

Milan Area Schools

Year Ended
June 30, 2020

Financial
Statements and
Single Audit Act
Compliance

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MILAN AREA SCHOOLS

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INDEPENDENT AUDITORS' REPORT

October 2, 2020

Board of Education
Milan Area Schools
Milan, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Milan Area Schools* (the "District"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Milan Area Schools as of June 30, 2020, and the respective changes in financial position thereof and the budgetary comparison for the general fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Implementation of GASB Statement No. 84

As described in Note 16, the District implemented the provisions of GASB Statement No. 84, *Fiduciary Activities*, in the current year. Accordingly, beginning net position of governmental activities and beginning fund balance of the student/school activity special revenue fund were restated. Our opinion is not modified with respect to this matter.

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Milan Area Schools' internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Lehmann Lobson 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, 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, 2020.

Financial Highlights

• Total net position	\$(67,014,862)
• Change in total net position	(3,674,540)
• Fund balances, governmental funds	5,775,110
• Change in fund balances, governmental funds	(869,752)
• Unassigned fund balance, general fund	3,878,315
• Change in fund balance, general fund	(514,945)
• Installment debt outstanding	91,375,511
• Change in installment debt	(3,005,932)

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 \$67,014,862 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 \$15,581,789 at June 30, 2020. 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	
	2020	2019
Current and other assets	\$ 9,760,880	\$ 10,205,770
Capital assets, net	71,997,333	74,072,620
Total assets	<u>81,758,213</u>	<u>84,278,390</u>
Deferred outflows of resources	<u>21,354,724</u>	<u>22,003,011</u>
Other liabilities	65,247,935	61,826,509
Long-term debt	98,285,681	101,771,140
Total liabilities	<u>163,533,616</u>	<u>163,597,649</u>
Deferred inflows of resources	<u>6,594,183</u>	<u>6,567,540</u>
Net position:		
Net investment in capital assets	15,581,789	13,751,599
Restricted	110,894	842,965
Unrestricted (deficit)	(82,707,545)	(78,478,352)
Total net position	<u><u>\$ (67,014,862)</u></u>	<u><u>\$ (63,883,788)</u></u>

The District's net position as of year end was negative \$67,014,862. The District's net investment in capital assets represents the District's investment in capital assets less any related debt. 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 \$82,707,545 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	
	2020	2019
Program revenues:		
Charges for services	\$ 936,013	\$ 1,208,275
Operating grants and contributions	8,009,519	7,056,846
General revenues:		
Property taxes	8,890,219	8,847,302
Unrestricted state aid	14,420,235	16,651,171
Grants and contributions not restricted to specific programs	1,716,030	1,409,771
Unrestricted investment earnings	51,808	90,090
Total revenues	<u>34,023,824</u>	<u>35,263,455</u>
Expenses:		
Instruction	15,968,568	14,772,482
Supporting services	12,856,307	11,780,823
Community service	976,656	900,498
Athletics	497,949	591,796
Food service	807,857	786,715
Interest on long-term debt	4,006,500	3,592,211
Unallocated depreciation	2,584,527	2,626,164
Total expenses	<u>37,698,364</u>	<u>35,050,689</u>
Change in net position	(3,674,540)	212,766
Net position, beginning of year	(63,883,788)	(64,096,554)
Restatement for implementation of GASB 84	543,466	-
End of year	<u>\$ (67,014,862)</u>	<u>\$ (63,883,788)</u>

The District's net position decreased by \$3,674,540 during the current year as compared to an increase of \$212,766 in the previous year. The significant factors affecting this decrease are as follows:

- Overall revenue decreased during the year. The revenue decrease is due, in part, to a reduction in state aid funding of \$175 per pupil caused by a decrease in state revenues due to the COVID pandemic.
- Overall expenditures increased during the year. The increase was due in part to increases in pay for all employees. The district also had some major technology upgrades completed in the 2019/2020 school year. The district's change in net pension liabilities increased substantially during the year.

MILAN AREA SCHOOLS

Management's Discussion and Analysis

Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$5,775,110, a decrease of \$869,752 in comparison with the prior year. Approximately 67% of this total amount (\$3,878,315) is unassigned fund balance. The remainder of fund balance is nonspendable because the underlying assets are included in inventory and prepaid items, is assigned because the amounts are constrained by the District's intent to be used for specific purposes, or is restricted for food service and debt service, and not available for current expenditure.

The 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 \$3,878,315, while the total fund balance for the general fund is \$4,612,215. 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 14% of total general fund expenditures. This percentage is slightly lower than in 2018-2019. An unassigned fund balance of 10-12% is generally recommended.

The fund balance of the District's general fund decreased by \$514,945, during the current fiscal year. The unassigned fund balance decreased by \$762,331. The decrease in fund balance during the year was primarily due to decreased State Aid revenue, increased staff costs per negotiated contracts and technology upgrades.

The fund balance of the 2016 debt service fund decreased by \$8,122 and the fund balance for the 2019 debt service fund decreased by \$439,919, during the current fiscal year. The timing of tax payments were received prior to the February interest and principal payments in FY20. In FY19 the district received payments after the principal/interest payments were made so the funds were reflected in the fund balance.

