

Milan Area Schools



Year Ended  
June 30, 2022

Financial  
Statements and  
Single Audit Act  
Compliance

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# MILAN AREA SCHOOLS

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## INDEPENDENT AUDITORS' REPORT

October 12, 2022

Board of Education  
Milan Area Schools  
Milan, Michigan

### Report on the Audit of the Financial Statements

#### *Opinions*

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, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2022, and the respective changes in financial position, 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.

#### *Basis for Opinions*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Independent Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.



In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Independent Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***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 and other postemployment benefit plans, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

### ***Supplementary Information***

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

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2022, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's 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 the District's internal control over financial reporting and compliance.

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

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

# MILAN AREA SCHOOLS

## Management's Discussion and Analysis

As management of Milan Area Schools (the "District"), 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, 2022.

### Financial Highlights

· Total net position	\$ (63,305,938)
· Change in total net position	3,738,049
· Fund balances, governmental funds	6,435,928
· Change in fund balances, governmental funds	(1,310,306)
· Unassigned fund balance, general fund	3,883,994
· Change in fund balance, general fund	(992,794)
· Installment debt outstanding	85,454,919
· Change in installment debt	(3,733,891)

### 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 are governmental funds.

## MILAN AREA SCHOOLS

### 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 various 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 2016 debt service fund which are major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. The budgetary comparison statement has been provided for the general fund herein to demonstrate compliance with that budget.

**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 and other postemployment benefit 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 \$63,305,938 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 \$18,940,752 at June 30, 2022. 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	
	2022	2021
Current and other assets	\$ 10,378,195	\$ 12,770,136
Capital assets, net	67,065,561	69,505,363
<b>Total assets</b>	<b>77,443,756</b>	<b>82,275,499</b>
<b>Deferred outflows of resources</b>	<b>13,121,783</b>	<b>18,012,314</b>
Other liabilities	41,381,846	64,829,577
Long-term debt	91,277,072	95,561,899
<b>Total liabilities</b>	<b>132,658,918</b>	<b>160,391,476</b>
<b>Deferred inflows of resources</b>	<b>21,212,559</b>	<b>6,940,324</b>
Net position:		
Net investment in capital assets	18,940,752	17,153,475
Restricted	405,545	712,671
Unrestricted (deficit)	(82,652,235)	(84,910,133)
<b>Total net position</b>	<b>\$ (63,305,938)</b>	<b>\$ (67,043,987)</b>

The District reported a deficit in total net position of \$63,305,938 as of year end. Restricted net position represents amounts subject to external restrictions such as amounts restricted for food service and debt service. The District also reported a deficit of \$82,652,235 as unrestricted net position. The negative balance is mainly related to the District's proportionate share of the MPSERS net pension and other postemployment benefit liabilities and the District's general obligation bonded debt.

## MILAN AREA SCHOOLS

### Management's Discussion and Analysis

	Changes in Net Position	
	Governmental Activities	
	2022	2021
Program revenues:		
Charges for services	\$ 787,498	\$ 423,276
Operating grants and contributions	10,973,777	10,003,917
General revenues:		
Property taxes	10,011,417	9,149,484
Unrestricted state aid	13,254,573	14,557,148
Grants and contributions not restricted to specific programs	1,461,907	1,076,889
Unrestricted investment earnings	6,289	8,581
<b>Total revenues</b>	<u>36,495,461</u>	<u>35,219,295</u>
Expenses:		
Instruction	13,529,910	14,974,920
Supporting services	11,356,493	12,183,561
Community service	734,538	688,654
Athletics	577,510	554,944
Food service	758,381	613,803
Interest on long-term debt	3,217,276	3,441,384
Unallocated depreciation	2,583,304	2,791,154
<b>Total expenses</b>	<u>32,757,412</u>	<u>35,248,420</u>
Change in net position	3,738,049	(29,125)
Net position, beginning of year	<u>(67,043,987)</u>	<u>(67,014,862)</u>
<b>Net position, end of year</b>	<u><u>\$ (63,305,938)</u></u>	<u><u>\$ (67,043,987)</u></u>

The District's net position increased by \$3,738,049 during the current year as compared to an decrease of \$29,125 in the previous year. The significant factors affecting this increase are as follows:

- Overall, revenue increased during the year. The revenue increase is due, in part, to an increase in property taxable values that lead to an increase in tax revenue. The District also received additional grant funding due to the COVID-19 pandemic.
- Overall, expenses decreased during the year. This was primarily the result of decreases in the pension and OPEB related expenses.

### 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.

# MILAN AREA SCHOOLS

## Management's Discussion and Analysis

**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 \$6,435,928, a decrease of \$1,310,306 in comparison with the prior year. Approximately 60% of this total amount, \$3,883,994, is unassigned fund balance. The remainder of fund balance is nonspendable because the underlying assets are included in inventory and prepaid items, is committed or 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 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 \$3,883,994, while the total fund balance for the general fund is \$4,931,946. 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 13% of total general fund expenditures. This percentage is slightly lower than in 2020-2021. An unassigned fund balance of 10-12% is generally recommended.

The fund balance of the District's general fund decreased by \$992,794, during the current fiscal year. The unassigned fund balance decreased by \$1,306,527. The Board of Education has a stated goal to keep fund balance for the general fund at approximately 10% of expenditures. As a result, the District has developed its budget intentionally to meet that goal. When the District negotiated contracts with all bargaining units in the summer of 2021, the District negotiated contracts that included spending which would both benefit employees and bring fund balance in line with this goal.

The fund balance of the 2016 debt service fund decreased by \$663,152 during the current fiscal year. A larger portion of the District's tax revenues were received by the May 1st principal/interest due date than in the previous year. This in turn caused the tax receipts after the May 1st payments, which contribute to the fund balance to be lower than last year.

### General Fund Budgetary Highlights

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

- Revenues increased by \$3,041,465 due to several things that were not known at the time of the original budget. The foundation allowance for fiscal year 2022 increased by \$425 per pupil, the original budget estimate was \$164. Property values increased leading to an increase in the local revenues collected. The inclusion of the ESSER II and ARP Childcare grants, along with increases to other district grant allocations also led to major increases to the revenue budget. The revenue budget was also increased to reflect the change in preschool revenues due to increased enrollment in the program.

## MILAN AREA SCHOOLS

### Management's Discussion and Analysis

- Expenditures were increased by \$2,466,373 due to more current information being available. The increase was due, in part, to changes in wage and benefit costs due to contract negotiations that took place during the summer of 2021. The District also saw an increase to its health insurance premiums of approximately 17%. Expenditures also increased due to the use of increased of grant funds allocated to the District.

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

Budget to actual comparisons were generally favorable. Net change in fund balance was \$983,364 more than what was shown in the final amended budget.

#### Capital Asset and Debt Administration

**Capital Assets.** The District's investment in capital assets for its governmental activities as of June 30, 2022, amounted to \$67,065,561 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings and improvements, equipment, and vehicles. This reflects a decrease of \$2,439,802 from the previous year.

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

Depreciation expense was recognized in the amount of \$2,583,304.

	Capital Assets (Net of Depreciation)	
	2022	2021
Capital assets not being depreciated -		
Land	\$ 1,607,945	\$ 1,607,945
Capital assets being depreciated:		
Land improvements	2,075,723	2,429,394
Buildings and improvements	62,426,072	64,450,200
Equipment	406,999	455,303
Vehicles	548,822	562,521
<b>Total capital assets, net</b>	<b>\$ 67,065,561</b>	<b>\$ 69,505,363</b>

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

**Long-term Debt.** At the end of the current fiscal year, the District had total bonded debt outstanding of \$54,880,000. The District's total bonded long-term debt decreased by \$12,815,000 during the current fiscal year as a result of scheduled principal payments. The change in long-term debt also reflects borrowings from the School Bond Loan Fund of \$9,129,680.

Additional information on the District's long-term debt can be found in the notes to financial statements.

