

Milan Area Schools

Year Ended
June 30, 2016

Financial
Statements and
Single Audit Act
Compliance

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MILAN AREA SCHOOLS

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INDEPENDENT AUDITORS' REPORT

October 25, 2016

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, 2016, 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, 2016, and the respective changes in financial position thereof and the 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 and the schedules for the pension plan, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2016 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.



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, 2016.

Financial Highlights

· Total net position	\$(52,106,701)
· Change in total net position	(2,289,316)
· Fund balances, governmental funds	3,810,691
· Change in fund balances, governmental funds	180,388
· Unassigned fund balance, general fund	2,131,823
· Change in fund balance, general fund	39,560
· Installment debt outstanding	107,392,967
· Change in installment debt	(1,480,245)

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) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

The *statement of net position* presents information on all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, 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 had no business-type activities during the current year.

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.

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Management's Discussion and Analysis

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 funds balance sheet and the governmental funds 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 four 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 for the food service special revenue fund is also presented separately and is considered to be the only nonmajor fund of the District.

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. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This is limited to this management's discussion and analysis and the schedules for the MPSERS pension plan 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 and deferred inflows of resources exceeded assets and deferred outflows of resources by \$52,106,701 at the close of the most recent fiscal year.

MILAN AREA SCHOOLS

Management's Discussion and Analysis

Net position invested in capital assets, net of related debt used to acquire those assets that are still outstanding, resulted in a net position of \$4,838,938 at June 30, 2016. 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	
	2016	2015
Current and other assets	\$ 8,278,600	\$ 7,766,721
Capital assets, net	81,322,243	83,942,367
Total assets	89,600,843	91,709,088
Deferred outflows of resources	12,970,192	9,810,835
Other liabilities	41,286,772	34,617,154
Long-term liabilities	113,271,546	113,428,592
Total liabilities	154,558,318	148,045,746
Deferred inflows of resources	119,418	3,291,562
Net position:		
Net investment in capital assets	4,838,938	5,436,124
Restricted	191,490	110,121
Unrestricted (deficit)	(57,137,129)	(55,363,630)
Total net position	\$(52,106,701)	\$(49,817,385)

The District currently has a negative net position balance. In other words, if all of the District's liabilities were due on June 30, 2016, liquidation of all 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 (the "Fund") 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 change in long-term liabilities above reflects borrowings from the Fund of \$1,700,269, which includes \$679,256 of principal and \$1,021,013 of interest. Additionally, \$34,815,000 was refunded in 2015-2016. This refunding will allow the District to save the taxpayers around \$1.7M. The District will continue to levy 13 mills, as mandated by the state, until the year 2038. It is expected that the tax revenues will exceed the scheduled debt payments during that time period and at that point, the District will begin repaying the School Bond Loan Fund.

Included in long-term liabilities is the current value of the interest rate swap on the 2002 Bonds. The liability at June 30, 2016 is \$5,521,003. 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.

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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, 2016. That unlikely scenario creates an accrued liability of \$626,360.

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 decreased in 2015-2016, from a negative \$55,363,630 to negative \$57,137,129. The negative balance is mainly related to the implementation of GASB 68 to record the District's proportionate share of the MPSERS net pension liability.

The government's net position decreased by \$2,289,316 during the current fiscal year. While the first chart reflects the changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources from 2014-2015 to 2015-2016, the next chart reflects the activities resulting in those changes.

	Changes in Net Position	
	Governmental Activities	
	2016	2015
Program revenues:		
Charges for services	\$ 1,215,597	\$ 1,090,225
Operating grants and contributions	5,775,869	5,589,047
General revenues:		
Property taxes	7,887,089	6,082,447
Unrestricted state aid	15,359,976	15,149,281
Grants and contributions not restricted to specific programs	872,321	1,179,198
Unrestricted investment earnings	230,049	113,758
Total revenues	31,340,901	29,203,956
Expenses:		
Instruction	13,168,858	11,595,602
Supporting services	10,224,268	9,368,041
Community service	775,678	528,417
Athletics	524,091	443,597
Food service	746,871	761,311
Interest on long-term debt	5,396,550	5,467,705
Unallocated depreciation	2,793,901	2,732,642
Total expenses	33,630,217	30,897,315
Change in net position	(2,289,316)	(1,693,359)
Net position:		
Beginning of year	(49,817,385)	(19,026,477)
Restatement for implementation of GASB 68	-	(29,097,549)
End of year	<u><u>\$ (52,106,701)</u></u>	<u><u>\$ (49,817,385)</u></u>

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Management's Discussion and Analysis

- Overall revenue increased from 2014-2015 to 2015-2016. The majority of the revenue increase is due to an increase in retirement cost offset, which also increases the expenses.
- Expenditures increased during the same period. The main factor that contributed to the increase in expenditures was an increase in salaries and benefits, due to increase in funding and due to the increase in retirement cost offset as mentioned above.

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 \$3,810,691, an increase of \$180,388 in comparison with the prior year. Approximately 56% of this total amount (\$2,131,823) is unassigned fund balance. The remainder of fund balance is nonspendable because the underlying assets are included in inventory and prepaid items, is assigned because the amounts are constrained by the District's intent to be used for specific purposes, or is restricted for food service and debt service, and not available for current expenditure. The fund balance increase is mostly in the debt funds and that is due to the two refundings that were done in 2015-2016. The addition to the general fund balance is very small.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,131,823, while the total fund balance for the general fund is \$2,853,316. 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 8.9% of total general fund expenditures. This percentage is slightly lower than in 2014-2015. An unassigned fund balance of 10-12% is generally recommended.