General Fund Budgetary Highlights

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

- Revenues increased by \$1,081,653 mainly due to several things that were not known at the time of the original budget. A large portion is due to funding based in student enrollment higher than originally thought, grant increases, and additional special education funding.
- Expenditures were increased by \$1,099,212 due to more current information being available. The majority of the increase was due to salary and benefits that were increased due to new staff positions that were not in the original budget and changes to retirement and insurance amounts. There was also an increase in grant expenses. During FY20 the district also purchased/upgraded our technology in accordance with the district's technology plan. The district also incurred expenses for site improvements throughout the year.

MILAN AREA SCHOOLS

Management's Discussion and Analysis

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

Budget to actual comparisons were generally favorable. Net change in fund balance was \$590,458 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, 2020, amounted to \$71,997,333 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings and improvements, equipment and vehicles. This reflects a decrease of \$2,075,287 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 \$2,584,527.

	Capital Assets (Net of Depreciation)	
	2020	2019
Capital assets not being depreciated -		
Land	\$ 1,607,945	\$ 1,607,945
Capital assets being depreciated:		
Land improvements	2,787,465	3,141,136
Buildings and improvements	66,293,514	68,291,435
Equipment	712,420	531,502
Vehicles	595,989	500,602
Total capital assets, net	<u>\$ 71,997,333</u>	<u>\$ 74,072,620</u>

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 \$80,160,000. The District's total bonded long-term debt decreased by \$12,150,000 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 \$9,186,037.

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 2020-21 fiscal year:

- The budget for the year ended June 30, 2021 was adopted in June 2020 when there was a high degree of uncertainty related to the funding and operations for districts in the State of Michigan due to the novel coronavirus outbreak (COVID-19). Subsequent to year end, additional funding has been provided by the State of Michigan through various restricted federal grant programs. Despite this, there continues to be a high degree of uncertainty regarding potential changes to state and federal funding. In addition, the District is continuously evaluating the impacts of the pandemic as it determines the appropriate methods to deliver education to students in a safe environment. These factors will have a significant impact on the operational and financial performance of the District.
- 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 \$700 per student decrease due to the uncertainty of state revenues caused by the COVID pandemic. When the state has adopted a budget the state aid revenues will be adjusted accordingly.
- The District projected a loss of 30 students for the preliminary 2020-2021 budget. Given the uncertainty of how the pandemic would impact our student enrollment, we were not sure if we would see the number of school of choice students that we normally have transfer in, we chose to budget for a loss of students.
- The retirement rate was budgeted at each individual of the staff member's retirement rate based on their chosen retirement rate, and an additional 14.51% that has to be included in the revenue and expense budgets for 2020-2021 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 select Defined Contribution employees will increase in the 2020-2021 school year. These figures will be adjusted further in future amendments.
- The District is in the third year of three year agreements with all bargaining groups. These agreements include pay increases for all three years. The adopted budget reflects these increases.
- Based on language in the bargaining agreements, the district will make one time payments, to staff, totaling one half of the June 30, 2020 fund balance amount over the 10% threshold set by the board. This payment is scheduled to be made in December 2020.
- The District negotiated a significant change to the teacher's contract in 2014-2015. In 2020-2021, the basic structure was kept. Teachers continue to receive increases/decreases based on their effectiveness. The contracts for administrators remains similar to 2019-2020. The rest of the groups received a slight increase and steps depending on the group. All groups continue to contribute the same percentage of health insurance as they did in 2019-2020 at either 20% or 30% of the illustrative rates.
- The District, along with the Intermediate School District, will continue to explore cost savings through consolidation of services. The District has shared costs in many areas in the past including internet costs, software implementations, student databases and other.

MILAN AREA SCHOOLS

Management's Discussion and Analysis

- Beginning in the 2019-2020 school year, the District started to pay down the principal on the 2016 Debt Fund, the principal will be paid in installments through FY23. This will cause a significant increase to the debt payments for the next 3 years.
- Because of the sacrifices of the staff in Milan Area Schools and conservative budgeting over the last several years, we have been able to maintain a healthy fund balance in 2019-2020 of 17.04% total fund balance (14.33% unassigned fund balance) while not having to ask for further concessions or cuts to the classrooms or facilities. We will continue to do our best to keep as much money in the classroom as possible and continue to enhance programs and facilities for students.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Superintendent, 100 Big Red Drive, Milan, Michigan 48160.