# MILAN AREA SCHOOLS

## Management's Discussion and Analysis

### Factors Bearing on the District's Future

The following factors were also considered in preparing the District's budget for the 2022-23 fiscal year:

- The State Aid Foundation Grant was unknown at the time of the original budget adoption. Based on information received from state organizations the District budgeted a \$400 per student increase due to the varying estimates given in State of Michigan budget projection conversations. When the state has adopted a budget revenues will be adjusted accordingly.
- The District projected a loss of students from the 21/22 audited February count for the preliminary 22/23 budget. This loss of students follows the trend for Milan and many districts across the state.
- The District will be utilizing American Rescue Plan/ESSER III and Section 11t funds in the 22/23 school year. These funds will be used according to grant guidelines. The District intends to use the ESSER III funds to retain staff allowing us to keep class sizes lower, especially at the elementary level, to help students recover from learning loss due to the COVID pandemic.
- The Section 11t funds that the District received will be used over the course of two years to provide additional supports to the targeted populations based on the grant guidance.
- The retirement rate was budgeted at each individual of the staff member's retirement rate based on their chosen retirement rate, plus an additional 16.65% that has to be included in the revenue and expenditure budgets for 22/23 to account for UAAL Stabilization costs that the District is charged and then the state is offsetting through state aid. The District's required contribution for defined contribution employees will remain the same in the 22/23 school year as in the previous year. These figures will be adjusted, if necessary, in future amendments.
- All employee groups eligible for health care coverage continue to contribute either 20% or 30% of the illustrative rates toward their health insurance premiums. Given the large increase to the premiums in the 21/22 school year, the District is planning for the possibility of another substantial increase to the health insurance premium for the 22/23 school year. Budget adjustments, if necessary, will be made in future amendments.
- 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.
- Beginning in the 19/20 school year, the District started to pay down the principal on the 2016 debt fund. The principal will be paid in installments through fiscal year 2023. This will cause the District's debt payments to remain high for the 22/23 school year.



## MILAN AREA SCHOOLS

### Management's Discussion and Analysis

- Because of the sacrifices of the staff in the District and conservative budgeting over the last several years, the District has been able to maintain a healthy fund balance in 2021-2022 of 16.79% total expenditures (unassigned fund balance constitutes 13.22% of total expenditures) while not having to ask for concessions or cuts to the classrooms or facilities. The District 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.

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## **BASIC FINANCIAL STATEMENTS**

# MILAN AREA SCHOOLS

## Statement of Net Position

June 30, 2022

	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents	\$ 5,276,426
Receivables	4,661,401
Prepaid items and other assets	440,368
Capital assets not being depreciated	1,607,945
Capital assets being depreciated, net	<u>65,457,616</u>
<b>Total assets</b>	<u>77,443,756</u>
<b>Deferred outflows of resources</b>	
Deferred charge on refunding	2,856,099
Deferred pension amounts	7,506,888
Deferred other postemployment benefit amounts	<u>2,758,796</u>
<b>Total deferred outflows of resources</b>	<u>13,121,783</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	3,707,432
Unearned revenue	654,919
Long-term debt:	
Due within one year	14,395,178
Due in more than one year	76,881,894
Net pension liability (due in more than one year)	34,803,749
Net other postemployment benefit liability (due in more than one year)	<u>2,215,746</u>
<b>Total liabilities</b>	<u>132,658,918</u>
<b>Deferred inflows of resources</b>	
Deferred pension amounts	12,425,256
Deferred other postemployment benefit amounts	<u>8,787,303</u>
<b>Total deferred inflows of resources</b>	<u>21,212,559</u>
<b>Net position</b>	
Net investment in capital assets	18,940,752
Restricted for food service	352,176
Restricted for debt service	53,369
Unrestricted (deficit)	<u>(82,652,235)</u>
<b>Total net position</b>	<u>\$ (63,305,938)</u>

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

# MILAN AREA SCHOOLS

## Statement of Activities

For the Year Ended June 30, 2022

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
<b>Governmental activities:</b>				
Instruction	\$ 13,529,910	\$ -	\$ 9,830,687	\$ (3,699,223)
Supporting services	11,356,493	-	-	(11,356,493)
Community service	734,538	725,464	-	(9,074)
Athletics	577,510	49,104	-	(528,406)
Food service	758,381	12,930	1,143,090	397,639
Interest on long-term debt	3,217,276	-	-	(3,217,276)
Unallocated depreciation	2,583,304	-	-	(2,583,304)
<b>Total governmental activities</b>	<u>\$ 32,757,412</u>	<u>\$ 787,498</u>	<u>\$ 10,973,777</u>	<u>(20,996,137)</u>
<b>General revenues:</b>				
Property taxes				10,011,417
Unrestricted state aid				13,254,573
Grants and contributions not restricted to specific programs				1,461,907
Unrestricted investment earnings				<u>6,289</u>
<b>Total general revenues</b>				<u>24,734,186</u>
<b>Change in net position</b>				3,738,049
Net position, beginning of year				<u>(67,043,987)</u>
<b>Net position, end of year</b>				<u>\$ (63,305,938)</u>

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

## MILAN AREA SCHOOLS

### Balance Sheet

Governmental Funds

June 30, 2022

	General	2016 Debt Service	Nonmajor Governmental Funds	Totals
<b>Assets</b>				
Cash and cash equivalents	\$ 4,365,289	\$ 100,110	\$ 811,027	\$ 5,276,426
Accounts receivable	36,621	-	-	36,621
Due from other governments	4,596,538	-	28,242	4,624,780
Due from other funds	-	103,977	436,320	540,297
Inventory	50,227	-	12,306	62,533
Prepaid items	327,835	-	50,000	377,835
<b>Total assets</b>	<b>\$ 9,376,510</b>	<b>\$ 204,087</b>	<b>\$ 1,337,895</b>	<b>\$ 10,918,492</b>
<b>Liabilities</b>				
Accounts payable	\$ 403,728	\$ 680	\$ 176	\$ 404,584
Accrued liabilities	271,266	-	-	271,266
Salaries and benefits payable	2,610,992	-	506	2,611,498
Due to other funds	540,297	-	-	540,297
Unearned revenue	618,281	-	36,638	654,919
<b>Total liabilities</b>	<b>4,444,564</b>	<b>680</b>	<b>37,320</b>	<b>4,482,564</b>
<b>Fund balances</b>				
Nonspendable:				
Inventory	50,227	-	12,306	62,533
Prepaid items	327,835	-	50,000	377,835
Restricted for:				
Food service	-	-	289,870	289,870
Debt service	-	203,407	270,046	473,453
Committed for -				
Student/school activity	-	-	678,353	678,353
Assigned for:				
Curriculum	90,000	-	-	90,000
Technology	75,000	-	-	75,000
Buses	90,000	-	-	90,000
Paddock Early Childhood Center	268,925	-	-	268,925
Athletics	20,965	-	-	20,965
Buildings and grounds	75,000	-	-	75,000
Harkness estate donation	50,000	-	-	50,000
Unassigned	3,883,994	-	-	3,883,994
<b>Total fund balances</b>	<b>4,931,946</b>	<b>203,407</b>	<b>1,300,575</b>	<b>6,435,928</b>
<b>Total liabilities and fund balances</b>	<b>\$ 9,376,510</b>	<b>\$ 204,087</b>	<b>\$ 1,337,895</b>	<b>\$ 10,918,492</b>

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, 2022

<b>Fund balances - total governmental funds</b>	<b>\$ 6,435,928</b>
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Amounts reported for *governmental activities* 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	113,301,190
Accumulated depreciation	(46,235,629)

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

Bonds, financed purchases and loan fund payable	(85,454,919)
Unamortized deferred charge on refunding	2,856,099
Unamortized bond premium	(5,168,700)
Accrued interest on long-term debt	(420,084)
Compensated absences	(653,453)

Certain pension and other postemployment benefit-related amounts, such as the net pension liability, net other postemployment benefit 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	(34,803,749)
Net other postemployment benefit liability	(2,215,746)
Deferred outflows related to the net pension liability	7,506,888
Deferred inflows related to the net pension liability	(12,425,256)
Deferred outflows related to the net other postemployment benefit liability	2,758,796
Deferred inflows related to the net other postemployment benefit liability	(8,787,303)

<b>Net position of governmental activities</b>	<b><u>\$ (63,305,938)</u></b>
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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, 2022