The fund balance of the District's general fund increased by \$39,560, during the current fiscal year. The unassigned fund balance decreased by \$28,886.

General Fund Budgetary Highlights

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

- Revenues increased by \$1,028,850 mainly due to several things that were not known at the time of the original budget. A large portion is due to retirement offset increases, grant increases, and prior year state aid adjustments.
- Expenditures and transfers out were increased by \$1,032,064 due to more current information being available due to contracts being settled after original budget was adopted. The majority of the increase was due to salary and benefits that were increased in union contracts. There was also an increase in retirement cost offset and grant expenses.

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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, 2016, amounted to \$81,322,243 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, equipment and vehicles. This reflects an decrease of \$2,620,124 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 \$2,793,901.

	Capital Assets (Net of Depreciation)	
	2016	2015
Capital assets not being depreciated -		
Land	\$ 1,607,945	\$ 1,607,945
Capital assets being depreciated:		
Land improvements	4,206,235	4,563,992
Buildings and improvements	74,423,098	76,449,897
Equipment	605,506	807,299
Vehicles	479,459	513,234
Total capital assets, net	<u>\$ 81,322,243</u>	<u>\$ 83,942,367</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 \$107,310,000. The change in long-term liabilities reflects borrowings from the School Bond Loan Fund of \$1,700,269. Additionally, \$34,815,000 of School Bond Loan Fund borrowings were refunded, as were \$34,625,000 of 2002 refunding bonds.

The District's total bonded long-term debt increased by \$31,675,000, (approximately 41.88%) 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 2016-17 fiscal year:

- The State Aid Foundation Grant is projected to increase by \$120 per pupil. The preliminary budget was based on a \$90 per student increase. The \$30 difference will be added in future amendments.
- The District projected a loss of 45 students for the preliminary 2016-2017 budget. Most of this was due to a larger graduating class than incoming kindergartners. Since the preliminary budget was prepared, the student count is looking much more promising based on preliminary count numbers.

MILAN AREA SCHOOLS

Management's Discussion and Analysis

- The retirement rate was budgeted at 34% 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. This included an additional 10.53% that has to be included in the revenue and expense budget for 2016-2017 to account for UAAL Stabilization costs that the District is charged and then the state is offsetting through state aid. These figures will be adjusted further in future amendments.
- Beginning in 2009-2010 the food service fund started transferring \$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 approximately \$44,000 in 2015-2016. We expect that the amount will be similar in 2016-2017.
- The District has settled with all bargaining groups.
- In light of the preceding information the District is planning on a small use of fund balance for 2016-2017. The District did not build in increases for employees into the preliminary budget figures. These figures will be adjusted to reflect the actual increases received.
- The District negotiated a significant change to the teacher's contract in 2014-2015. In 2015-2016, the basic structure was kept. Teacher's will continue to receive increases/decreases based on their effectiveness. The contracts for administrators remains similar to 2015-2016. The rest of the groups received a slight increase and steps depending on the group. All groups received off scale compensation payments in 2015-2016 and will receive another off scale compensation again in 2016-2017. As of this writing, all unions are settled. All groups continue to contribute the same percentage of health insurance as they did in 2015-2016 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 shared costs in many areas in the past including internet costs, software implementations, student databases and other.
- 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.
- Because of the sacrifices of all of the staff in Milan Area Schools over the last several years, we were able to increase our fund balance again in 2015-2016 to an 11.96% total fund balance while not having to ask for further concessions or cuts to the classrooms or facilities. 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, 2016

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 3,580,114
Receivables	4,322,658
Prepaid items and other assets	375,828
Capital assets not being depreciated	1,607,945
Capital assets being depreciated, net	<u>79,714,298</u>
Total assets	<u>89,600,843</u>
Deferred outflows of resources	
Deferred charge on refunding	1,049,332
Deferred interest rate swap	5,521,003
Deferred pension amounts	<u>6,399,857</u>
Total deferred outflows of resources	<u>12,970,192</u>
Liabilities	
Accounts payable and accrued liabilities	3,871,922
State aid note payable	1,313,239
Unearned revenue	48,633
Noncurrent liabilities:	
Due within one year	3,597,910
Due in more than one year	109,673,636
Net pension liability	<u>36,052,978</u>
Total liabilities	<u>154,558,318</u>
Deferred inflows of resources	
Deferred pension amounts	<u>119,418</u>
Net position	
Net investment in capital assets	4,838,938
Restricted for food service	60,400
Restricted for debt service	131,090
Unrestricted (deficit)	<u>(57,137,129)</u>
Total net position	<u>\$ (52,106,701)</u>