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BASIC FINANCIAL STATEMENTS

MILAN AREA SCHOOLS

Statement of Net Position

June 30, 2020

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 5,331,168
Receivables	4,025,503
Prepaid items and other assets	404,209
Capital assets not being depreciated	1,607,945
Capital assets being depreciated, net	70,389,388
Total assets	81,758,213
Deferred outflows of resources	
Deferred charge on refunding	3,488,117
Deferred pension amounts	14,409,404
Deferred other postemployment benefit amounts	3,457,203
Total deferred outflows of resources	21,354,724
Liabilities	
Accounts payable and accrued liabilities	3,866,599
State aid note payable	303,900
Unearned revenue	365,436
Long-term debt:	
Due within one year	13,722,101
Due in more than one year	84,563,580
Net pension liability (due in more than one year)	49,933,998
Net other postemployment benefit liability (due in more than one year)	10,778,002
Total liabilities	163,533,616
Deferred inflows of resources	
Deferred pension amounts	2,170,515
Deferred other postemployment benefit amounts	4,423,668
Total deferred inflows of resources	6,594,183
Net position	
Net investment in capital assets	15,581,789
Restricted for food service	110,894
Unrestricted (deficit)	(82,707,545)
Total net position	\$ (67,014,862)

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

MILAN AREA SCHOOLS

Statement of Activities

For the Year Ended June 30, 2020

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instruction	\$ 15,968,568	\$ -	\$ 7,421,554	\$ (8,547,014)
Supporting services	12,856,307	-	-	(12,856,307)
Community service	976,656	610,554	-	(366,102)
Athletics	497,949	71,484	-	(426,465)
Food service	807,857	253,975	587,965	34,083
Interest on long-term debt	4,006,500	-	-	(4,006,500)
Unallocated depreciation	2,584,527	-	-	(2,584,527)
Total governmental activities	<u>\$ 37,698,364</u>	<u>\$ 936,013</u>	<u>\$ 8,009,519</u>	<u>(28,752,832)</u>
General revenues:				
Property taxes				8,890,219
Unrestricted state aid				14,420,235
Grants and contributions not restricted to specific programs				1,716,030
Unrestricted investment earnings				<u>51,808</u>
Total general revenues				<u>25,078,292</u>
Change in net position				(3,674,540)
Net position, beginning of year, as restated				<u>(63,340,322)</u>
Net position, end of year				<u>\$ (67,014,862)</u>

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

MILAN AREA SCHOOLS

Balance Sheet

Governmental Funds

June 30, 2020

	General Fund	2016 Debt Service	Nonmajor Governmental Funds	Totals
Assets				
Cash and cash equivalents	\$ 4,608,690	\$ 82,444	\$ 640,034	\$ 5,331,168
Accounts receivable	35,863	-	-	35,863
Due from other governments	3,927,294	-	62,346	3,989,640
Due from other funds	-	149,719	225,207	374,926
Inventory	11,475	-	12,571	24,046
Prepaid items	330,163	-	50,000	380,163
Total assets	\$ 8,913,485	\$ 232,163	\$ 990,158	\$ 10,135,806
Liabilities				
Accounts payable	\$ 697,266	\$ -	\$ 2,886	\$ 700,152
Accrued liabilities	245,977	-	-	245,977
Salaries and benefits payable	2,338,395	-	31,910	2,370,305
State aid note payable	303,900	-	-	303,900
Due to other funds	372,384	-	2,542	374,926
Unearned revenue	343,348	-	22,088	365,436
Total liabilities	4,301,270	-	59,426	4,360,696
Fund balances				
Nonspendable:				
Inventory	11,475	-	12,571	24,046
Prepaid items	330,163	-	50,000	380,163
Restricted for -				
Food service	-	-	48,323	48,323
Debt service	-	232,163	267,726	499,889
Committed for -				
Student/school activity	-	-	552,112	552,112
Assigned for:				
Curriculum	90,000	-	-	90,000
Technology	75,000	-	-	75,000
Buses	90,000	-	-	90,000
Paddock Early Childhood Center	41,297	-	-	41,297
Athletics	20,965	-	-	20,965
Buildings and grounds	75,000	-	-	75,000
Unassigned	3,878,315	-	-	3,878,315
Total fund balances	4,612,215	232,163	930,732	5,775,110
Total liabilities and fund balances	\$ 8,913,485	\$ 232,163	\$ 990,158	\$ 10,135,806

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, 2020

Fund balances - total governmental funds	\$ 5,775,110
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets	113,955,057
Accumulated depreciation	(41,957,724)
Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.	
Bonds, capital lease and loan fund payable	(91,375,511)
Unamortized deferred charge on refunding	3,488,117
Unamortized bond premium	(6,227,734)
Accrued interest on bonds payable	(550,165)
Compensated absences	(682,436)
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	(49,933,998)
Net other postemployment benefit liability	(10,778,002)
Deferred outflows related to the net pension liability	14,409,404
Deferred inflows related to the net pension liability	(2,170,515)
Deferred outflows related to the net other postemployment benefit liability	3,457,203
Deferred inflows related to the net other postemployment benefit liability	(4,423,668)
Net position of governmental activities	<u>\$ (67,014,862)</u>