	General	2016 Debt Service	Nonmajor Governmental Funds	Totals
<b>Revenues</b>				
Local sources	\$ 7,680,576	\$ 2,972,924	\$ 3,696,947	\$ 14,350,447
State sources	18,709,193	170,615	194,285	19,074,093
Federal sources	1,954,913	-	1,116,008	3,070,921
<b>Total revenues</b>	<u>28,344,682</u>	<u>3,143,539</u>	<u>5,007,240</u>	<u>36,495,461</u>
<b>Expenditures</b>				
Current:				
Instruction	15,465,132	-	-	15,465,132
Supporting services	13,232,334	-	416,352	13,648,686
Athletics	627,155	-	-	627,155
Food service	-	-	832,503	832,503
Debt service:				
Principal	48,571	8,850,000	3,965,000	12,863,571
Interest and fiscal charges	4,284	439,460	2,488,681	2,932,425
<b>Total expenditures</b>	<u>29,377,476</u>	<u>9,289,460</u>	<u>7,702,536</u>	<u>46,369,472</u>
Revenues under expenditures	<u>(1,032,794)</u>	<u>(6,145,921)</u>	<u>(2,695,296)</u>	<u>(9,874,011)</u>
<b>Other financing sources (uses)</b>				
Issuance of long-term debt	-	5,482,769	3,080,936	8,563,705
Transfers in	40,000	-	-	40,000
Transfers out	-	-	(40,000)	(40,000)
<b>Total other financing sources (uses)</b>	<u>40,000</u>	<u>5,482,769</u>	<u>3,040,936</u>	<u>8,563,705</u>
<b>Net change in fund balances</b>	<u>(992,794)</u>	<u>(663,152)</u>	<u>345,640</u>	<u>(1,310,306)</u>
Fund balances, beginning of year	<u>5,924,740</u>	<u>866,559</u>	<u>954,935</u>	<u>7,746,234</u>
<b>Fund balances, end of year</b>	<u>\$ 4,931,946</u>	<u>\$ 203,407</u>	<u>\$ 1,300,575</u>	<u>\$ 6,435,928</u>

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, 2022

**Net change in fund balances - total governmental funds** \$ (1,310,306)

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	143,502
Depreciation expense	(2,583,304)

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.

Issuance of long-term debt	(8,563,705)
Principal payments on long-term debt	12,863,571

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	1,212,929
Change in net other postemployment benefit liability and related deferred amounts	2,238,794
Change in accrued interest payable on long-term debt	(498,359)
Amortization of bond premium and deferred charge on refunding	213,508
Change in the accrual for compensated absences	21,419

**Change in net position of governmental activities** \$ 3,738,049

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

## MILAN AREA SCHOOLS

### Statement of Revenues, Expenditures, and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2022

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Revenues</b>				
Local sources	\$ 6,412,329	\$ 7,453,170	\$ 7,680,576	\$ 227,406
State sources	17,765,336	19,026,933	18,709,193	(317,740)
Federal sources	1,234,789	1,973,816	1,954,913	(18,903)
<b>Total revenues</b>	<u>25,412,454</u>	<u>28,453,919</u>	<u>28,344,682</u>	<u>(109,237)</u>
<b>Expenditures</b>				
Instruction:				
Basic programs	11,698,892	12,805,432	12,715,560	(89,872)
Added needs	2,443,526	2,834,849	2,529,190	(305,659)
Adult and continuing education	223,493	226,840	220,382	(6,458)
Total instruction	<u>14,365,911</u>	<u>15,867,121</u>	<u>15,465,132</u>	<u>(401,989)</u>
Supporting services:				
Pupil services	3,794,050	3,736,808	3,534,990	(201,818)
Instructional support	1,071,079	1,114,470	1,038,608	(75,862)
General administration	536,566	542,811	530,427	(12,384)
School administration	1,932,552	1,909,507	1,857,413	(52,094)
Business services	14,500	14,500	10,576	(3,924)
Operations and maintenance	3,027,242	3,512,874	3,273,578	(239,296)
Transportation	1,249,511	1,419,062	1,293,314	(125,748)
Central support	773,070	872,094	827,598	(44,496)
Community service	623,723	852,721	865,830	13,109
Total supporting services	<u>13,022,293</u>	<u>13,974,847</u>	<u>13,232,334</u>	<u>(742,513)</u>
Athletics	<u>532,929</u>	<u>568,538</u>	<u>627,155</u>	<u>58,617</u>
Debt service:				
Principal	48,571	48,571	48,571	-
Interest and fiscal charges	34,000	11,000	4,284	(6,716)
Total debt service	<u>82,571</u>	<u>59,571</u>	<u>52,855</u>	<u>(6,716)</u>
<b>Total expenditures</b>	<u>28,003,704</u>	<u>30,470,077</u>	<u>29,377,476</u>	<u>(1,092,601)</u>
Revenues under expenditures	(2,591,250)	(2,016,158)	(1,032,794)	983,364
<b>Other financing sources</b>				
Transfers in	<u>20,000</u>	<u>40,000</u>	<u>40,000</u>	<u>-</u>
<b>Net change in fund balance</b>	<u>(2,571,250)</u>	<u>(1,976,158)</u>	<u>(992,794)</u>	<u>983,364</u>
Fund balance, beginning of year	<u>5,924,740</u>	<u>5,924,740</u>	<u>5,924,740</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 3,353,490</u>	<u>\$ 3,948,582</u>	<u>\$ 4,931,946</u>	<u>\$ 983,364</u>

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

## **NOTES TO FINANCIAL STATEMENTS**

# MILAN AREA SCHOOLS

## Notes to Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

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. 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*. 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, except for expenditure-driven grants, which use a period of one year. 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 *2016 debt service fund* accounts for all financial resources restricted, committed, or assigned to expenditure for principal and interest of the 2016 bond issue and a portion of the school bond loan fund.

Additionally, the District reports the following fund types:

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

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

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

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.

The District's investments in the Michigan Liquid Assets Fund (MILAF) are recorded at amortized cost, and its investments in money market funds and in the Michigan CLASS government investment pool are stated at fair value.

##### ***Receivables and Payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans).

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

## MILAN AREA SCHOOLS

### Notes to Financial Statements

#### *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 acquisition cost 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

#### *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 charge 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 also reports deferred outflows of resources related to the net pension liability and the net other postemployment benefit liability. A portion of these costs represent contributions to the plan subsequent to the plan measurement date.

## MILAN AREA SCHOOLS

### Notes to Financial Statements

#### ***Compensated Absences***

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

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

Administrators and other support staff working year-round accrue vacation time in varying amounts. Teachers and other personnel working less than twelve months during the year 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 their 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 are related to pension and other postemployment benefit liabilities.

# 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, as well as for any deficits reported in other governmental funds.

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 and Other Postemployment Benefits*

For purposes of measuring the net pension and other postemployment benefit liabilities, deferred outflows of resources, and deferred inflows of resources related to pension and other postemployment benefits, and pension and other postemployment benefit 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 funds are under formal budgetary control. Budgets shown in the financial statements are adopted annually on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the general and special revenue funds are adopted on a functional basis. All annual appropriations lapse at fiscal year end.

## 3. ACCOUNTABILITY AND COMPLIANCE

During the year ended June 30, 2022, the District incurred expenditures which were in excess of the amounts appropriated, as follows:

	Final Budget	Actual	Over Budget
<b>General fund</b>			
Supporting services -			
Community service	\$ 852,721	\$ 865,830	\$ 13,109
Athletics	568,538	627,155	58,617



# MILAN AREA SCHOOLS

## Notes to Financial Statements

### 4. DEPOSITS AND INVESTMENTS

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

#### Statement of Net Position

Cash and cash equivalents	\$ 5,276,426
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#### Deposits and investments

Cash on hand	\$ 5,695
Bank deposits (checking and savings accounts)	2,700,793
Investments	2,569,938

<b>Total</b>	<b>\$ 5,276,426</b>
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#### 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 five 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 allows for all of the above investment types.

## 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	\$ 2,567,908	S&P AAAM
American Funds money market funds	n/a	17	S&P AAAM
Michigan CLASS government investment pool	n/a	<u>2,013</u>	S&P AAAM
		<u>\$ 2,569,938</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, \$2,212,962 of the District's bank balance of \$2,712,962 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.

