we were able to increase our fund balance in 2013-2014 to a 9.8% fund balance. We will continue to do our best to keep as much money in the classroom as possible and continue to enhance 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 Position

June 30, 2014

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 2,511,012
Receivables	4,008,528
Prepaid items and other assets	3,991,369
Capital assets not being depreciated	1,607,945
Capital assets being depreciated, net	<u>84,867,824</u>
Total assets	<u>96,986,678</u>
Deferred outflows of resources	
Deferred charge on refunding	<u>1,349,142</u>
Liabilities	
Accounts payable and accrued liabilities	3,232,831
State aid note payable	1,312,087
Unearned revenue	117,041
Noncurrent liabilities:	
Due within one year	3,333,313
Due in more than one year	<u>109,367,025</u>
Total liabilities	<u>117,362,297</u>
Net position (deficit)	
Net investment in capital assets	(20,673,690)
Restricted for food service	68,461
Unrestricted	<u>1,578,752</u>
Total net position (deficit)	<u><u>\$ (19,026,477)</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, 2014

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instruction	\$ 11,439,678	\$ 545	\$ 4,326,925	\$ (7,112,208)
Supporting services	8,924,690	-	55,793	(8,868,897)
Community service	479,327	600,781	-	121,454
Athletics	475,069	101,955	-	(373,114)
Food service	711,726	348,971	380,019	17,264
Interest on long-term debt	5,373,071	-	-	(5,373,071)
Unallocated depreciation	2,779,256	-	-	(2,779,256)
Total governmental activities	\$ 30,182,817	\$ 1,052,252	\$ 4,762,737	(24,367,828)
General revenues:				
Property taxes				5,653,100
Unrestricted state aid				14,989,986
Grants and contributions not restricted to specific programs				930,133
Unrestricted investment earnings				18,069
Total general revenues				21,591,288
Change in net position				(2,776,540)
Net position (deficit), beginning of year				(16,249,937)
Net position (deficit), end of year				\$ (19,026,477)

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

MILAN AREA SCHOOLS

Balance Sheet Governmental Funds June 30, 2014

	General	2002 Debt Service	2009 Debt Service	Nonmajor Governmental Funds	Totals
Assets					
Cash and cash equivalents	\$ 1,915,427	\$ 537,353	\$ 39,640	\$ 18,592	\$ 2,511,012
Accounts receivable	279,664	-	-	60,567	340,231
Taxes receivable	11,695	82,288	16,462	-	110,445
Due from other governments	3,557,852	-	-	-	3,557,852
Due from other funds	14,872	-	-	-	14,872
Inventory	15,172	-	-	9,442	24,614
Prepaid items	190,160	-	-	50,000	240,160
Total assets	\$ 5,984,842	\$ 619,641	\$ 56,102	\$ 138,601	\$ 6,799,186
Liabilities					
Accounts payable	\$ 603,851	\$ -	\$ -	\$ 15,019	\$ 618,870
Accrued expenditures	87,772	-	-	-	87,772
Salaries and benefits payable	1,758,178	-	-	36,916	1,795,094
Note payable	1,312,087	-	-	-	1,312,087
Due to other funds	-	-	-	14,872	14,872
Unearned revenue	113,708	-	-	3,333	117,041
Total liabilities	3,875,596	-	-	70,140	3,945,736
Fund balances					
Nonspendable:					
Inventory	15,172	-	-	9,442	24,614
Prepaid items	190,160	-	-	50,000	240,160
Restricted for:					
Food service	-	-	-	9,019	9,019
Debt service	-	619,641	56,102	-	675,743
Assigned for:					
Curriculum	75,000	-	-	-	75,000
Technology	75,000	-	-	-	75,000
Buses	150,000	-	-	-	150,000
First Steps	4,239	-	-	-	4,239
Paddock Early Childhood Center	8,623	-	-	-	8,623
Summer camp	34,831	-	-	-	34,831
Athletics	39,734	-	-	-	39,734
Buildings and grounds	50,000	-	-	-	50,000
Unassigned	1,466,487	-	-	-	1,466,487
Total fund balances	2,109,246	619,641	56,102	68,461	2,853,450
Total liabilities and fund balances	\$ 5,984,842	\$ 619,641	\$ 56,102	\$ 138,601	\$ 6,799,186