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

MILAN AREA SCHOOLS

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2020

	General	2016 Debt Service	Nonmajor Governmental Funds	Totals
Revenues				
Local sources	\$ 6,991,726	\$ 2,997,126	\$ 3,540,951	\$ 13,529,803
State sources	18,709,147	197,880	198,461	19,105,488
Federal sources	829,417	-	559,116	1,388,533
Total revenues	26,530,290	3,195,006	4,298,528	34,023,824
Expenditures				
Current:				
Instruction	13,991,336	-	-	13,991,336
Supporting services	12,541,166	-	349,416	12,890,582
Athletics	457,357	-	-	457,357
Food service	-	-	747,255	747,255
Debt service:				
Principal	41,969	8,500,000	3,650,000	12,191,969
Interest and fiscal charges	33,407	788,128	2,863,432	3,684,967
Total expenditures	27,065,235	9,288,128	7,610,103	43,963,466
Revenues under expenditures	(534,945)	(6,093,122)	(3,311,575)	(9,939,642)
Other financing sources (uses)				
Issuance of long-term debt	-	6,085,000	2,984,890	9,069,890
Transfers in	20,000	-	-	20,000
Transfers out	-	-	(20,000)	(20,000)
Total other financing sources	20,000	6,085,000	2,964,890	9,069,890
Net change in fund balances	(514,945)	(8,122)	(346,685)	(869,752)
Fund balances, beginning of year, as restated	5,127,160	240,285	1,277,417	6,644,862
Fund balances, end of year	\$ 4,612,215	\$ 232,163	\$ 930,732	\$ 5,775,110

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, 2020

Net change in fund balances - total governmental funds	\$ (869,752)
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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	509,240
Depreciation expense	(2,584,527)

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	(9,069,890)
Principal payments on long-term debt	12,191,969

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	(4,241,815)
Change in net other postemployment benefit liability and related deferred amounts	761,758
Change in accrued interest payable on bonds and loans	(535,041)
Amortization of bond discount and deferred charge on refunding	213,508
Change in the accrual for compensated absences	(49,990)

Change in net position of governmental activities	<u>\$ (3,674,540)</u>
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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 Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2020

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenues				
Local sources	\$ 5,922,904	\$ 7,009,559	\$ 6,991,726	\$ (17,833)
State sources	19,312,961	19,319,166	18,709,147	(610,019)
Federal sources	904,336	893,129	829,417	(63,712)
Total revenues	26,140,201	27,221,854	26,530,290	(691,564)
Expenditures				
Instruction:				
Basic programs	11,511,432	11,789,090	11,558,595	(230,495)
Added needs	2,553,597	2,671,257	2,268,259	(402,998)
Adult and continuing education	182,000	188,807	164,482	(24,325)
Total instruction	14,247,029	14,649,154	13,991,336	(657,818)
Supporting services:				
Pupil services	3,482,971	3,280,217	3,142,916	(137,301)
Instructional support	994,011	1,130,358	1,076,130	(54,228)
General administration	510,884	500,177	488,955	(11,222)
School administration	1,459,995	1,432,644	1,375,789	(56,855)
Business services	405,135	389,085	367,969	(21,116)
Operations and maintenance	2,747,551	2,991,143	2,833,103	(158,040)
Transportation	1,163,947	1,295,371	1,269,310	(26,061)
Central support	831,259	1,247,150	1,146,823	(100,327)
Community service	824,761	871,520	840,171	(31,349)
Total supporting services	12,420,514	13,137,665	12,541,166	(596,499)
Athletics	507,533	483,369	457,357	(26,012)
Debt service:				
Principal	41,969	41,969	41,969	-
Interest and fiscal charges	31,000	35,100	33,407	(1,693)
Total debt service	72,969	77,069	75,376	(1,693)
Total expenditures	27,248,045	28,347,257	27,065,235	(1,282,022)
Revenues under expenditures	(1,107,844)	(1,125,403)	(534,945)	590,458
Other financing sources				
Transfers in	10,000	20,000	20,000	-
Net change in fund balance	(1,097,844)	(1,105,403)	(514,945)	590,458
Fund balance, beginning of year	5,127,160	5,127,160	5,127,160	-
Fund balance, end of year	\$ 4,029,316	\$ 4,021,757	\$ 4,612,215	\$ 590,458

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.

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.

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.

MILAN AREA SCHOOLS

Notes to Financial Statements

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

Administrators and other support staff working year-round accrue vacation time in varying amounts. Teachers and other personnel working less than twelve months during the year may receive paid vacation time, but are paid only for the number of days they are required to work each year. Upon termination, an employee may elect to receive the unused portion of his/her vacation time in cash.

Long-term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net position. Where applicable, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

Deferred Inflows of Resources

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

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.

MILAN AREA SCHOOLS

Notes to Financial Statements

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

3. ACCOUNTABILITY AND COMPLIANCE

During the year ended June 30, 2020, the District did not incur expenditures in excess of the amounts appropriated at the legal level of budgetary control.