## MILAN AREA SCHOOLS

### Notes to Financial Statements

*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.

The District's only recurring fair value measurements as of June 30, 2022 were related to its investments in money market funds. These investments are valued using quoted market pricing of the underlying securities (Level 1 inputs).

*Investments in Entities that Calculate Net Asset Value per Share.* The District holds shares in Michigan CLASS whereby the fair value of the investment is measured on a recurring basis using net asset value per share (or its equivalent) of the investment pool as a practical expedient.

At year end, the net asset value of the District's investment in Michigan CLASS was \$2,013. The investment pool had no unfunded commitments, specific redemption frequency or redemption notice period required. The Michigan CLASS investment pool invests in U.S. treasury obligations, federal agency obligations of the U.S. government, high-grade commercial paper (rated 'A-1' or better) collateralized bank deposits, repurchase agreements (collateralized at 102% by Treasuries and agencies), and approved money market funds. The program seeks to provide safety, liquidity, convenience, and competitive rates of return, and is designed to meet the needs of Michigan public sector investors. It purchases securities that are legally permissible under state statutes and are available for investment by Michigan counties, cities, townships, school districts, authorities, and other public agencies.

### 5. RECEIVABLES

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

	General	Nonmajor Governmental Funds	Totals
Accounts receivable	\$ 36,621	\$ -	\$ 36,621
Due from other governments	4,596,538	28,242	4,624,780
	<u>\$ 4,633,159</u>	<u>\$ 28,242</u>	<u>\$ 4,661,401</u>

## MILAN AREA SCHOOLS

### Notes to Financial Statements

#### 6. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2022 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	9,270,496	-	-	9,270,496
Buildings and improvements	97,935,959	-	-	97,935,959
Equipment	2,526,781	50,973	-	2,577,754
Vehicles	1,877,755	92,529	61,248	1,909,036
	<u>111,610,991</u>	<u>143,502</u>	<u>61,248</u>	<u>111,693,245</u>
Less accumulated depreciation for:				
Land improvements	6,841,102	353,671	-	7,194,773
Buildings and improvements	33,485,759	2,024,128	-	35,509,887
Equipment	2,071,478	99,277	-	2,170,755
Vehicles	1,315,234	106,228	61,248	1,360,214
	<u>43,713,573</u>	<u>2,583,304</u>	<u>61,248</u>	<u>46,235,629</u>
Total capital assets being depreciated, net	<u>67,897,418</u>	<u>(2,439,802)</u>	<u>-</u>	<u>65,457,616</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 69,505,363</u>	<u>\$ (2,439,802)</u>	<u>\$ -</u>	<u>\$ 67,065,561</u>

Depreciation expense of \$2,583,304 is reported as unallocated depreciation, and not allocated to individual functions.

## MILAN AREA SCHOOLS

### Notes to Financial Statements

#### 7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	General	2016 Debt Service	Nonmajor Governmental Funds	Totals
Fund Financial Statements:				
Accounts payable	\$ 403,728	\$ 680	\$ 176	\$ 404,584
Accrued liabilities	271,266	-	-	271,266
Salaries and benefits payable	2,610,992	-	506	2,611,498
	<u>\$ 3,285,986</u>	<u>\$ 680</u>	<u>\$ 682</u>	<u>3,287,348</u>
Government-wide Financial Statements -				
Accrued interest on long-term debt				<u>420,084</u>
				<u>\$ 3,707,432</u>

#### 8. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

As of year end, interfund receivables and payables consisted of the following:

	Due from Other Funds	Due to Other Funds
General	\$ -	\$ 540,297
2016 debt service	103,977	-
Nonmajor governmental funds	436,320	-
	<u>\$ 540,297</u>	<u>\$ 540,297</u>

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

For the year ended June 30, 2022, interfund transfers consisted of \$40,000 transferred from the nonmajor food service fund to the general fund to cover certain allocable costs.

## MILAN AREA SCHOOLS

### Notes to Financial Statements

#### 9. LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2022 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
<b>Governmental activities</b>					
General obligation bonds	\$ 67,695,000	\$ -	\$ 12,815,000	\$ 54,880,000	\$ 13,180,000
Financed purchases	80,779	-	48,571	32,208	32,208
Direct borrowings - School bond loan fund	21,413,031	9,129,680	-	30,542,711	-
Total installment debt	89,188,810	9,129,680	12,863,571	85,454,919	13,212,208
Unamortized bond premium	5,698,217	-	529,517	5,168,700	529,517
Compensated absences	674,872	1,185,600	1,207,019	653,453	653,453
<b>Total long-term debt</b>	<b>\$ 95,561,899</b>	<b>\$ 10,315,280</b>	<b>\$ 14,600,107</b>	<b>\$ 91,277,072</b>	<b>\$ 14,395,178</b>

Compensated absences are typically liquidated by the general fund.

Bonds payable consist of the following issues:

#### General obligation bonds

2016 SBLF Refunding Bonds, due in annual installments of \$8,500,000 to \$9,100,000 through 2023, interest at 1.931% to 2.544%.	\$ 9,100,000
2018 Refunding Bonds, due in annual installments of \$2,070,000 to \$2,345,000 through 2030, interest at 5.00%.	18,250,000
2019 Refunding Bonds, due in annual installments of \$1,525,000 to \$2,940,000 through 2034, interest at 5.00%.	27,530,000
<b>Total general obligation bonds</b>	<b>\$ 54,880,000</b>

## MILAN AREA SCHOOLS

### Notes to Financial Statements

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

Year Ended June 30,	Principal	Interest	Total
2023	\$ 13,180,000	\$ 2,520,504	\$ 15,700,504
2024	4,190,000	2,085,000	6,275,000
2025	4,250,000	1,875,500	6,125,500
2026	4,315,000	1,663,000	5,978,000
2027	4,370,000	1,447,250	5,817,250
2028-2032	18,830,000	3,983,500	22,813,500
2033-2034	5,745,000	434,250	6,179,250
<b>Totals</b>	<b>\$ 54,880,000</b>	<b>\$ 14,009,004</b>	<b>\$ 68,889,004</b>

#### *Financed Purchases*

The District's only financed purchase is for copiers. The financed purchase requires monthly installments of \$4,405 (including interest) to be paid beginning January 2019 and ending March 2023. This agreement qualifies as a financed purchase for accounting purposes, and therefore, had been recorded at the present value of the future minimum payments as of the inception date.

The assets acquired through the financed purchase are summarized as follows:

Equipment	\$ 182,766
Less accumulated depreciation	<u>(124,529)</u>
	<u>\$ 58,237</u>

The net present value of future minimum payments as of June 30, 2022, were as follows:

Year Ended June 30,	Amount
2023	\$ 33,038
Less amount representing interest	<u>(830)</u>
<b>Total</b>	<u><b>\$ 32,208</b></u>

## MILAN AREA SCHOOLS

### Notes to Financial Statements

#### *School Bond Loan Fund*

The School Bond Loan Fund balance 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, 2022, are as follows:

	School Bond Loan Fund		
	Principal	Interest	Total
Beginning balance	\$ 20,804,606	\$ 608,425	\$ 21,413,031
Additions	8,563,705	565,975	9,129,680
<b>Ending balance</b>	<u>\$ 29,368,311</u>	<u>\$ 1,174,400</u>	<u>\$ 30,542,711</u>

### 10. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2022, was as follows:

Capital assets, net	\$ 67,065,561
Capital related bonds payable outstanding	(45,780,000)
Financed purchases	(32,208)
Unamortized bond premium	(5,168,700)
Deferred charge on refunding	<u>2,856,099</u>
<b>Net investment in capital assets</b>	<u>\$ 18,940,752</u>



## MILAN AREA SCHOOLS

### Notes to Financial Statements

#### 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 claims. The District has a flexible benefit plan for group medical, disability, and dental/vision insurance. 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 flexible benefit program.