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

MILAN AREA SCHOOLS

Statement of Activities

For the Year Ended June 30, 2016

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instruction	\$ 13,168,858	\$ -	\$ 5,299,839	\$ (7,869,019)
Supporting services	10,224,268	-	71,963	(10,152,305)
Community service	775,678	778,494	-	2,816
Athletics	524,091	71,504	-	(452,587)
Food service	746,871	365,599	404,067	22,795
Interest on long-term debt	5,396,550	-	-	(5,396,550)
Unallocated depreciation	2,793,901	-	-	(2,793,901)
Total governmental activities	\$ 33,630,217	\$ 1,215,597	\$ 5,775,869	(26,638,751)
General revenues:				
Property taxes				7,887,089
Unrestricted state aid				15,359,976
Grants and contributions not restricted to specific programs				872,321
Unrestricted investment earnings				230,049
Total general revenues				24,349,435
Change in net position				(2,289,316)
Net position, beginning of year				(49,817,385)
Net position, end of year				\$ (52,106,701)

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

MILAN AREA SCHOOLS

Balance Sheet

Governmental Funds
June 30, 2016

	General	2002 Debt Service	2009 Debt Service	Nonmajor Food Service	Totals
Assets					
Cash and cash equivalents	\$ 2,722,932	\$ 617,470	\$ 204,445	\$ 35,267	\$ 3,580,114
Accounts receivable	267,778	-	-	32,253	300,031
Taxes receivable	62,029	72,703	58,749	-	193,481
Due from other governments	3,829,146	-	-	-	3,829,146
Due from other funds	76,370	-	-	-	76,370
Inventory	18,551	-	-	5,107	23,658
Prepaid items	302,170	-	-	50,000	352,170
Total assets	\$ 7,278,976	\$ 690,173	\$ 263,194	\$ 122,627	\$ 8,354,970
Liabilities					
Accounts payable	\$ 720,124	\$ -	\$ -	\$ 11,061	\$ 731,185
Accrued liabilities	491,467	-	-	-	491,467
Salaries and benefits payable	1,852,197	-	-	31,188	1,883,385
State aid note payable	1,313,239	-	-	-	1,313,239
Due to other funds	-	32,432	23,960	19,978	76,370
Unearned revenue	48,633	-	-	-	48,633
Total liabilities	4,425,660	32,432	23,960	62,227	4,544,279
Fund balances					
Nonspendable:					
Inventory	18,551	-	-	5,107	23,658
Prepaid items	302,170	-	-	50,000	352,170
Restricted for:					
Food service	-	-	-	5,293	5,293
Debt service	-	657,741	239,234	-	896,975
Assigned for:					
Curriculum	90,000	-	-	-	90,000
Technology	75,000	-	-	-	75,000
Buses	90,000	-	-	-	90,000
Paddock Early Childhood Center	94,985	-	-	-	94,985
Athletics	50,787	-	-	-	50,787
Unassigned	2,131,823	-	-	-	2,131,823
Total fund balances	2,853,316	657,741	239,234	60,400	3,810,691
Total liabilities and fund balances	\$ 7,278,976	\$ 690,173	\$ 263,194	\$ 122,627	\$ 8,354,970

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, 2016

Fund balances - total governmental funds	\$ 3,810,691
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	113,169,857
Accumulated depreciation	(31,847,614)
The deferred outflow related to the interest rate swap agreement is not a financial resource, and therefore not reported in the funds.	
	5,521,003
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	(107,392,967)
Interest rate swap	(5,521,003)
Unamortized loss on refunding	1,049,332
Unamortized bond discount	268,784
Accrued interest on bonds payable	(765,885)
Compensated absences	(626,360)
Certain pension-related amounts, such as the net pension liability and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds.	
Net pension liability	(36,052,978)
Deferred outflows related to the net pension liability	6,399,857
Deferred inflows related to the net pension liability	(119,418)
Net position of governmental activities	<u>\$ (52,106,701)</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, 2016

	General	2002 Debt Service	2009 Debt Service	Nonmajor Food Service	Totals
Revenues					
Local sources	\$ 4,848,332	\$ 3,471,736	\$ 2,807,757	\$ 365,599	\$ 11,493,424
State sources	18,211,915	-	-	32,476	18,244,391
Federal sources	789,621	-	441,874	371,591	1,603,086
Total revenues	23,849,868	3,471,736	3,249,631	769,666	31,340,901
Expenditures					
Current:					
Instruction	12,523,328	-	-	-	12,523,328
Supporting services	10,743,172	-	-	-	10,743,172
Food service	-	-	-	731,262	731,262
Athletics	510,252	-	-	-	510,252
Debt service:					
Principal	40,514	36,575,000	36,300,000	-	72,915,514
Interest and fiscal charges	37,415	1,540,959	2,270,105	-	3,848,479
Bond issuance costs	-	9,200	293,562	-	302,762
Total expenditures	23,854,681	38,125,159	38,863,667	731,262	101,574,769
Revenue over (under) expenditures	(4,813)	(34,653,423)	(35,614,036)	38,404	(70,233,868)
Other financing sources (uses)					
Issuance of long-term debt	-	34,625,000	35,789,256	-	70,414,256
Transfers in	44,373	-	-	-	44,373
Transfers out	-	-	-	(44,373)	(44,373)
Total other financing sources (uses)	44,373	34,625,000	35,789,256	(44,373)	70,414,256
Net change in fund balances	39,560	(28,423)	175,220	(5,969)	180,388
Fund balances, beginning of year	2,813,756	686,164	64,014	66,369	3,630,303
Fund balances, end of year	\$ 2,853,316	\$ 657,741	\$ 239,234	\$ 60,400	\$ 3,810,691