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

MILAN AREA SCHOOLS

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2014

Fund balances - total governmental funds	\$ 2,853,450
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets	112,908,386
Accumulated depreciation	(26,432,617)
Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.	
Bonds, capital lease and loan fund payable	(108,797,249)
Unamortized loss on refunding	1,349,142
Unamortized bond discount	298,648
Accrued interest on bonds payable	(731,095)
Compensated absences	(475,142)
Net position (deficit) of governmental activities	<u>\$ (19,026,477)</u>

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

MILAN AREA SCHOOLS

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2014

	General	2002 Debt Service	2009 Debt Service	Nonmajor Governmental Funds	Totals
Revenues					
Local sources	\$ 4,279,023	\$ 3,147,060	\$ 633,853	\$ 349,192	\$ 8,409,128
State sources	16,931,250	-	-	30,269	16,961,519
Federal sources	772,441	-	913,439	349,750	2,035,630
Total revenues	21,982,714	3,147,060	1,547,292	729,211	27,406,277
Expenditures					
Education:					
Instruction	11,472,432	-	-	-	11,472,432
Supporting services	9,512,837	-	-	-	9,512,837
Food service	-	-	-	713,711	713,711
Athletics	476,062	-	-	-	476,062
Debt service:					
Principal	6,180	1,790,000	1,400,000	-	3,196,180
Interest	23,892	1,408,566	2,841,325	-	4,273,783
Capital outlay	165,425	-	-	-	165,425
Total expenditures	21,656,828	3,198,566	4,241,325	713,711	29,810,430
Revenue over (under) expenditures	325,886	(51,506)	(2,694,033)	15,500	(2,404,153)
Other financing sources (uses)					
Issuance of long-term debt	165,425	-	2,701,716	-	2,867,141
Transfers in	38,788	13,708	-	-	52,496
Transfers out	-	-	-	(52,496)	(52,496)
Total other financing sources (uses)	204,213	13,708	2,701,716	(52,496)	2,867,141
Net change in fund balances	530,099	(37,798)	7,683	(36,996)	462,988
Fund balances, beginning of year	1,579,147	657,439	48,419	105,457	2,390,462
Fund balances, end of year	\$ 2,109,246	\$ 619,641	\$ 56,102	\$ 68,461	\$ 2,853,450

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 Position of Governmental Activities
For the Year Ended June 30, 2014

Net change in fund balances - total governmental funds \$ 462,988

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

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

Capital outlay	210,658
Depreciation expense	(2,779,256)

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

Proceeds from issuance of long-term debt	(2,867,141)
Principal payments on long-term debt	3,196,180

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	(934,450)
Amortization of bond discount and loss on refunding	(164,838)
Change in the accrual for compensated absences	99,319

Change in net position of governmental activities \$ (2,776,540)

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

MILAN AREA SCHOOLS

Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual - General Fund For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Over (under) Final Budget
Revenues				
Local sources	\$ 4,344,707	\$ 4,255,262	\$ 4,279,023	\$ 23,761
State sources	15,713,251	17,021,888	16,931,250	(90,638)
Federal sources	987,291	844,121	772,441	(71,680)
Total revenues	21,045,249	22,121,271	21,982,714	(138,557)
Expenditures				
Instruction:				
Basic programs	8,551,240	9,638,382	9,720,575	82,193
Added needs	1,902,064	1,726,551	1,603,209	(123,342)
Adult and continuing education	138,668	154,828	148,648	(6,180)
Total instruction	10,591,972	11,519,761	11,472,432	(47,329)
Supporting services:				
Pupil services	2,776,192	2,497,243	2,492,929	(4,314)
Instructional support	972,513	958,876	762,976	(195,900)
General administration	420,116	430,165	430,291	126
School administration	1,207,093	1,229,153	1,181,835	(47,318)
Business services	331,973	364,650	323,244	(41,406)
Operations and maintenance	2,375,863	2,598,744	2,468,354	(130,390)
Transportation	1,078,183	1,150,297	999,217	(151,080)
Central support	299,171	304,209	290,972	(13,237)
Community service	574,507	578,340	563,019	(15,321)
Total supporting services	10,035,611	10,111,677	9,512,837	(598,840)
Athletics	467,090	484,268	476,062	(8,206)
Debt service -				
Principal	-	6,180	6,180	-
Interest and fiscal charges	-	23,892	23,892	-
Total debt service	-	30,072	30,072	-
Capital outlay	-	-	165,425	165,425
Total expenditures	21,094,673	22,145,778	21,656,828	(488,950)
Revenues over (under) expenditures	(49,424)	(24,507)	325,886	350,393

continued...