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	<u>\$ 5,331,168</u>
Deposits and investments	
Cash on hand	\$ 5,995
Bank deposits (checking/savings accounts and CD's)	3,833,214
Investments	<u>1,491,959</u>
Total	<u>\$ 5,331,168</u>

MILAN AREA SCHOOLS

Notes to Financial Statements

Statutory Authority

State statutes authorize the District to invest in:

- Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

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

Investments

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

Investment	Maturity	Amortized cost/fair value	Rating
Michigan Liquid Asset Fund	n/a	\$ 1,489,553	S&P AAAm
American Funds money market funds	n/a	399	S&P AAAm
Michigan CLASS government investment pool	n/a	<u>2,007</u>	S&P AAAm
		<u>\$ 1,491,959</u>	

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

MILAN AREA SCHOOLS

Notes to Financial Statements

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

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$3,184,703 of the District's bank balance of \$3,839,509 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. The investments listed above are not subject to custodial credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

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

The District's only recurring fair value measurements as of June 30, 2020 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 \$2,007. 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.

MILAN AREA SCHOOLS

Notes to Financial Statements

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	\$ 35,863	\$ -	\$ 35,863
Due from other governments	3,927,294	62,346	3,989,640
	<u>\$ 3,963,157</u>	<u>\$ 62,346</u>	<u>\$ 4,025,503</u>

6. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2020 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets not being depreciated -				
Land	\$ 1,607,945	\$ -	\$ -	\$ 1,607,945
Capital assets being depreciated:				
Land improvements	9,274,896	-	-	9,274,896
Buildings and improvements	97,729,359	20,566	-	97,749,925
Equipment	3,167,044	293,204	-	3,460,248
Vehicles	1,725,028	195,470	58,455	1,862,043
	<u>111,896,327</u>	<u>509,240</u>	<u>58,455</u>	<u>112,347,112</u>
Less accumulated depreciation for:				
Land improvements	6,133,760	353,671	-	6,487,431
Buildings and improvements	29,437,924	2,018,487	-	31,456,411
Equipment	2,635,542	112,286	-	2,747,828
Vehicles	1,224,426	100,083	58,455	1,266,054
	<u>39,431,652</u>	<u>2,584,527</u>	<u>58,455</u>	<u>41,957,724</u>
Total capital assets being depreciated, net	<u>72,464,675</u>	<u>(2,075,287)</u>	<u>-</u>	<u>70,389,388</u>
Governmental activities capital assets, net	<u>\$ 74,072,620</u>	<u>\$ (2,075,287)</u>	<u>\$ -</u>	<u>\$ 71,997,333</u>

Depreciation expense of \$2,584,527 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	Nonmajor Governmental Funds	Totals
Fund Financial Statements:			
Accounts payable	\$ 697,266	\$ 2,886	\$ 700,152
Accrued liabilities	245,977	-	245,977
Salaries and benefits payable	2,338,395	31,910	2,370,305
	<u>\$ 3,281,638</u>	<u>\$ 34,796</u>	<u>3,316,434</u>
Government-wide Financial Statements -			
Accrued interest on long-term debt			<u>550,165</u>
			<u>\$ 3,866,599</u>

8. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

At June 30, 2020, interfund receivables and payables consisted of the following:

	Due from Other Funds	Due to Other Funds
General fund	\$ -	\$ 372,384
2016 debt service	149,719	-
Nonmajor governmental funds	225,207	2,542
	<u>\$ 374,926</u>	<u>\$ 374,926</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, 2020, interfund transfers consisted of \$20,000 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, 2020 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental activities					
General obligation					
bonds	\$ 92,310,000	\$ -	\$ 12,150,000	\$ 80,160,000	\$ 12,465,000
Capital lease	167,896	-	41,969	125,927	45,148
Direct borrowings -					
School bond					
loan fund	1,903,547	9,186,037	-	11,089,584	-
Total installment debt	94,381,443	9,186,037	12,191,969	91,375,511	12,510,148
Unamortized					
bond premium	6,757,251	-	529,517	6,227,734	529,517
Compensated					
absences	632,446	1,326,960	1,276,970	682,436	682,436
Total long-term debt	<u>\$ 101,771,140</u>	<u>\$ 10,512,997</u>	<u>\$ 13,998,456</u>	<u>\$ 98,285,681</u>	<u>\$ 13,722,101</u>

Compensated absences are typically liquidated by the general fund.

Bonds payable consist of the following issues:

General obligation bonds

2016 Refunding Bonds, due in annual installments of \$8,500,000 to \$9,100,000 through 2023, interest at 1.931% to 2.544%.	\$ 26,610,000
2018 Refunding Bonds, due in annual installments of \$2,070,000 to \$2,345,000 through 2030, interest at 5.00%	22,745,000
2019 Refunding Bonds, due in annual installments of \$1,525,000 to \$2,940,000 through 2034, interest at 5.00%.	<u>30,805,000</u>
Total general obligation bonds	<u>\$ 80,160,000</u>

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
2021	\$ 12,465,000	\$ 3,300,992	\$ 15,765,992
2022	12,815,000	2,926,198	15,741,198
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
2026-2030	22,300,000	6,125,000	28,425,000
2031-2034	10,960,000	1,403,000	12,363,000
Totals	<u>\$ 80,160,000</u>	<u>\$ 20,236,194</u>	<u>\$ 100,396,194</u>