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, 2016

Net change in fund balances - total governmental funds \$ 180,388

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 assets purchased/constructed	173,777
Depreciation expense	(2,793,901)

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	(70,414,256)
Principal payments on long-term debt	72,915,514

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 net pension liability and related deferred amounts	(1,085,001)
Change in accrued interest payable on bonds and loans	(1,080,472)
Amortization of bond discount and loss on refunding	(164,837)
Change in the accrual for compensated absences	(20,528)

Change in net position of governmental activities \$ (2,289,316)

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, 2016

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenues				
Local sources	\$ 4,489,461	\$ 4,814,213	\$ 4,848,332	\$ 34,119
State sources	17,523,178	18,181,384	18,211,915	30,531
Federal sources	892,647	938,539	789,621	(148,918)
Total revenues	22,905,286	23,934,136	23,849,868	(84,268)
Expenditures				
Instruction:				
Basic programs	9,953,593	10,373,465	10,219,401	(154,064)
Added needs	1,941,366	2,159,277	2,132,944	(26,333)
Adult and continuing education	226,099	190,553	170,983	(19,570)
Total instruction	12,121,058	12,723,295	12,523,328	(199,967)
Supporting services:				
Pupil services	2,747,935	3,004,044	2,961,095	(42,949)
Instructional support	1,000,358	933,049	886,887	(46,162)
General administration	456,879	474,505	439,936	(34,569)
School administration	1,252,517	1,366,151	1,334,293	(31,858)
Business services	391,548	402,593	371,454	(31,139)
Operations and maintenance	2,620,376	2,476,075	2,367,442	(108,633)
Transportation	1,156,185	1,153,336	1,120,368	(32,968)
Central support	474,831	555,757	519,465	(36,292)
Community service	575,972	730,899	742,232	11,333
Total supporting services	10,676,601	11,096,409	10,743,172	(353,237)
Athletics	499,491	510,385	510,252	(133)
Debt service:				
Principal	40,514	40,514	40,514	-
Interest and fiscal charges	42,242	41,942	37,415	(4,527)
Total debt service	82,756	82,456	77,929	(4,527)
Total expenditures	23,379,906	24,412,545	23,854,681	(557,864)
Revenues under expenditures	(474,620)	(478,409)	(4,813)	473,596

continued...

MILAN AREA SCHOOLS

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - General Fund

For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Other financing sources (uses)				
Proceeds from sale of capital assets	\$ 2,000	\$ 2,000	\$ -	\$ (2,000)
Transfers in	44,000	44,000	44,373	373
Transfers out	(575)	-	-	-
Total other financing sources	<u>45,425</u>	<u>46,000</u>	<u>44,373</u>	<u>(1,627)</u>
Net change in fund balances	(429,195)	(432,409)	39,560	471,969
Fund balances, beginning of year	<u>2,813,756</u>	<u>2,813,756</u>	<u>2,813,756</u>	<u>-</u>
Fund balances, end of year	<u>\$ 2,384,561</u>	<u>\$ 2,381,347</u>	<u>\$ 2,853,316</u>	<u>\$ 471,969</u>

concluded.

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

MILAN AREA SCHOOLS

Statement of Fiduciary Net Position

June 30, 2016

	Private- Purpose Trust Fund	Agency Funds
	Scholarships	
Assets		
Cash and cash equivalents	\$ 1,700	<u>\$ 494,381</u>
Liabilities		
Due to student groups	<u>-</u>	<u>\$ 494,381</u>
Net position		
Restricted for scholarships	<u>\$ 1,700</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, 2016

	Scholarships
Additions	
Earnings on deposits and investments	\$ -
Deductions	
Scholarships	-
Change in net position	-
Net position, beginning of year	<u>1,700</u>
Net position, end of year	<u><u>\$ 1,700</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 current year.

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 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 *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, Deferred Inflows of Resources 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, except for the District's investments in the Michigan Liquid Assets Fund (MILAF), which are recorded at amortized cost.

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 noncurrent portion of interfund loans).

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

Inventory and Prepaid Items

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.

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
Vehicles	8

MILAN AREA SCHOOLS

Notes to Financial Statements

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 reports deferred outflows for the loss on refunding. This amount represents 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. The District reports deferred outflows of resources related to the net pension liability. A portion of these costs represent contributions to the plan subsequent to the plan measurement date. The District also reports deferred outflows of resources related to the interest rate swap. The swap is a hedging instrument and the change in fair value is considered an outflow.

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 may 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 straight line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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.

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District's deferred inflows of resources related to pension costs.

MILAN AREA SCHOOLS

Notes to Financial Statements

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 required 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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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, 2016, 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			
Supporting services -			
Community service	\$ 730,899	\$ 742,232	\$ 11,333

MILAN AREA SCHOOLS

Notes to Financial Statements

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	\$ 3,580,114
Statement of Fiduciary Net Position	
Cash and cash equivalents	<u>496,081</u>
Total	<u><u>\$ 4,076,195</u></u>
Deposits and investments	
Cash on hand	\$ 1,948
Deposits (checking accounts and certificates of deposit)	1,991,825
Investments	<u>2,082,422</u>
Total	<u><u>\$ 4,076,195</u></u>

Statutory Authority

State statutes authorize the District to invest in:

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

Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.

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

Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.