MILAN AREA SCHOOLS

Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual - General Fund For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Over (under) Final Budget
Other financing sources (uses)				
Issuance of long-term debt	-	-	165,425	165,425
Transfers in	50,000	44,000	38,788	(5,212)
Transfers out	(576)	(576)	-	576
Total other financing sources (uses)	49,424	43,424	204,213	160,789
Net change in fund balances	-	18,917	530,099	511,182
Fund balances, beginning of year	1,579,147	1,579,147	1,579,147	-
Fund balances, end of year	\$ 1,579,147	\$ 1,598,064	\$ 2,109,246	\$ 511,182

concluded.

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

MILAN AREA SCHOOLS

Statement of Fiduciary Net Position

June 30, 2014

	Private- Purpose Trust Fund	Agency Funds
	Scholarships	
Assets		
Cash and cash equivalents	\$ 12,640	<u>\$ 531,816</u>
Liabilities		
Due to student groups	<u>-</u>	<u>\$ 531,816</u>
Net position		
Unrestricted	<u>\$ 12,640</u>	

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

MILAN AREA SCHOOLS

Statement of Changes in Fiduciary Net Position

Private-Purpose Trust Fund

For the Year Ended June 30, 2014

	Scholarships
Additions	
Earnings on deposits and investments	\$ 1
Deductions	
Scholarships	<u>1,600</u>
Change in net position	(1,599)
Net position, beginning of year	<u>14,239</u>
Net position, end of year	<u><u>\$ 12,640</u></u>

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

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NOTES TO FINANCIAL STATEMENTS

MILAN AREA SCHOOLS

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Milan Area Schools (the “District”) 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 position 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 2014.

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, 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 *2002 debt service fund* is used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest in relation to the 2002 bonds.

The *2009 debt service fund* is used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest 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, Deferred Outflows of Resources, 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.

MILAN AREA SCHOOLS

Notes to Financial Statements

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).

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 government-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

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/ expenditure) until then. The District only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

MILAN AREA SCHOOLS

Notes to Financial Statements

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 government-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.

Long-term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net position. Where applicable, bond premiums and discounts 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 when incurred.

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. The Board of Education has delegated the authority to assign fund balance to the Superintendent or his/her designee. *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.

MILAN AREA SCHOOLS

Notes to Financial Statements

2. BUDGETARY INFORMATION

The general and special revenue fund 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 fund are adopted on a functional basis.

All annual appropriations lapse at fiscal year end.

During the year ended June 30, 2014, the government incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control as follows:

	Final Budget	Actual	Variance
General fund:			
Instruction - basic programs	\$ 9,638,382	\$ 9,720,575	\$ 82,193
Supporting services - general administration	430,165	430,291	126
Capital outlay	-	165,425	165,425

3. DEPOSITS AND INVESTMENTS

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

Statement of Net Position	
Cash and cash equivalents	\$ 2,511,012
Statement of Fiduciary Net Position	
Cash and cash equivalents	<u>544,456</u>
Total	<u>\$ 3,055,468</u>
Deposits and investments	
Cash on hand	\$ 270
Deposits (checking accounts and certificates of deposit)	1,781,427
Investments	<u>1,273,771</u>
Total	<u>\$ 3,055,468</u>

MILAN AREA SCHOOLS

Notes to Financial Statements

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.

Investments

The District chooses to disclose its investments by specific identification. As of year end, the District had the following investments:

Investment	Maturity	Fair Value	Rating
Michigan Liquid Asset Fund (MILAF)	n/a	\$ 839,595	S&P AAAM
Money Market	n/a	434,176	Not rated
		<u>\$ 1,273,771</u>	

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.