Capital Leases

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

The assets acquired through the capital lease are summarized as follows:

Equipment	\$ 182,766
Less accumulated depreciation	<u>(51,423)</u>
	<u>\$ 131,343</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2020, are as follows:

Year Ended June 30,	Amount
2021	\$ 52,855
2022	52,855
2023	<u>33,039</u>
	138,749
Less amount representing interest	<u>(12,822)</u>
Total	<u>\$ 125,927</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, 2020, are as follows:

	School Loan Revolving Fund		
	Principal	Interest	Total
Beginning balance	\$ 1,801,168	\$ 102,379	\$ 1,903,547
Additions	9,069,890	116,147	9,186,037
Ending balance	<u>\$ 10,871,058</u>	<u>\$ 218,526</u>	<u>\$ 11,089,584</u>

10. SHORT-TERM DEBT

During the year, the District financed certain of its operations through the issuance of State Aid Anticipation Notes. These notes were issued for terms of less than one year, and accordingly are recorded as liabilities of the respective funds from which they were issued. The District borrowed \$1,519,500 on August 20, 2019 with an interest rate of 1.30%. This note is due on August 20, 2020.

Changes in short-term state aid notes for the year ended June 30, 2020, were as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
State aid note	<u>\$ 766,875</u>	<u>\$ 1,519,500</u>	<u>\$ 1,982,475</u>	<u>\$ 303,900</u>

11. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2020, was as follows:

Capital assets, net	\$ 71,997,333
Capital related bonds payable outstanding	(53,550,000)
Capital lease	(125,927)
Unamortized bond premium	(6,227,734)
Deferred charge on refunding	<u>3,488,117</u>
Net investment in capital assets	<u>\$ 15,581,789</u>

MILAN AREA SCHOOLS

Notes to Financial Statements

12. RISK MANAGEMENT

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property, and casualty 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:

	2020	2019
Accrued claims, beginning of year	\$ 32,000	\$ 32,000
Incurred claims	357,808	399,542
Claim payments	<u>(357,808)</u>	<u>(399,542)</u>
Accrued claims, end of year	<u>\$ 32,000</u>	<u>\$ 32,000</u>

13. PROPERTY TAXES

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of July 1 and December 1, and are due upon receipt of the billing by the taxpayer. The actual due dates are September 14, and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. District property tax revenues are recognized when levied to the extent that they result in current receivables (collected within sixty days after year end). Amounts received subsequent to August 31 are recognized as revenue when collected.

14. TAX ABATEMENTS

The District received reduced property tax revenues during 2020 as a result of industrial facilities tax exemptions (IFT's) and brownfield redevelopment agreements 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 \$321,000 in reduced District tax revenues for 2020.

MILAN AREA SCHOOLS

Notes to Financial Statements

15. 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.

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.

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.

MILAN AREA SCHOOLS

Notes to Financial Statements

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, 2018 valuation will be amortized over a 20-year period beginning October 1, 2018 and ending September 30, 2038.

The table below summarizes pension contribution rates in effect for fiscal year 2020:

Benefit Structure	Member Rates	Employer Rates
Basic	0.00% - 4.00%	18.25% - 19.41%
Member Investment Plan (MIP)	3.00% - 7.00%	18.25% - 19.41%
Pension Plus	3.00% - 6.40%	16.46%
Pension Plus 2	6.20%	19.59%
Defined Contribution	0.00%	13.39%

For the year ended June 30, 2020, required and actual contributions from the District to the pension plan were \$4,127,176, which included \$1,656,920, the amount received from the State and remitted to the System to fund the MPSERS unfunded actuarial accrued liability ("UAAL") stabilization rate.

The table below summarizes OPEB contribution rates in effect for fiscal year 2020:

Benefit Structure	Member Rates	Employer Rates
Premium Subsidy	3.00%	7.93% - 8.09%
Personal Healthcare Fund (PHF)	0.00%	7.57%

For the year ended June 30, 2020, required and actual contributions from the District to the OPEB plan were \$1,067,693.

MILAN AREA SCHOOLS

Notes to Financial Statements

The table below summarizes defined contribution rates in effect for fiscal year 2020:

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, 2020, required and actual contributions from the District for those members with a defined contribution benefit were \$180,035.

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

At June 30, 2020, the District reported a liability of \$49,933,998 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2018. 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, 2019, the District's proportion was 0.15078%, which was a decrease of 0.00041% from its proportion measured as of September 30, 2018.