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

Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

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

MILAN AREA SCHOOLS

Notes to Financial Statements

Investments

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

Investment	Maturity	Amortized Cost / Fair Value	Rating
Michigan Liquid Asset Fund	n/a	\$ 1,717,174	S&P AAAM
US Bank money market funds	n/a	<u>365,248</u>	Not rated
		<u>\$ 2,082,422</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.

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, \$1,758,998 of the District's bank balance of \$2,012,582 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.

Fair Value. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

MILAN AREA SCHOOLS

Notes to Financial Statements

The District's only recurring fair value measurements as of June 30, 2016 were related to its investments in money market funds. These investments are valued using quoted market pricing of the underlying securities (Level 1 inputs).

4. RECEIVABLES

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

	General	2002 Debt Service	2009 Debt Service	Nonmajor Food Service	Totals
Accounts receivable	\$ 267,778	\$ -	\$ -	\$ 32,253	\$ 300,031
Taxes receivable	62,029	72,703	58,749	-	193,481
Due from other governments	3,829,146	-	-	-	3,829,146
	<u>\$ 4,158,953</u>	<u>\$ 72,703</u>	<u>\$ 58,749</u>	<u>\$ 32,253</u>	<u>\$ 4,322,658</u>

5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2016 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	9,274,896	-	-	9,274,896
Buildings and improvements	97,604,617	47,457	-	97,652,074
Equipment	3,021,164	43,255	-	3,064,419
Vehicles	1,542,321	83,065	54,863	1,570,523
	<u>111,442,998</u>	<u>173,777</u>	<u>54,863</u>	<u>111,561,912</u>
Less accumulated depreciation for:				
Land improvements	4,710,904	357,757	-	5,068,661
Buildings and improvements	21,154,720	2,074,256	-	23,228,976
Equipment	2,213,865	245,048	-	2,458,913
Vehicles	1,029,087	116,840	54,863	1,091,064
	<u>29,108,576</u>	<u>2,793,901</u>	<u>54,863</u>	<u>31,847,614</u>
Total capital assets being depreciated, net	<u>82,334,422</u>	<u>(2,620,124)</u>	<u>-</u>	<u>79,714,298</u>
Governmental activities capital assets, net	<u>\$ 83,942,367</u>	<u>\$ (2,620,124)</u>	<u>\$ -</u>	<u>\$81,322,243</u>

MILAN AREA SCHOOLS

Notes to Financial Statements

Depreciation expense of \$2,793,901 is reported as "Unallocated Depreciation," and not allocated to individual functions.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	General	Nonmajor Food Service	Totals
Fund Financial Statements:			
Accounts payable	\$ 720,124	\$ 11,061	\$ 731,185
Accrued liabilities	491,467	-	491,467
Salaries and benefits payable	1,852,197	31,188	1,883,385
	<u>\$ 3,063,788</u>	<u>\$ 42,249</u>	3,106,037
Government-wide Financial Statements -			
Accrued interest on long-term debt			<u>765,885</u>
			<u>\$ 3,871,922</u>

7. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

At June 30, 2016, interfund receivables and payables consisted of the following:

	Due from Other Funds	Due to Other Funds
General fund	\$ 76,370	\$ -
2002 debt service fund	-	32,432
2009 debt service fund	-	23,960
Nonmajor governmental fund	-	19,978
	<u>\$ 76,370</u>	<u>\$ 76,370</u>

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

MILAN AREA SCHOOLS

Notes to Financial Statements

For the year ended June 30, 2016, interfund transfers consisted of the following:

	Transfers out	Transfers in
General fund	\$ -	\$ 44,373
Nonmajor governmental fund	44,373	-
	<u>\$ 44,373</u>	<u>\$ 44,373</u>

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

For the year ended June 30, 2016, the District transferred funds from the food service fund to the general fund to cover certain allocable costs.

8. LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Deductions	Refunded	Ending Balance	Due Within One Year
Governmental activities						
General obligation						
bonds	\$ 75,635,000	\$ 69,735,000	\$ 3,435,000	\$ 34,625,000	\$ 107,310,000	\$ 3,570,000
Less -						
Unamortized						
bond discount	(283,716)	-	(14,932)	-	(268,784)	(14,932)
Interest rate swap	4,233,264	1,287,739	-	-	5,521,003	-
Capital lease	120,932	-	40,514	-	80,418	42,842
School bond						
loan fund	33,117,280	1,700,269	-	34,815,000	2,549	-
Compensated						
absences	605,832	20,528	-	-	626,360	-
	<u>\$113,428,592</u>	<u>\$ 72,743,536</u>	<u>\$ 3,460,582</u>	<u>\$ 69,440,000</u>	<u>\$ 113,271,546</u>	<u>\$ 3,597,910</u>

Compensated absences are typically liquidated by the general fund.