MILAN AREA SCHOOLS

Notes to Financial Statements

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District’s investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

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, \$1,493,007 of the District’s bank balance of \$1,786,223 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk - Investments. 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. The investments listed above are not subject to custodial credit risk.

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. All investments held at year-end are reported above.

4. RECEIVABLES

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

	General	2002 Debt Service	2009 Debt Service	Nonmajor Governmental Funds	Totals
Accounts receivable	\$ 279,664	\$ -	\$ -	\$ 60,567	\$ 340,231
Taxes receivable	11,695	82,288	16,462	-	110,445
Due from other governments	3,557,852	-	-	-	3,557,852
	<u>\$ 3,849,211</u>	<u>\$ 82,288</u>	<u>\$ 16,462</u>	<u>\$ 60,567</u>	<u>\$ 4,008,528</u>

MILAN AREA SCHOOLS

Notes to Financial Statements

5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2014 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets not being depreciated -				
Land	\$ 1,607,945	\$ -	\$ -	\$ 1,607,945
Capital assets being depreciated:				
Land improvements	9,237,703	-	-	9,237,703
Buildings and improvements	97,562,403	21,417	-	97,583,820
Equipment	2,795,469	189,241	-	2,984,710
Vehicles	1,494,208	-	-	1,494,208
	<u>111,089,783</u>	<u>210,658</u>	<u>-</u>	<u>111,300,441</u>
Less accumulated depreciation for:				
Land improvements	3,964,340	390,667	-	4,355,007
Buildings and improvements	17,009,148	2,072,304	-	19,081,452
Equipment	1,829,067	194,708	-	2,023,775
Vehicles	850,806	121,577	-	972,383
	<u>23,653,361</u>	<u>2,779,256</u>	<u>-</u>	<u>26,432,617</u>
Total capital assets being depreciated, net	<u>87,436,422</u>	<u>(2,568,598)</u>	<u>-</u>	<u>84,867,824</u>
Governmental activities capital assets, net	<u>\$ 89,044,367</u>	<u>\$ (2,568,598)</u>	<u>\$ -</u>	<u>\$ 86,475,769</u>

Depreciation expense of \$2,779,256 was charged to the function "Unallocated Depreciation," and not allocated to other functions.

MILAN AREA SCHOOLS

Notes to Financial Statements

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	Other Governmental Funds	Totals
Fund Financial Statements:			
Accounts payable	\$ 603,851	\$ 15,019	\$ 618,870
Accrued expenditures	87,772	-	87,772
Salaries and benefits payable	1,758,178	36,916	1,795,094
	<u>\$ 2,449,801</u>	<u>\$ 51,935</u>	2,501,736
Government-wide Financial Statements -			
Accrued interest on long-term debt			<u>731,095</u>
			<u>\$ 3,232,831</u>

7. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

At June 30, 2014, interfund receivables and payables consisted of the following:

	Due from Other Funds	Due to Other Funds
General fund	\$ 14,872	\$ -
Nonmajor governmental funds	-	14,872
	<u>\$ 14,872</u>	<u>\$ 14,872</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.

For the year ended June 30, 2014, interfund transfers consisted of the following:

	Transfers out	Transfers in
General fund	\$ -	\$ 38,788
2002 debt service fund	-	13,708
Nonmajor governmental funds	52,496	-
	<u>\$ 52,496</u>	<u>\$ 52,496</u>

MILAN AREA SCHOOLS

Notes to Financial Statements

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

For the year ended June 30, 2014, the District transferred funds from the food service fund to the general fund to cover certain allocable costs and transferred funds from one debt service fund to another to close it out.

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, 2014:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds	\$ 82,120,000	\$ -	\$ 3,190,000	\$ 78,930,000	\$ 3,295,000
Less -					
Unamortized bond discount	(313,581)	-	(14,933)	(298,648)	-
Interest rate swap	3,761,865	-	35,270	3,726,595	-
Capital lease	-	165,425	6,180	159,245	38,313
School bond loan fund	26,048,602	3,659,402	-	29,708,004	-
Compensated absences	574,461	-	99,319	475,142	-
	<u>\$ 112,191,347</u>	<u>\$ 3,824,827</u>	<u>\$ 3,315,836</u>	<u>\$ 112,700,338</u>	<u>\$ 3,333,313</u>

Compensated absences are typically liquidated by the general fund.