For the year ended June 30, 2020, the District recognized pension expense of \$8,228,912. At June 30, 2020, 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	\$ 223,820	\$ 208,220	\$ 15,600
Changes in assumptions	9,777,112	-	9,777,112
Net difference between projected and actual earnings on pension plan investments	-	1,600,300	(1,600,300)
Changes in proportion and differences between employer contributions and proportionate share of contributions	572,810	361,995	210,815
	<u>10,573,742</u>	<u>2,170,515</u>	<u>8,403,227</u>
District contributions subsequent to the measurement date	3,835,662	-	3,835,662
Total	<u>\$ 14,409,404</u>	<u>\$ 2,170,515</u>	<u>\$ 12,238,889</u>

MILAN AREA SCHOOLS

Notes to Financial Statements

The \$3,835,662 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, 2021. 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
2021	\$ 3,383,470
2022	2,701,033
2023	1,671,165
2024	<u>647,559</u>
Total	<u>\$ 8,403,227</u>

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

At June 30, 2020, the District reported a liability of \$10,778,002 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2018. 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, 2019, the District's proportion was 0.15016% which was a decrease of 0.00257% from its proportion measured as of September 30, 2018.

For the year ended June 30, 2020, the District recognized OPEB expense of \$262,898. At June 30, 2020, 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	\$ -	\$ 3,954,754	\$ (3,954,754)
Changes in assumptions	2,335,375	-	2,335,375
Net difference between projected and actual earnings on OPEB plan investments	-	187,435	(187,435)
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>185,664</u>	<u>281,479</u>	<u>(95,815)</u>
	2,521,039	4,423,668	(1,902,629)
District contributions subsequent to the measurement date	<u>936,164</u>	<u>-</u>	<u>936,164</u>
Total	<u>\$ 3,457,203</u>	<u>\$ 4,423,668</u>	<u>\$ (966,465)</u>

MILAN AREA SCHOOLS

Notes to Financial Statements

The \$936,164 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, 2021. 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
2021	\$ (514,546)
2022	(514,546)
2023	(418,017)
2024	(287,327)
2025	<u>(168,193)</u>
Total	<u>\$ (1,902,629)</u>

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, 2018 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	7.5% Year 1 graded to 3.5% Year 12
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
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

MILAN AREA SCHOOLS

Notes to Financial Statements

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, 2019, are based on the results of an actuarial valuation date of September 30, 2018, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for pension liabilities is 4.4977 years which is the average of the expected remaining service lives of all employees. The recognition period for OPEB liabilities is 5.7101 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, 2019, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	28.00%	5.50%	1.54%
Private equity pools	18.00%	8.60%	1.55%
International equity pools	16.00%	7.30%	1.17%
Fixed income pools	10.50%	1.20%	0.13%
Real estate and infrastructure pools	10.00%	4.20%	0.42%
Absolute return pools	15.50%	5.40%	0.84%
Short-term investment pools	2.00%	0.08%	0.00%
	<u>100.00%</u>		5.65%
Inflation			2.30%
Risk adjustment			<u>-1.15%</u>
Investment rate of return			<u>6.80%</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, 2019, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	28.00%	5.50%	1.54%
Private equity pools	18.00%	8.60%	1.55%
International equity pools	16.00%	7.30%	1.17%
Fixed income pools	10.50%	1.20%	0.13%
Real estate and infrastructure pools	10.00%	4.20%	0.42%
Absolute return pools	15.50%	5.40%	0.84%
Short-term investment pools	2.00%	0.08%	0.00%
	<u>100.00%</u>		5.65%
Inflation			2.30%
Risk adjustment			<u>-1.00%</u>
Investment rate of return			<u>6.95%</u>

Rate of Return

For the fiscal year ended September 30, 2019, the annual money-weighted rate of return on pension and OPEB plan investments, net of pension and OPEB plan investment expense, was 5.14% and 5.37%, 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	\$ 64,917,392	\$ 49,933,998	\$ 37,512,249

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	\$ 13,220,839	\$ 10,778,002	\$ 8,726,698

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 (6.50%)	Current Healthcare Cost Trend Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net OPEB liability	\$ 8,639,731	\$ 10,778,002	\$ 13,220,550

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 MPERS financial statements available on the State of Michigan Office of Retirement Services website at www.michigan.gov/orsschools.

Payable to the Pension Plan

At June 30, 2020, the District reported a payable of \$590,672 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2020.

Payable to the OPEB Plan

At June 30, 2020, the District reported a payable of \$120,570 for the outstanding amount of OPEB contributions to the Plan required for the year ended June 30, 2020.

16. RESTATEMENTS

The District adopted the provisions of GASB Statement No. 84, *Fiduciary Activities*, in the current year. As a result of this change, beginning fund balance of the student/school activity special revenue fund and net position of governmental activities were increased by \$543,466.

17. CORONAVIRUS (COVID-19)

In March 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) to be a global pandemic. The extent of the ultimate impact of the pandemic on the District's operational and financial performance will depend on various developments, including the duration and spread of the outbreak and its impact on employees, vendors, and taxpayers, all of which cannot be reasonably predicted at this time. In addition, it will continue to place additional demands on the District as it determines the appropriate methods to deliver education to students in a safe environment. While management reasonably expects the COVID-19 outbreak to negatively impact the District's financial position, changes in financial position, and, where applicable, the timing and amounts of cash flows, the related financial consequences and duration are highly uncertain.