MILAN AREA SCHOOLS

Notes to Financial Statements

Bonds payable consist of the following issues:

General obligation bonds

2002 Refunding Bonds (replaced in 2016), due in annual installments of \$2,040,000 to \$2,290,000 through 2030; interest at 3.247%	\$ 32,675,000
2009 Bonds, due in annual installments of \$1,530,000 to \$3,100,000 through 2034, interest at 5.1% to 7.1%.	39,525,000
2016 Refunding Bonds (taxable), due in annual installments of \$8,500,000 to \$9,100,000 through 2023, interest at 1.931% to 2.544%.	<u>35,110,000</u>
Total general obligation bonds	<u>\$ 107,310,000</u>

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

Year Ended June 30,	Principal	Interest	Total
2017	\$ 3,570,000	\$ 3,756,460	\$ 7,326,460
2018	3,705,000	3,677,287	7,382,287
2019	3,850,000	3,533,046	7,383,046
2020	12,490,000	3,383,292	15,873,292
2021	12,795,000	3,058,278	15,853,278
2022-2026	40,220,000	10,167,856	50,387,856
2027-2031	21,780,000	4,566,315	26,346,315
2032-2034	<u>8,900,000</u>	<u>833,701</u>	<u>9,733,701</u>
Totals	<u>\$107,310,000</u>	<u>\$ 32,976,235</u>	<u>\$140,286,235</u>

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 in 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, 2016, the swap's notional amount of \$32,675,000 matched the \$32,675,000 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 on 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, 2016. At June 30, 2016, the SIFMA swap had a negative fair value of \$5,521,003, which was recorded in noncurrent liabilities on the statement of net position. As the swap is a hedging instrument, the change in fair value is considered an outflow and is included in deferred outflows on the statement of net position.

MILAN AREA SCHOOLS

Notes to Financial Statements

Fair value - The fair value of the swap was estimated using the zero coupon method (level 2 - significant other observable inputs). 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, 2016. 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, 2016, 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 of 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.

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.

MILAN AREA SCHOOLS

Notes to Financial Statements

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2016, are as follows:

	Year Ended June 30,	Amount
	2017	\$ 46,257
	2018	38,548
		<u>84,805</u>
Less amount representing interest		<u>(4,387)</u>
Total		<u><u>\$ 80,418</u></u>

School Bond Loan Fund

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, 2016, are as follows:

	Principal	Interest	Total
Beginning balance	\$ 26,820,670	\$ 6,296,610	\$ 33,117,280
Additions	679,256	1,021,013	1,700,269
Refunded	<u>(27,497,385)</u>	<u>(7,317,615)</u>	<u>(34,815,000)</u>
Ending balance	<u><u>\$ 2,541</u></u>	<u><u>\$ 8</u></u>	<u><u>\$ 2,549</u></u>

At June 30, 2016, the balance of the year 2000 bonds, that were refunded in a previous year and are considered to be defeased, is \$31,740,000.

Current Refunding

The District issued \$34,625,000 in refunding bonds during the year to refund \$34,625,000 of 2002 refunding bonds. The refunding resulted in a savings of \$444,544 over the next fourteen years and an economic gain of \$383,753. Additionally, the District issued \$35,110,000 in refunding bonds during the year to refund \$34,815,000 of School Bond Load Fund debt. The refunding resulted in a savings of \$3,908,922 over the next eight years and an economic gain of \$1,730,341.

The total payments on refunded debt as of June 30, 2016 were \$69,440,000, which represents amounts placed in escrow as part of the refunding of the 2002 debt and School Bond Loan Fund debt. The payments on these bonds were made within 90 days of the refunding issuance. As such, these payments constitute a current refunding and the District had no defeased debt as of year end.

MILAN AREA SCHOOLS

Notes to Financial Statements

9. SHORT-TERM DEBT

During the year, the District financed certain of its operations through the issuance of 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, 2016, were as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
State aid note	<u>\$ 1,311,431</u>	<u>\$ 2,521,182</u>	<u>\$ 2,519,374</u>	<u>\$ 1,313,239</u>

10. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2016, was as follows:

Capital assets, net	\$ 81,322,243
Capital related bonds payable outstanding	(72,200,000)
Interest rate swap	(5,521,003)
Capital lease	(80,418)
Unamortized bond discount	268,784
Deferred charge on refunding	<u>1,049,332</u>
Net investment in capital assets	<u>\$ 4,838,938</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:

	2016	2015
Accrued claims, beginning of year	\$ 87,000	\$ 87,000
Incurred claims	382,786	453,540
Claim payments	<u>(382,786)</u>	<u>(453,540)</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 Michigan Public School Employees' Retirement System (the "System" or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (the "State") originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members - eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

The System's financial statements are available at www.michigan.gov/mpsers-cafr.

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25% to 1.50%. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

DB member plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account if applicable. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

MILAN AREA SCHOOLS

Notes to Financial Statements

Contributions and Funded Status

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2015 valuation will be amortized over a 21-year period for the 2015 fiscal year.

The table below summarizes pension contribution rates in effect for fiscal year 2015.

Benefit Structure	Member Rates	Employer Rates
Basic	0.0% - 4.0%	22.52% - 23.07%
Member Investment Plan (MIP)	3.0% - 7.0%	22.52% - 23.07%
Pension Plus	3.0% - 6.4%	22.0%
Defined Contribution	0.0%	17.72% - 18.76%

The District's contribution to MPSERS under all pension plans for the year ended June 30, 2016 was \$3,475,003.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the District reported a liability of \$36,052,978 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2014. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2015, the District's proportion was 0.14761%, which was an increase of 0.01244% from its proportion measured as of September 30, 2014.