Bonds payable consist of the following issues:

General obligation bonds:

2002 Refunding Bonds, due in annual installments of \$1,520,000 to \$2,290,000 through 2030; interest at 4.418%	\$ 36,480,000
2009 Bonds, due in annual installments of \$1,310,000 to \$3,100,000 through 2034, interest at 2.5% to 7.1%.	<u>42,450,000</u>
Total general obligation bonds	<u><u>\$ 78,930,000</u></u>

MILAN AREA SCHOOLS

Notes to Financial Statements

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, 2014, the swap's notional amount of \$36,480,000 matched the \$36,480,000 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, 2014. At June 30, 2014, the SIFMA swap had a negative fair value of \$3,726,595, which was recorded in other long-term liabilities on the statement of net position. 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 position.

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, 2014. 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, 2014, 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.

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.

MILAN AREA SCHOOLS

Notes to Financial Statements

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

Year Ended June 30,	Principal	Interest	Total
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	3,705,000	3,016,913	6,721,913
2019	3,850,000	2,865,519	6,715,519
2020-2024	21,270,000	11,783,237	33,053,237
2025-2029	23,315,000	6,935,371	30,250,371
2030-2034	16,490,000	2,126,004	18,616,004
Totals	\$ 78,930,000	\$ 36,590,894	\$ 115,520,894

Capital Leases

The capital lease obligation is for copiers. The lease requires monthly installments of \$3,855 (including interest) to be paid beginning May 2014 and ending February 2018. This lease agreement qualifies as a capital lease for accounting purposes, and therefore, has been recorded at the present value of the future minimum lease payments as of the inception date.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2014, are as follows:

Year Ended June 30,	Amount
2015	\$ 46,257
2016	46,257
2017	46,257
2018	38,548
	<u>177,319</u>
Less amount representing interest	<u>(18,074)</u>
Total	\$ 159,245

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, 2014, are as follows:

	Principal	Interest	Total
Beginning balance	\$ 21,762,207	\$ 4,286,395	\$ 26,048,602
Additions	2,701,716	957,686	3,659,402
Ending balance	\$ 24,463,923	\$ 5,244,081	\$ 29,708,004

MILAN AREA SCHOOLS

Notes to Financial Statements

At June 30, 2014, the balance of the year 2000 bonds considered to be defeased is \$35,090,000.

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, 2014, were as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
State aid note	\$ 143,428	\$ 2,516,821	\$ 1,348,162	\$ 1,312,087

10. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2014, was as follows:

Capital assets, net	\$ 86,475,769
Bonds and related debt payable	(108,797,249)
Unamortized bond discount	298,648
Deferred charge on refunding	1,349,142
Net investment in capital assets	<u>\$ (20,673,690)</u>

11. 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:

	2014	2013
Accrued claims, beginning of year	\$ 87,000	\$ 87,000
Incurred claims	453,686	521,590
Claim payments	<u>(453,686)</u>	<u>(521,590)</u>
Accrued claims, end of year	<u>\$ 87,000</u>	<u>\$ 87,000</u>

MILAN AREA SCHOOLS

Notes to Financial Statements

12. 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. 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.

13. RETIREMENT PLAN

Plan Description

The District contributes to the Michigan Public School Employees Retirement System (MPSERS), a collection of several retirement plans administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPSERS provides retirement, survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute. The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees' Retirement System, 7150 Harris Drive, P.O. Box 30026, Lansing, Michigan, 48909 or by calling (517) 322-5103.