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

	2022	2021
Accrued claims, beginning of year	\$ 32,000	\$ 32,000
Incurred claims	427,763	357,808
Claim payments	<u>(427,763)</u>	<u>(357,808)</u>
<b>Accrued claims, end of year</b>	<b><u>\$ 32,000</u></b>	<b><u>\$ 32,000</u></b>

#### 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 60 days after year end). Amounts received subsequent to August 31 are recognized as revenue when collected.

#### 13. TAX ABATEMENTS

The District received reduced property tax revenues during 2022 as a result of industrial facilities tax exemptions (IFT's) entered into by cities, villages, townships, and authorities within the District boundaries.

The IFT's were entered into based upon the Plant Rehabilitation and Industrial Developments Districts Act (known as the Industrial Facilities Exemption), PA 198 of 1974, as amended. IFT's provide a tax incentive to manufacturers to enable renovation and expansion of aging facilities, assist in the building of new facilities, and to promote the establishment of high-tech facilities. Properties qualifying for IFT status are taxed at 50% of the millage rate applicable to other real and personal property within the District boundaries. The abatements amounted to approximately \$103,000 in reduced District tax revenues for 2022.

## MILAN AREA SCHOOLS

### Notes to Financial Statements

#### 14. PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS

##### *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's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

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 the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

##### *Pension 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.

A 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

Participants in the defined contribution plan consist of one of the following: (1) members who worked for a Michigan public school on or after September 4, 2012 and elected to be enrolled in the defined contribution plan; (2) members who elected to transfer from the defined benefit plan to the defined contribution plan under the reform (P.A. 300) of 2012; or (3) members who worked for a Michigan public school on or after February 1, 2018 and did not elect participation in the Pension Plus 2 plan. Members who worked for a Michigan public school on or after September 4, 2012 and elected to be enrolled in the defined contribution plan receive a 100% match of the member contribution rate up to a maximum of 3% based on the member's gross earnings. Additionally, there is a mandatory employer contribution of 4% of the member's gross earnings for MPSERS members who elected to convert from a Basic or MIP benefit plan to the defined contribution benefit plan. Members electing the Pension Plus or Pension Plus 2 benefit plan receive a 50% match of the member's contribution percent up to a maximum of 1% based on the member's gross earnings. Effective October 1, 2017, there is a mandatory employer contribution of 4% of the member's gross earnings for members who elect the Defined Contribution benefit plan. The employer must match 100% of the employee contribution for any member who elected the Personal Healthcare Fund up to a maximum of 2% of the member's gross earnings. For all members with a Personal Health Care Fund (PHF), the first 2% of DC contributions must go into the PHF and must be matched 100% by the employer.

#### ***Other Postemployment Benefits Provided***

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree healthcare recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP Graded plan members) the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008 (MIP-Plus plan members) have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012 or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's transition date, which is defined as the first day of the pay period that begins on or after February 1, 2013.

## MILAN AREA SCHOOLS

### Notes to Financial Statements

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

#### **Contributions**

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, 2020 valuation will be amortized over an 18-year period beginning October 1, 2020 and ending September 30, 2038.

The table below summarizes pension contribution rates in effect for fiscal year 2022:

Benefit Structure	Member Rate	Employer Rate
Basic	0.00% - 4.00%	19.78% - 20.14%
Member Investment Plan (MIP)	3.00% - 7.00%	19.78% - 20.14%
Pension Plus	3.00% - 6.40%	16.82% - 17.22%
Pension Plus 2	6.20%	19.59% - 19.93%
Defined Contribution	0.00%	13.39% - 13.73%

For the year ended June 30, 2022, required and actual contributions from the District to the pension plan were \$5,027,630, which included \$2,189,889, the amount received from the State and remitted to the System to fund the MPSERS unfunded actuarial accrued liability ("UAAL") stabilization rate.

## MILAN AREA SCHOOLS

### Notes to Financial Statements

The table below summarizes OPEB contribution rates in effect for fiscal year 2022:

Benefit Structure	Member Rate	Employer Rate
Premium Subsidy	3.00%	8.09% - 8.43%
Personal Healthcare Fund (PHF)	0.00%	7.23% - 7.57%

For the year ended June 30, 2022, required and actual contributions from the District to the OPEB plan were \$964,354.

The table below summarizes defined contribution rates in effect for fiscal year 2022:

Benefit Structure	Member Rates	Employer Rates
Defined Contribution	0.00% - 3.00%	0.00% - 7.00%
Personal Healthcare Fund (PHF)	0.00% - 2.00%	0.00% - 2.00%

For the year ended June 30, 2022, required and actual contributions from the District for those members with a defined contribution benefit were \$215,725.

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

At June 30, 2022, the District reported a liability of \$34,803,749 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2020. 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, 2021, the District's proportion was 0.14700%, which was a decrease of 0.00234% from its proportion measured as of September 30, 2020.

## MILAN AREA SCHOOLS

### Notes to Financial Statements

For the year ended June 30, 2022, the District recognized pension expense of \$3,698,198. At June 30, 2022, 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	\$ 539,125	\$ 204,953	\$ 334,172
Changes in assumptions	2,193,904	-	2,193,904
Net difference between projected and actual earnings on pension plan investments	-	11,189,293	(11,189,293)
Changes in proportion and differences between employer contributions and proportionate share of contributions	60,430	1,031,010	(970,580)
	<u>2,793,459</u>	<u>12,425,256</u>	<u>(9,631,797)</u>
District contributions subsequent to the measurement date	4,713,429	-	4,713,429
<b>Total</b>	<u>\$ 7,506,888</u>	<u>\$ 12,425,256</u>	<u>\$ (4,918,368)</u>

The \$4,713,429 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, 2023. 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
2023	\$ (1,286,278)
2024	(2,284,711)
2025	(2,955,504)
2026	<u>(3,105,304)</u>
<b>Total</b>	<u>\$ (9,631,797)</u>

## MILAN AREA SCHOOLS

### Notes to Financial Statements

#### *OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB*

At June 30, 2022, the District reported a liability of \$2,215,746 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2020. The District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2021, the District's proportion was 0.14516% which was a decrease of 0.00452% from its proportion measured as of September 30, 2020.

For the year ended June 30, 2022, the District recognized OPEB expense of \$(1,324,020). At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ -	\$ 6,324,690	\$ (6,324,690)
Changes in assumptions	1,852,254	277,166	1,575,088
Net difference between projected and actual earnings on OPEB plan investments	-	1,670,048	(1,670,048)
Changes in proportion and differences between employer contributions and proportionate share of contributions	82,568	515,399	(432,831)
	<u>1,934,822</u>	<u>8,787,303</u>	<u>(6,852,481)</u>
District contributions subsequent to the measurement date	823,974	-	823,974
<b>Total</b>	<u>\$ 2,758,796</u>	<u>\$ 8,787,303</u>	<u>\$ (6,028,507)</u>

## MILAN AREA SCHOOLS

### Notes to Financial Statements

The \$823,974 reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	Amount
2023	\$ (1,752,427)
2024	(1,626,570)
2025	(1,511,777)
2026	(1,379,948)
2027	(514,285)
Thereafter	<u>(67,474)</u>
<b>Total</b>	<b><u>\$ (6,852,481)</u></b>

#### 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 and OPEB liabilities in the September 30, 2020 actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age, normal
Wage inflation rate	2.75%
Investment rate of return:	
MIP and Basic plans (non-hybrid)	6.80%
Pension Plus plan (hybrid)	6.80%
Pension Plus 2 plan (hybrid)	6.00%
OPEB plans	6.95%
Projected salary increases	2.75% - 11.55%, including wage inflation at 2.75%
Cost of living adjustments	3% annual non-compounded for MIP members
Healthcare cost trend rate	7.75% Year 1 graded to 3.5% Year 15; 3.0% Year 120
Mortality	RP-2014 Male and Female Employee Annuitant Mortality Tables, adjusted for mortality improvements using projection scale MP-2017 from 2006. For retirees, the tables were scaled by 82% for males and 78% for females. For active members, 100% of the table rates were used for both males and females.