MILAN AREA SCHOOLS

Notes to Financial Statements

For the year ended June 30, 2016, the District recognized pension expense of \$3,670,854. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ -	\$ 119,418	\$ (119,418)
Changes in assumptions	887,701	-	887,701
Net difference between projected and actual earnings on pension plan investments	184,021	-	184,021
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>2,317,190</u>	<u>-</u>	<u>2,317,190</u>
	3,388,912	119,418	3,269,494
District contributions subsequent to the measurement date	<u>3,010,945</u>	<u>-</u>	<u>3,010,945</u>
Total	<u><u>\$ 6,399,857</u></u>	<u><u>\$ 119,418</u></u>	<u><u>\$ 6,280,439</u></u>

\$3,010,945 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2017	\$ 724,773
2018	724,773
2019	676,640
2020	<u>1,143,308</u>
Total	<u><u>\$ 3,269,494</u></u>

MILAN AREA SCHOOLS

Notes to Financial Statements

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The total pension liability in the September 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age, normal
Wage inflation rate	3.5%
Investment rate of return:	
MIP and Basic plans (non-hybrid)	8.0%
Pension Plus plan (hybrid)	7.5%
Projected salary increases	3.5% - 12.3%, including wage inflation at 3.5%
Cost of living adjustments	3% annual non-compounded for MIP members
Mortality	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2015, is based on the results of an actuarial valuation date of September 30, 2014, and rolled forward using generally accepted actuarial procedures, including the experience study.

MILAN AREA SCHOOLS

Notes to Financial Statements

Long-term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2015, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	28.00%	5.90%	1.64%
Alternative investment pools	18.00%	9.20%	1.66%
International equity	16.00%	7.20%	1.15%
Fixed income pools	10.50%	0.90%	0.09%
Real estate and infrastructure pools	10.00%	4.30%	0.43%
Absolute return pools	15.50%	6.00%	0.93%
Short-term investment pools	2.00%	0.00%	0.00%
	<u>100.00%</u>		5.90%
Inflation			<u>2.10%</u>
Investment rate of return			<u>8.00%</u>

Discount Rate

A discount rate of 8.0% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

MILAN AREA SCHOOLS

Notes to Financial Statements

Sensitivity of District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8.0% (7.0% for the Hybrid Plan), as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
District's proportionate share of the net pension liability	\$ 46,481,531	\$ 36,052,978	\$ 27,261,281

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS financial statements available on the State of Michigan Office of Retirement Services website at www.michigan.gov/orsschools.

Payable to the Pension Plan

At June 30, 2016, the District reported a payable of \$447,188 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2016.

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 prefunded 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. Employer contributions range from 2.71% to 6.83% of covered payroll. Plan participants contribute 3% of covered payroll to the Retiree Healthcare Fund. At retirement, these individuals receive a subsidy for healthcare premiums that covers up to 80% of cost.

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% employee contribution into a personal tax-deferred account, which is matched by an additional 2% 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% 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 were declared unconstitutional by the Supreme Court. Such amounts will be refunded by MPSERS to each District, including interest, and will then be refunded to individual employees.

MILAN AREA SCHOOLS

■ Notes to Financial Statements

The District's contributions to MPSERS for other postemployment benefits amounted to \$1,167,471 for the year ended June 30, 2016.

14. SUBSEQUENT EVENT

On August 22, 2016, the District issued state aid notes in the amounts of \$599,632 and \$900,368 with interest rates of 1.00% and 0.76%, respectively, which the District will pay in set asides beginning in March of 2017 through July of 2017. On August 22, 2016, the District also issued an additional state aid note in the amount of \$500,000 with an interest rates of 1.20%, which is due August 21, 2017.



**REQUIRED SUPPLEMENTARY
INFORMATION**

MILAN AREA SCHOOLS

Required Supplementary Information

MPERS Cost-Sharing Multiple Employer Plan

Schedule of the District's Proportionate Share of the Net Pension Liability

	Year Ended June 30,	
	2015	2016
District's proportion of the net pension liability	\$ 29,774,310	\$ 36,052,978
District's proportionate share of the net pension liability	0.13517%	0.14761%
District's covered-employee payroll	\$ 11,568,938	\$ 12,462,109
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	257.36%	289.30%
Plan fiduciary net position as a percentage of the total pension liability	66.20%	63.17%

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

MILAN AREA SCHOOLS

Required Supplementary Information

MPERS Cost-Sharing Multiple Employer Plan

Schedule of District Contributions

	Year Ended June 30,	
	2015	2016
Contractually required contribution	\$ 2,586,933	\$ 3,475,003
Contributions in relation to the contractually required contribution	<u>(2,586,933)</u>	<u>(3,475,003)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 11,859,819	\$ 12,816,320
Contributions as a percentage of covered employee payroll	21.81%	27.11%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

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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 THE UNIFORM GUIDANCE**

October 25, 2016

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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated October 25, 2016, 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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) 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 schedule of expenditure of federal awards 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, 2016