Funding Policy

Defined Benefit Plans

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: 3.0 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. Basic 4% and MIP 7% members contribute 4 percent and 7 percent of pretax salary, respectively. Based on the option selected at enrollment, these individuals contribute at a fixed rate until termination of employment or until reaching 30 years of service. At that time, based on the option selected, employee contributions are no longer required or revert to the contribution requirements under the MIP plan in which the employee initially enrolled.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree healthcare benefits on a cash disbursement basis. The rates for the year ended June 30, 2014 as a percentage of payroll ranged from 24.32 to 24.79 percent. In addition, the District is invoiced monthly an amount that approximates 4.56 percent of covered payroll for "MPSERS UAAL Stabilization." This additional contribution is offset by monthly State aid payments equal to the amounts actually billed by the Office of Retirement Services.

MILAN AREA SCHOOLS

Notes to Financial Statements

Hybrid Plans

Members hired between July 1, 2010 and September 3, 2012 are enrolled in the Pension Plus plan. Members hired on or after September 4, 2012 are automatically enrolled in this plan unless an election is made to participate in the defined contribution plan (described below). Participant contributions contain a pension component as well as a savings component. The pension component is based on the following pretax 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. For the savings component, participants contribute 2 percent of gross pay to a 457 plan. Member contributions for the savings component are matched at a rate of 50 percent by the employer, up to a maximum of one percent and invested in a 401(k) plan.

Effective February 1, 2013, members that initially enrolled in the defined benefit plan were provided the option to convert to a defined contribution plan. In these instances, any service credit accumulated under the defined benefit plan before February 1, 2013 is retained. For service performed after this date, the converted plan member receives 4 percent employer contributions to a personal 401(k) account.

Voluntary employee contributions are permitted in accordance with IRS guidelines. Employer contributions for the pension component of the plan vest at 10 years of service. Employer contributions for the savings component and earnings thereon vest based on the following schedule: 50 percent at 2 years of service, 75 percent at 3 years of service, and 100 percent at 4 years of service. Any voluntary contributions vest with the employee immediately. If a member participating in the hybrid plan retires with certain age and service requirements, he or she will receive a monthly pension based on compensation received before February 1, 2013.

Defined Contribution Plan

A member first enrolling in MPSERS on or after September 4, 2012 is automatically enrolled in the defined contribution plan. Employer and employee contribution rates and vesting requirements are consistent with the defined contribution component of the hybrid plan as described above.

Required Contributions

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 MPSERS under all plans for the years ended June 30, 2014, 2013, and 2012 were \$4,207,286, \$3,578,472, and \$3,317,464, respectively, equal to the required contributions for each year.

Other Postemployment Benefits

Retirees enrolled in MPSERS before September 4, 2012 have the option of participating in the Premium Subsidy plan, a defined benefit postemployment healthcare plan, which is funded by employers on a cash disbursement basis. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension. Plan participants contribute 3 percent of covered payroll to the Retiree Healthcare Fund. At retirement, these individuals receive a subsidy for healthcare premiums that cover up to 80 percent of cost.

MILAN AREA SCHOOLS

Notes to Financial Statements

Plan members enrolled on or after September 4, 2012 participate in the Personal Healthcare Fund. This defined contribution other postemployment benefits plan includes a required 2 percent employee contribution into a personal tax-deferred account, which is matched by an additional 2 percent employer contribution. Employees are fully vested in these contributions which can be used, along with earnings thereon, to pay for postemployment healthcare expenses. Plan members working prior to September 4, 2012 were given the option to convert from the Premium Subsidy plan to the Personal Healthcare Fund option. Effective February 1, 2013, these members are no longer required to make the 3 percent employee contribution. Amounts paid into the Retiree Healthcare Fund between September 4, 2012 and February 1, 2013 were credited to each individual's Personal Healthcare Fund account. Any contributions made prior to September 4, 2012 are pending a Supreme Court resolution.

The District's contributions to MPSERS for other postemployment benefits are not separately identified and are included in the contribution amounts disclosed above.

14. SUBSEQUENT EVENT

On August 20, 2014, the District issued a state aid note in the amount of \$1,500,000 with an interest rate of .42% which the District will pay in set asides beginning in March of 2015 through August of 2015. On August 20, 2014, the District also issued additional state aid notes in the amounts of \$550,000 and \$450,000 with interest rates of 1.05% and 1.235%, respectively, which are due August 20, 2015.