## MILAN AREA SCHOOLS

### Notes to Financial Statements

#### Other OPEB assumptions:

Opt-out assumptions	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt-out of the retiree health plan.
Survivor coverage	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death.
Coverage election at retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension and OPEB valuations beginning with the September 30, 2017 valuation. The total pension and OPEB liabilities as of September 30, 2021, are based on the results of an actuarial valuation date of September 30, 2020, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for pension liabilities is 4.4367 years which is the average of the expected remaining service lives of all employees. The recognition period for OPEB liabilities is 6.1312 years which is the average of the expected remaining service lives of all employees. The recognition period for assets is 5 years.

#### ***Long-term Expected Return on Pension 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, 2021, 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	25.00%	5.09%	1.27%
Private equity pools	16.00%	8.58%	1.37%
International equity pools	15.00%	7.08%	1.06%
Fixed income pools	10.50%	-0.73%	-0.08%
Real estate and infrastructure pools	10.00%	5.12%	0.51%
Absolute return pools	9.00%	2.42%	0.22%
Real return/opportunistic pools	12.50%	5.73%	0.72%
Short-term investment pools	2.00%	-1.29%	-0.03%
	<u>100.00%</u>		5.04%
Inflation			2.00%
Risk adjustment			<u>-0.24%</u>
<b>Investment rate of return</b>			<u><u>6.80%</u></u>

## MILAN AREA SCHOOLS

### Notes to Financial Statements

#### *Long-term Expected Return on OPEB Plan Assets*

The long-term expected rate of return on OPEB 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 OPEB 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 OPEB plan's target asset allocation as of September 30, 2021, 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	25.00%	5.09%	1.27%
Private equity pools	16.00%	8.58%	1.37%
International equity pools	15.00%	7.08%	1.06%
Fixed income pools	10.50%	-0.73%	-0.08%
Real estate and infrastructure pools	10.00%	5.12%	0.51%
Absolute return pools	9.00%	2.42%	0.22%
Real return/opportunistic pools	12.50%	5.73%	0.72%
Short-term investment pools	2.00%	-1.29%	-0.03%
	<u>100.00%</u>		5.04%
Inflation			2.00%
Risk adjustment			<u>-0.09%</u>
<b>Investment rate of return</b>			<u><u>6.95%</u></u>

#### *Rate of Return*

For the fiscal year ended September 30, 2021, the annual money-weighted rate of return on pension and OPEB plan investments, net of pension and OPEB plan investment expense, was 27.30% and 27.14%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

## MILAN AREA SCHOOLS

### Notes to Financial Statements

#### *Discount Rate*

A discount rate of 6.80% was used to measure the total pension liability (6.80% for the Pension Plus plan, 6.00% for the Pension Plus 2 plan, both of which are hybrid plans provided through non-university employers only) and a discount rate of 6.95% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on pension and OPEB plan investments of 6.80% (6.80% for the Pension Plus plan, 6.00% for the Pension Plus 2 plan) and 6.95%, respectively. The projection of cash flows used to determine these discount rates 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 and OPEB 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 and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension and OPEB liabilities.

#### *Sensitivity of the 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 6.80% (6.80% for the Pension Plus plan, 6.00% for the Pension Plus 2 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 point higher:

	1% Decrease (5.80% / 5.80% / 5.00%)	Current Discount Rate (6.80% / 6.80% / 6.00%)	1% Increase (7.80% / 7.80% / 7.00%)
District's proportionate share of the net pension liability	\$ 49,759,922	\$ 34,803,749	\$ 22,404,100

#### *Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate*

The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate of 6.95%, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

	1% Decrease (5.95%)	Current Discount Rate (6.95%)	1% Increase (7.95%)
District's proportionate share of the net OPEB liability	\$ 4,117,257	\$ 2,215,746	\$ 602,043

## MILAN AREA SCHOOLS

### Notes to Financial Statements

#### *Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Healthcare Cost Trend Rate*

The following presents the District's proportionate share of the net OPEB liability calculated using the assumed trend rates, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a trend rate that is 1 percentage point lower or 1 percentage point higher:

	1% Decrease (6.00%)	Current Healthcare Cost Trend Rate (7.00%)	1% Increase (8.00%)
District's proportionate share of the net OPEB liability	\$ 539,295	\$ 2,215,746	\$ 4,101,956

#### *Pension and OPEB Plans Fiduciary Net Position*

Detailed information about the pension and OPEB 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](http://www.michigan.gov/orsschools).

#### *Payable to the Pension Plan*

At June 30, 2022, the District reported a payable of \$712,353 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2022.

#### *Payable to the OPEB Plan*

At June 30, 2022, the District reported a payable of \$126,135 for the outstanding amount of OPEB contributions to the Plan required for the year ended June 30, 2022.

### 15. CORONAVIRUS (COVID-19)

In March 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) to be a global pandemic. While the pandemic has resulted in an increase in the demands on the District to deliver education to students in a safe environment, the Federal Government has also provided significant resources to help mitigate the impacts of COVID-19. Over the past two years, the District has been awarded funds from various sources to be used to respond to the impacts of the COVID-19 pandemic. Of the amount awarded, approximately \$0.8 million was expended and recognized as revenue during the current fiscal year. With these additional federal resources, at this time management does not believe that the negative financial impact of the pandemic, if any, would be material to the District.

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**REQUIRED SUPPLEMENTARY  
INFORMATION**

## MILAN AREA SCHOOLS

### Required Supplementary Information

MPSERS Cost-Sharing Multiple Employer Plan

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

	Year Ended June 30,		
	2022	2021	2020
District's proportionate share of the net pension liability	\$ 34,803,749	\$ 51,299,289	\$ 49,933,998
District's proportion of the net pension liability	0.14700%	0.14934%	0.15078%
District's covered payroll	\$ 13,143,080	\$ 13,297,556	\$ 13,148,995
District's proportionate share of the net pension liability as a percentage of its covered payroll	264.81%	385.78%	379.76%
Plan fiduciary net position as a percentage of the total pension liability	72.60%	59.72%	60.31%

See notes to required supplementary information.



Year Ended June 30,				
2019	2018	2017	2016	2015
\$ 45,450,765	\$ 38,627,656	\$ 36,305,226	\$ 36,052,978	\$ 29,774,310
0.15119%	0.14906%	0.14552%	0.14761%	0.13517%
\$ 13,025,486	\$ 12,745,796	\$ 12,305,228	\$ 12,462,109	\$ 11,568,938
348.94%	303.06%	295.04%	289.30%	257.36%
62.36%	64.21%	63.27%	63.17%	66.20%

## MILAN AREA SCHOOLS

### Required Supplementary Information

MPSERS Cost-Sharing Multiple Employer Plan  
Schedule of the District's Pension Contributions

	Year Ended June 30,		
	2022	2021	2020
Statutorily required contributions	\$ 5,027,630	\$ 4,372,092	\$ 4,127,176
Contributions in relation to the statutorily required contributions	<u>(5,027,630)</u>	<u>(4,372,092)</u>	<u>(4,127,176)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 14,135,685	\$ 12,926,948	\$ 13,457,804
Contributions as a percentage of covered payroll	35.57%	33.82%	30.67%

See notes to required supplementary information.





Year Ended June 30,				
2019	2018	2017	2016	2015
\$ 4,002,215	\$ 4,098,079	\$ 3,477,521	\$ 3,475,003	\$ 2,586,933
<u>(4,002,215)</u>	<u>(4,098,079)</u>	<u>(3,477,521)</u>	<u>(3,475,003)</u>	<u>(2,586,933)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 13,081,656	\$ 12,901,049	\$ 12,140,365	\$ 12,816,320	\$ 11,859,819
30.59%	31.77%	28.64%	27.11%	21.81%

## MILAN AREA SCHOOLS

### Required Supplementary Information

MPSERS Cost-Sharing Multiple Employer Plan

Schedule of the District's Proportionate Share of the Net Other Postemployment Benefit Liability

	Year Ended June 30,				
	2022	2021	2020	2019	2018
District's proportionate share of the net OPEB liability	\$ 2,215,746	\$ 8,018,686	\$ 10,778,002	\$ 12,140,099	\$ 13,245,271
District's proportion of the net OPEB liability	0.14516%	0.14968%	0.15016%	0.15273%	0.14957%
District's covered payroll	\$ 13,143,080	\$ 13,297,556	\$ 13,148,995	\$ 13,025,486	\$ 12,745,796
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	16.86%	60.30%	81.97%	93.20%	103.92%
Plan fiduciary net position as a percentage of the total OPEB liability	87.33%	59.44%	48.46%	42.95%	36.39%

See notes to required supplementary information.