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Approved Awards Amount
U.S. Department of Agriculture				
Child Nutrition Cluster:				
Cash Assistance:				
National School Breakfast Program	10.553	MDE	151970	\$ 46,950
National School Breakfast Program	10.553	MDE	161970	47,401
National School Lunch Program	10.555	MDE	151960	270,788
National School Lunch Program	10.555	MDE	161960	250,520
Non-Cash Assistance-				
Food Distribution Entitlement	10.555	MDE	-n/a-	43,691
Total child nutrition program				
Child and Adult Care Food Program	10.558	MDE	151920	1,331
Child and Adult Care Food Program	10.558	MDE	161920	2,961
Total U.S. Department of Agriculture				
U.S. Department of Education				
Adult Basic Education Instruction	84.002A	MDE	151130-151667	15,000
Institutional Adults	84.002A	MDE	151190-151667	65,000
Adult Basic Education Instruction	84.002	MDE	161130-161667	19,500
Institutional Adults	84.002	MDE	161190-161667	65,000
Title I:				
Title I, Part A - Improving Basic Programs	84.010	MDE	151530-1415	218,718
Title I, Part A - C/O	84.010	MDE	151530-1415	10,213
Title I, Part A - Improving Basic Programs	84.010	MDE	161530-1516	196,014
Title II:				
Title II, Part A - C/O	84.367	MDE	140520-1314	5,242
Title II, Part A - Improving Teacher Quality	84.367	MDE	150520-1415	92,300
Title II, Part A - C/O	84.367	MDE	150520-1415	3,809
Title II, Part A - Improving Teacher Quality	84.367	MDE	160520-1516	85,726

(Memo Only) Prior Year Expenditures	Accrued (Unearned) Revenue at July 1, 2015	Prior Year Adjustments	Current Year Receipts	Current Year Expenditures	Accrued (Unearned) Revenue at June 30, 2016
\$ 43,418	\$ 2,094	\$ -	\$ 5,626	\$ 3,532	\$ -
-	-	-	44,343	47,401	3,058
43,418	2,094	-	49,969	50,933	3,058
244,341	11,932	-	38,379	26,447	-
-	-	-	234,349	250,520	16,171
-	-	-	43,691	43,691	-
244,341	11,932	-	316,419	320,658	16,171
287,759	14,026	-	366,388	371,591	19,229
1,194	-	-	137	137	-
-	-	-	2,961	2,961	-
1,194	-	-	3,098	3,098	-
288,953	14,026	-	369,486	374,689	19,229
12,898	12,898	-	12,898	-	-
65,000	65,000	-	65,000	-	-
-	-	-	-	19,412	19,412
-	-	-	-	63,833	63,833
77,898	77,898	-	77,898	83,245	83,245
208,505	82,618	-	82,618	-	-
-	-	-	10,213	10,213	-
-	-	-	140,523	185,813	45,290
208,505	82,618	-	233,354	196,026	45,290
5,242	2,374	(2,374)	-	-	-
56,569	31,815	-	31,815	-	-
-	-	-	3,809	3,809	-
-	-	-	-	43,870	43,870
61,811	34,189	(2,374)	35,624	47,679	43,870

continued...

MILAN AREA SCHOOLS

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2016

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Approved Awards Amount
U.S. Department of Education (concluded)				
Title III - English Language Acquisition	84.365A	MPS	160580-1516	\$ 2,003
Special Education Cluster:				
IDEA Flow-through - C/O	84.027A	WISD	140450-1314	18,847
IDEA Flow-through	84.027A	WISD	150450-1415	451,954
IDEA Flow-through - C/O	84.027A	WISD	150450-1415	4,258
IDEA Flow-through	84.027A	WISD	160450-1516	444,062
IDEA Pre-school Grant	84.173A	WISD	160460-1516	24,229
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, 2015	Prior Year Adjustments	Current Year Receipts	Current Year Expenditures	Accrued (Unearned) Revenue at June 30, 2016
\$ 2,003	\$ 2,003	\$ -	\$ 2,003	\$ -	\$ -
18,847	7,406	-	7,406	-	-
447,696	291,254	-	291,254	-	-
-	-	-	4,258	4,258	-
-	-	-	299,439	444,062	144,623
12,976	-	-	11,253	11,253	-
<u>479,519</u>	<u>298,660</u>	<u>-</u>	<u>613,610</u>	<u>459,573</u>	<u>144,623</u>
829,736	495,368	(2,374)	962,489	786,523	317,028
<u>\$ 1,118,689</u>	<u>\$ 509,394</u>	<u>\$ (2,374)</u>	<u>\$ 1,331,975</u>	<u>\$ 1,161,212</u>	<u>\$ 336,257</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, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 position or cash flows of the District.

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 the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. 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, unearned 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.

For purposes of charging indirect costs to federal awards, the District has not elected to use the 10 percent de minimis cost rate as permitted by §200.414 of the Uniform Guidance.

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	\$ 1,603,086
Less: Revenue from federal government paid directly for interest on long-term debt not considered to be federal expenditures	<u>(441,874)</u>
Total expenditures of federal awards	<u><u>\$ 1,161,212</u></u>

MILAN AREA SCHOOLS

Notes to Schedule of Expenditures of Federal Awards

4. PASS-THROUGH AGENCIES

The District receives certain federal grants 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 25, 2016

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, 2016, 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 25, 2016.

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.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

October 25, 2016

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 Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion 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, 2016.

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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

MILAN AREA SCHOOLS

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2016

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ yes X no

Identification of major programs and type of auditor's report issued on compliance for each major program:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Type of Report</u>
84.027 & 84.173	IDEA Special Education Cluster	Unmodified

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? X yes _____ no

MILAN AREA SCHOOLS

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.



MILAN AREA SCHOOLS

Summary Schedule of Prior Audit Findings For the Year Ended June 30, 2016

None reported.



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