15. EFFECT OF UPCOMING CHANGES IN ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board has issued GASB Statement No. 68, Accounting and Financial Reporting for Pensions, which will be effective for the District's fiscal year ending June 30, 2015. This statement will require the recognition of a "net pension liability" on the statement of net position, equal to the unfunded portion of the District's defined benefit pension plan, as defined and calculated in accordance with the new standard. While the exact amount of this liability is not readily determinable at this time, management estimates that it may approximate \$37,519,000. GASB 68 will require the net pension liability to be recorded for the year ending June 30, 2015, by restating beginning net position as of July 1, 2014.



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**COMBINING FUND
FINANCIAL STATEMENTS**

MILAN AREA SCHOOLS

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2014

	Special Revenue	Debt Service	
	Food Service	2003 Debt Service	Total
Assets			
Cash and cash equivalents	\$ 18,592	\$ -	\$ 18,592
Accounts receivable	60,567	-	60,567
Inventory	9,442	-	9,442
Prepaid items	50,000	-	50,000
Total assets	\$ 138,601	\$ -	\$ 138,601
Liabilities			
Accounts payable	\$ 15,019	\$ -	\$ 15,019
Salaries and benefits payable	36,916	-	36,916
Due to other funds	14,872	-	14,872
Unearned revenue	3,333	-	3,333
Total liabilities	70,140	-	70,140
Fund balances			
Nonspendable:			
Inventory	9,442	-	9,442
Prepaid items	50,000	-	50,000
Restricted	9,019	-	9,019
Total fund balances	68,461	-	68,461
Total liabilities and fund balances	\$ 138,601	\$ -	\$ 138,601

MILAN AREA SCHOOLS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended June 30, 2014

	Special Revenue	Debt Service	
	Food Service	2003 Debt Service	Total
Revenues			
Local sources:			
Taxes	\$ -	\$ 214	\$ 214
Food sales	348,611	-	348,611
Other local revenue	360	7	367
State aid	30,269	-	30,269
Federal sources	349,750	-	349,750
Total revenues	728,990	221	729,211
Expenditures			
Food service activities	713,711	-	713,711
Revenue over expenditures	15,279	221	15,500
Other financing uses			
Transfers out	(38,788)	(13,708)	(52,496)
Net change in fund balances	(23,509)	(13,487)	(36,996)
Fund balances, beginning of year	91,970	13,487	105,457
Fund balances, end of year	\$ 68,461	\$ -	\$ 68,461

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SINGLE AUDIT ACT COMPLIANCE

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INDEPENDENT AUDITORS' REPORT
ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY OMB CIRCULAR A-133

October 22, 2014

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 *Milan Area Schools* (the "District") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated [TBD], which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is 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 basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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MILAN AREA SCHOOLS

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2014

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Approved Awards Amount
U.S. Department of Agriculture				
Nutrition Cluster:				
Non-Cash Assistance:				
Food Distribution Entitlement	10.555	MDE	-n/a-	\$ 47,320
Cash Assistance:				
National School Breakfast Program	10.553	MDE	131970	4,018
National School Breakfast Program	10.553	MDE	141970	40,334
National School Lunch Program	10.555	MDE	131960	28,469
National School Lunch Program	10.555	MDE	141960	229,608
Total U.S. Department of Agriculture - Nutrition Cluster				
U.S. Department of Education				
Adult Basic Education Instruction	84.002A	MDE	131130-131667	15,000
Institutional Adults	84.002A	MDE	131190-131667	70,000
Adult Basic Education Instruction	84.002	MDE	141130-141667	15,000
Institutional Adults	84.002	MDE	141190-141667	65,000
Title I Cluster:				
Title I, Part A - Improving Basic Programs	84.010	MDE	131530-1213	197,983
Title I, Part A - Improving Basic Programs	84.010	MDE	141530-1314	199,185
Title II:				
Title II, Part A - Improving Teacher Quality	84.367	MDE	130520-1213	87,231
Title II, Part A - Improving Teacher Quality	84.367	MDE	130520-1314	84,386
Title III - English Language Acquisition	84.365A	MPS	140580-1314	11,781