## MILAN AREA SCHOOLS

### Required Supplementary Information

MPSERS Cost-Sharing Multiple Employer Plan

Schedule of the District's Other Postemployment Benefit Contributions

	Year Ended June 30,				
	2022	2021	2020	2019	2018
Statutorily required contributions	\$ 964,354	\$ 1,056,715	\$ 1,067,693	\$ 1,015,895	\$ 952,287
Contributions in relation to the statutorily required contributions	(964,354)	(1,056,715)	(1,067,693)	(1,015,895)	(952,287)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 14,135,685	\$ 12,926,948	\$ 13,457,804	\$ 13,081,656	\$ 12,901,049
Contributions as a percentage of covered payroll	6.82%	8.17%	7.93%	7.77%	7.38%

See notes to required supplementary information.

# MILAN AREA SCHOOLS

## Notes to Required Supplementary Information

### Pension Information

GASB 68 was implemented in fiscal year 2015. The pension plan schedules are being built prospectively. Ultimately, 10 years of data will be presented.

The amounts presented in the schedule of the District's Proportionate Share of the Net Pension Liability were determined as of September 30 of the preceding year (the plan year).

The significant changes in assumptions for each of the fiscal years ended June 30 were as follows:

- 2022 - The payroll growth assumption for amortization purposes used in determining the fiscal year 2023 employer contributions decreased from 3.0% to 2.5%.
- 2021 - The payroll growth assumption for amortization purposes used in determining the fiscal year 2022 employer contributions decreased from 3.5% to 3.0%.
- 2020 - The discount rate used in the September 30, 2018 actuarial valuation decreased to 6.80% for the MIP and Basic plans, 6.80% for the Pension Plus Plan, and 6.00% for the Pension Plus 2 Plan.
- 2019 - The discount rate used in the September 30, 2017 actuarial valuation decreased to 7.05% for the MIP and Basic plans, 7.00% for the Pension Plus plan, and 6.00% for the Pension Plus 2 plan.
- 2018 - The discount rate used in the September 30, 2016 actuarial valuation decreased to 7.50% for the MIP and Basic plans and 7.00% for the Pension Plus plan.

### OPEB Information

GASB 75 was implemented in fiscal year 2018. The OPEB plan schedules are being built prospectively. Ultimately, 10 years of date will be presented.

The amounts presented in the schedule of the District's Proportionate Share of the Net OPEB Liability were determined as of September 30 of the preceding year (the plan year).

The significant changes in assumptions for each of the fiscal years ended June 30 were as follows:

- 2022 - The payroll growth assumption for amortization purposes used in determining the fiscal year 2023 employer contributions decreased from 3.0% to 2.5%. The healthcare cost trend rate used in the September 30, 2020 actuarial valuation increased to 7.75%.
- 2021 - The payroll growth assumption for amortization purposes used in determining the fiscal year 2022 employer contributions decreased from 3.5% to 3.0%. The healthcare cost trend rate used in the September 30, 2019 actuarial valuation decreased to 7.0%.
- 2020 - The discount rate used in the September 30, 2018 actuarial valuation decreased to 6.95%.
- 2019 - The discount rate used in the September 30, 2017 actuarial valuation decreased to 7.15%.

**COMBINING FUND  
FINANCIAL STATEMENTS**

## MILAN AREA SCHOOLS

### Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2022

	Special Revenue		Debt Service		Totals
	Food Service	Student/School Activity	2018 Debt Service	2019 Debt Service	
<b>Assets</b>					
Cash and cash equivalents	\$ 16,891	\$ 678,353	\$ 48,561	\$ 67,222	\$ 811,027
Due from other governments	28,242	-	-	-	28,242
Due from other funds	281,881	-	51,463	102,976	436,320
Inventory	12,306	-	-	-	12,306
Prepaid items	50,000	-	-	-	50,000
<b>Total assets</b>	<u>\$ 389,320</u>	<u>\$ 678,353</u>	<u>\$ 100,024</u>	<u>\$ 170,198</u>	<u>\$ 1,337,895</u>
<b>Liabilities</b>					
Accounts payable	\$ -	\$ -	\$ 86	\$ 90	\$ 176
Salaries and benefits payable	506	-	-	-	506
Unearned revenue	36,638	-	-	-	36,638
<b>Total liabilities</b>	<u>37,144</u>	<u>-</u>	<u>86</u>	<u>90</u>	<u>37,320</u>
<b>Fund balances</b>					
Nonspendable:					
Inventory	12,306	-	-	-	12,306
Prepaid items	50,000	-	-	-	50,000
Restricted:					
Food service	289,870	-	-	-	289,870
Debt service	-	-	99,938	170,108	270,046
Committed -					
Student/school activity	-	678,353	-	-	678,353
<b>Total fund balances</b>	<u>352,176</u>	<u>678,353</u>	<u>99,938</u>	<u>170,108</u>	<u>1,300,575</u>
<b>Total liabilities and fund balances</b>	<u>\$ 389,320</u>	<u>\$ 678,353</u>	<u>\$ 100,024</u>	<u>\$ 170,198</u>	<u>\$ 1,337,895</u>

## MILAN AREA SCHOOLS

### Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended June 30, 2022

	Special Revenue		Debt Service		
	Food Service	Student/School Activity	2018 Debt Service	2019 Debt Service	Totals
<b>Revenues</b>					
Local sources	\$ 12,929	\$ 473,582	\$ 1,499,005	\$ 1,711,431	\$ 3,696,947
State sources	27,082	-	81,895	85,308	194,285
Federal sources	1,116,008	-	-	-	1,116,008
<b>Total revenues</b>	<b>1,156,019</b>	<b>473,582</b>	<b>1,580,900</b>	<b>1,796,739</b>	<b>5,007,240</b>
<b>Expenditures</b>					
Current:					
Supporting services	-	416,352	-	-	416,352
Food service	832,503	-	-	-	832,503
Debt service:					
Principal	-	-	2,290,000	1,675,000	3,965,000
Interest and fiscal charges	-	-	1,027,744	1,460,937	2,488,681
<b>Total expenditures</b>	<b>832,503</b>	<b>416,352</b>	<b>3,317,744</b>	<b>3,135,937</b>	<b>7,702,536</b>
Revenues over (under) expenditures	323,516	57,230	(1,736,844)	(1,339,198)	(2,695,296)
<b>Other financing sources (uses)</b>					
Issuance of long-term debt	-	-	1,729,790	1,351,146	3,080,936
Transfers out	(40,000)	-	-	-	(40,000)
<b>Total other financing sources (uses)</b>	<b>(40,000)</b>	<b>-</b>	<b>1,729,790</b>	<b>1,351,146</b>	<b>3,040,936</b>
<b>Net change in fund balances</b>	<b>283,516</b>	<b>57,230</b>	<b>(7,054)</b>	<b>11,948</b>	<b>345,640</b>
Fund balances, beginning of year	68,660	621,123	106,992	158,160	954,935
<b>Fund balances, end of year</b>	<b>\$ 352,176</b>	<b>\$ 678,353</b>	<b>\$ 99,938</b>	<b>\$ 170,108</b>	<b>\$ 1,300,575</b>

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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 12, 2022

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, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated October 12, 2022, 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.