(Memo Only) Prior Year Expenditures	Accrued (Unearned) Revenue at July 1, 2013	Current Year Receipts	Current Year Expenditures	Accrued (Unearned) Revenue at June 30, 2014
\$ 53,780	\$ -	\$ 47,320	\$ 47,320	\$ -
37,641	-	4,018	4,018	-
-	-	31,551	40,335	8,784
240,614	-	28,469	28,469	-
-	-	183,648	229,608	45,960
<u>332,035</u>	<u>-</u>	<u>295,006</u>	<u>349,750</u>	<u>54,744</u>
15,000	1,983	1,983	-	-
69,730	15,212	15,212	-	-
-	-	-	15,000	15,000
-	-	-	65,000	65,000
<u>84,730</u>	<u>17,195</u>	<u>17,195</u>	<u>80,000</u>	<u>80,000</u>
190,987	86,156	91,007	4,851	-
-	-	86,462	169,152	82,690
<u>190,987</u>	<u>86,156</u>	<u>177,469</u>	<u>174,003</u>	<u>82,690</u>
54,514	7,138	7,138	-	-
-	-	26,531	46,177	19,646
<u>54,514</u>	<u>7,138</u>	<u>33,669</u>	<u>46,177</u>	<u>19,646</u>
-	-	-	10,060	10,060

continued...

MILAN AREA SCHOOLS

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2014

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Approved Awards Amount
U.S. Department of Education (concluded)				
Special Education Cluster:				
IDEA Flow-through	84.027A	WISD	130450-1213	\$ 516,313
IDEA Flow-through	84.027A	WISD	130460-1213	5,053
IDEA Flow-through	84.027A	WISD	140450-1314	451,406
IDEA Pre-school Grant	84.173A	WISD	140460-1314	12,220
Total U.S. Department of Education				
Total Federal Financial Assistance				

See notes to schedule of expenditures of federal awards.

(Memo Only) Prior Year Expenditures	Accrued (Unearned) Revenue at July 1, 2013	Current Year Receipts	Current Year Expenditures	Accrued (Unearned) Revenue at June 30, 2014
\$ 498,891	\$ 215,465	\$ 215,465	\$ -	\$ -
13,951	-	17,422	17,422	-
-	-	277,085	432,559	155,474
-	-	12,220	12,220	-
<u>512,842</u>	<u>215,465</u>	<u>522,192</u>	<u>462,201</u>	<u>155,474</u>
<u>843,073</u>	<u>325,954</u>	<u>750,525</u>	<u>772,441</u>	<u>347,870</u>
<u>\$ 1,175,108</u>	<u>\$ 325,954</u>	<u>\$ 1,045,531</u>	<u>\$ 1,122,191</u>	<u>\$ 402,614</u>

concluded.

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 Milan Area Schools (the "District") under programs of the federal government for the year ended June 30, 2014. 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 modified 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. RECONCILIATION OF REVENUE ON FINANCIAL STATEMENTS TO EXPENDITURES OF FEDERAL AWARDS

Federal revenue reported on the Statement of Revenues, Expenditures and Changes in Fund Balances	\$ 2,035,630
Less: Revenue from federal government paid directly for interest on long-term debt not considered to be federal expenditures	<u>(913,439)</u>
Total expenditures of federal awards	<u><u>\$ 1,122,191</u></u>

MILAN AREA SCHOOLS

Notes to Schedule of Expenditures of Federal Awards

4. 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



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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 22, 2014

To the Board of Education
Milan Area Schools
Milan, Michigan

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Milan Area Schools* (the "District"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 22, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District’s financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

October 22, 2014

To the Board of Education
Milan Area Schools
Milan, Michigan**Report on Compliance for the Major Federal Program**

We have audited the compliance of *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 the District's major federal program for the year ended June 30, 2014. The District's major federal program IS identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Independent Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the District's major federal program based on our audit of the types of compliance requirements referred to above. 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 the 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on the Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



MILAN AREA SCHOOLS

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2014

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

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: Unmodified

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:

CFDA Number

10.553 & 10.555

Name of Federal Program or Cluster

Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

X yes _____ no

MILAN AREA SCHOOLS

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

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MILAN AREA SCHOOLS

Summary Schedule of Prior Audit Findings For the Year Ended June 30, 2014

None reported.

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