*Rehmann Lobson LLC*



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## MILAN AREA SCHOOLS

### Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2022

Federal Agency / Cluster / Program Title	Assistance Listing Number	Passed Through	Pass-through / Grantor Number
<b>U.S. Department of Agriculture</b>			
Child Nutrition Cluster:			
Seamless Summer Option - Breakfast:			
2020-2021	10.553	MDE	211971
2021-2022	10.553	MDE	221971
Seamless Summer Option - Lunch:			
2020-2021	10.555	MDE	211961
2021-2022	10.555	MDE	221961
Supply Chain Assistance	10.555	MDE	220910
Non-Cash Assistance -			
Entitlement Commodities	10.555	MDE	-n/a-
Summer Food Service Program for Children -			
2020-2021	10.559	MDE	210904
Total Child Nutrition Cluster			
Child and Adult Care Food Program:			
2020-2021	10.558	MDE	211920
2021-2022	10.558	MDE	221920
Emergency Operations	10.558	MDE	211925
COVID-19 - Pandemic EBT Administrative Costs	10.649	MDE	210980-2021
<b>Total U.S. Department of Agriculture</b>			
<b>U.S. Department of Education</b>			
Adult Basic Education Instruction:			
2020-2021	84.002	MDE	201130-211667
2021-2022	84.002	MDE	221130-221667
Institutional Adults:			
2020-2021	84.002	MDE	201190-211667
2021-2022	84.002	MDE	221190-221667
Title I, Part A - Improving Basic Programs:			
2020-2021	84.010	MDE	211530-2021
2021-2022	84.010	MDE	221530-2122

Approved Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Unearned) Revenue at July 1, 2021	Current Year Receipts	Current Year Expenditures	Accrued (Unearned) Revenue at June 30, 2022
\$ 10,483	\$ -	\$ -	\$ 10,483	\$ 10,483	\$ -
127,751	-	-	121,329	127,751	6,422
	-	-	131,812	138,234	6,422
98,417	-	-	98,417	98,417	-
740,265	-	-	705,161	740,265	35,104
36,618	-	-	36,618	24,784	(11,834)
68,311	-	-	68,311	68,311	-
	-	-	908,507	931,777	23,270
464,651	387,554	31,100	77,097	45,997	-
	387,554	31,100	1,117,416	1,116,008	29,692
1,274	1,009	-	265	265	-
1,776	-	-	1,776	1,776	-
691	-	-	691	691	-
	1,009	-	2,732	2,732	-
614	-	-	614	614	-
	388,563	31,100	1,120,762	1,119,354	29,692
20,475	13,493	3,995	3,995	-	-
20,791	-	-	12,000	13,493	1,493
65,000	64,625	9,000	9,000	-	-
66,008	-	-	59,000	64,625	5,625
	78,118	12,995	83,995	78,118	7,118
176,322	176,322	79,322	79,322	-	-
162,952	-	-	95,000	162,952	67,952
	176,322	79,322	174,322	162,952	67,952

continued...

## MILAN AREA SCHOOLS

### Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2022

Federal Agency / Cluster / Program Title	Assistance Listing Number	Passed Through	Pass-through / Grantor Number
<b>U.S. Department of Education (concluded)</b>			
Special Education Cluster:			
IDEA Flow-through:			
2020-2021	84.027A	WISD	200450-2021
2020-2021 - carryover	84.027A	WISD	210450-2021
2021-2022	84.027A	WISD	200450-2122
IDEA Preschool:			
2021-2022	84.173A	WISD	210460-2122
COVID-19 - ARP Special Education Preschool	84.173X	WISD	221285
Total Special Education Cluster			
Title III, Part A - English Language Acquisition:			
2020-2021	84.365A	WISD	2010580-2021
2021-2022	84.365A	WISD	2010580-2122
Title II, Part A - Supporting Effective Instruction:			
2020-2021	84.367	MDE	210520-2021
2021-2022	84.367	MDE	220520-2122
Title IV, Part A - Student Support and Academic Enrichment:			
2020-2021	84.424	MDE	210750-2021
2021-2022	84.424	MDE	220750-2122
COVID-19 - Education Stabilization Fund:			
Governor's Emergency Education Relief Fund			
Teacher and Support Staff	84.425C	MDE	211202-2122
Elementary and Secondary School Emergency Relief			
ESSER II Program:			
Formula Funding	84.425D	MDE	213712-2021
Summer School	84.425D	MDE	213722-2122
Credit Recovery	84.425D	MDE	213742-2122
Benchmark Assessments	84.425D	MDE	213762-2022
ESSER III Program -			
Section 11t	84.425D	MDE	213723-2122
Total COVID-19 - Education Stabilization Fund			
<b>Total U.S. Department of Education</b>			
<b>Total Federal Financial Assistance</b>			

See notes to schedule of expenditures of federal awards.



Approved Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Unearned) Revenue at July 1, 2021	Current Year Receipts	Current Year Expenditures	Accrued (Unearned) Revenue at June 30, 2022
\$ 580,658	\$ 525,886	\$ 120,033	\$ 120,033	\$ -	\$ -
54,772	-	-	54,772	54,772	-
556,689	-	-	339,975	510,117	170,142
	<u>525,886</u>	<u>120,033</u>	<u>514,780</u>	<u>564,889</u>	<u>170,142</u>
8,388	-	-	8,388	8,388	-
5,508	-	-	5,508	5,508	-
	<u>-</u>	<u>-</u>	<u>13,896</u>	<u>13,896</u>	<u>-</u>
	525,886	120,033	528,676	578,785	170,142
6,289	1,167	1,167	1,167	-	-
3,568	-	-	-	2,108	2,108
	<u>1,167</u>	<u>1,167</u>	<u>1,167</u>	<u>2,108</u>	<u>2,108</u>
74,519	74,519	32,519	32,519	-	-
45,547	-	-	42,000	45,547	3,547
	<u>74,519</u>	<u>32,519</u>	<u>74,519</u>	<u>45,547</u>	<u>3,547</u>
17,220	14,747	14,747	14,747	-	-
14,464	-	-	-	13,733	13,733
	<u>14,747</u>	<u>14,747</u>	<u>14,747</u>	<u>13,733</u>	<u>13,733</u>
35,500	-	-	35,500	35,500	-
569,773	-	-	425,000	569,773	144,773
88,239	-	-	79,754	79,754	-
40,700	-	-	12,829	22,744	9,915
15,325	-	-	15,325	15,325	-
1,047,149	-	-	-	61,469	61,469
	<u>-</u>	<u>-</u>	<u>568,408</u>	<u>784,565</u>	<u>216,157</u>
	<u>870,759</u>	<u>260,783</u>	<u>1,445,834</u>	<u>1,665,808</u>	<u>480,757</u>
<u>\$ 1,259,322</u>	<u>\$ 291,883</u>	<u>\$ 2,566,596</u>	<u>\$ 2,785,162</u>	<u>\$ 510,449</u>	

concluded.

# MILAN AREA SCHOOLS

## Notes to Schedule of Expenditures of Federal Awards

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, 2022. 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.

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 or other applicable guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts, if any, shown on the Schedule 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.

### 2. 10% DE MINIMIS COST RATE

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 TO BASIC FINANCIAL STATEMENTS

A reconciliation of revenues from federal sources per governmental funds financial statements and expenditures per single audit act compliance schedule of expenditures of federal awards is as follows:

Federal revenues as reported in the financial statements	\$ 3,070,921
Federal assistance received as beneficiary	<u>(285,759)</u>
<b>Expenditures per schedule of expenditures of federal awards</b>	<b><u>\$ 2,785,162</u></b>

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
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 12, 2022

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, 2022, 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 12, 2022.

### **Report on 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) as a basis for designing 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 or significant deficiencies may exist that have not been identified.



## **Report on 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 financial statements. 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.

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

October 12, 2022

Board of Education  
Milan Area Schools  
Milan, Michigan

### Report on Compliance for Each Major Federal Program

#### ***Opinion on Each Major Federal Program***

We have audited the compliance of ***Milan Area Schools*** (the "District") with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2022. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

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 each of its major federal programs for the year ended June 30, 2022.

#### ***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Independent Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.



### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the District's federal programs.

### ***Independent Auditors' Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.



## **Report on 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 Independent Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

### ***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.

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## MILAN AREA SCHOOLS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2022

#### 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>Assistance Listing Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Type of Report</u>
10.553, 10.555, & 10.559	Child Nutrition Cluster	Unmodified
84.425	COVID-19 - Education Stabilization Fund	Unmodified

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

Auditee qualified as low-risk auditee?            yes       X       no

## MILAN AREA SCHOOLS

### **Schedule of Findings and Questioned Costs**

For the Year Ended June 30, 2022

#### **SECTION II – FINANCIAL STATEMENT FINDINGS**

No matters were reported

#### **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported

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## MILAN AREA SCHOOLS

### Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2022

No matters were reported

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