MILAN AREA SCHOOLS

Notes to Financial Statements

18. SUBSEQUENT EVENTS

State Aid Notes

On August 20, 2020, the District issued state aid note Series 2020A-1 in the amount of \$1,250,000 with an interest rate of 0.7%, which the District will pay in set asides beginning in January of 2021 through July of 2021, maturing on July 20, 2021.

The District also borrowed \$1,000,000 in state aid notes on August 20, 2020, with an interest rate of 0.25%, for cash flow purposes and are due on August 20, 2021.

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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,		
	2020	2019	2018
District's proportionate share of the net pension liability	\$ 49,933,998	\$ 45,450,765	\$ 38,627,656
District's proportion of the net pension liability	0.15078%	0.15119%	0.14906%
District's covered payroll	\$ 13,148,995	\$ 13,025,486	\$ 12,745,796
District's proportionate share of the net pension liability as a percentage of its covered payroll	379.76%	348.94%	303.06%
Plan fiduciary net position as a percentage of the total pension liability	60.31%	62.36%	64.21%

See notes to required supplementary information.



Year Ended June 30,		
2017	2016	2015
\$ 36,305,226	\$ 36,052,978	\$ 29,774,310
0.14552%	0.14761%	0.13517%
\$ 12,305,228	\$ 12,462,109	\$ 11,568,938
295.04%	289.30%	257.36%
63.27%	63.17%	66.20%

MILAN AREA SCHOOLS

Required Supplementary Information

MPERS Cost-Sharing Multiple Employer Plan

Schedule of the District's Pension Contributions

	Year Ended June 30,		
	2020	2019	2018
Statutorily required contributions	\$ 4,127,176	\$ 4,002,215	\$ 4,098,079
Contributions in relation to the statutorily required contributions	<u>(4,127,176)</u>	<u>(4,002,215)</u>	<u>(4,098,079)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 13,457,804	\$ 13,081,656	\$ 12,901,049
Contributions as a percentage of covered payroll	30.67%	30.59%	31.77%

See notes to required supplementary information.



Year Ended June 30,		
2017	2016	2015
\$ 3,477,521	\$ 3,475,003	\$ 2,586,933
(3,477,521)	(3,475,003)	(2,586,933)
\$ -	\$ -	\$ -
\$ 12,140,365	\$ 12,816,320	\$ 11,859,819
28.64%	27.11%	21.81%

MILAN AREA SCHOOLS

Required Supplementary Information

MPERS Cost-Sharing Multiple Employer Plan

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

	Year Ended June 30,		
	2020	2019	2018
District's proportionate share of the net OPEB liability	\$ 10,778,002	\$ 12,140,099	\$ 13,245,271
District's proportion of the net OPEB liability	0.15016%	0.15273%	0.14957%
District's covered payroll	\$ 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	81.97%	93.20%	103.92%
Plan fiduciary net position as a percentage of the total OPEB liability	48.46%	42.95%	36.39%

See notes to required supplementary information.

MILAN AREA SCHOOLS

Required Supplementary Information

MPERS Cost-Sharing Multiple Employer Plan

Schedule of the District's Other Postemployment Benefit Contributions

	Year Ended June 30,		
	2020	2019	2018
Statutorily required contributions	\$ 1,067,693	\$ 1,015,895	\$ 952,287
Contributions in relation to the statutorily required contributions	(1,067,693)	(1,015,895)	(952,287)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
District's covered payroll	\$ 13,457,804	\$ 13,081,656	\$ 12,901,049
Contributions as a percentage of covered payroll	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:

- 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 data 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:

- 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, 2020

	Special Revenue		Debt Service		Totals
	Food Service	Student/School Activity	2018 Debt Service	2019 Debt Service	
Assets					
Cash and cash equivalents	\$ 15,161	\$ 552,112	\$ 35,805	\$ 36,956	\$ 640,034
Due from other governments	62,346	-	-	-	62,346
Due from other funds	27,700	-	-	197,507	225,207
Inventory	12,571	-	-	-	12,571
Prepaid items	50,000	-	-	-	50,000
Total assets	\$ 167,778	\$ 552,112	\$ 35,805	\$ 234,463	\$ 990,158
Liabilities					
Accounts payable	\$ 2,886	\$ -	\$ -	\$ -	\$ 2,886
Salaries and benefits payable	31,910	-	-	-	31,910
Due to other funds	-	-	2,542	-	2,542
Unearned revenue	22,088	-	-	-	22,088
Total liabilities	56,884	-	2,542	-	59,426
Fund balances					
Nonspendable:					
Inventory	12,571	-	-	-	12,571
Prepaid items	50,000	-	-	-	50,000
Restricted:					
Food service	48,323	-	-	-	48,323
Debt service	-	-	33,263	234,463	267,726
Committed -					
Student/school activity	-	552,112	-	-	552,112
Total fund balances	110,894	552,112	33,263	234,463	930,732
Total liabilities and fund balances	\$ 167,778	\$ 552,112	\$ 35,805	\$ 234,463	\$ 990,158

MILAN AREA SCHOOLS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended June 30, 2020

	Special Revenue		Debt Service		
	Food Service	Student/School Activity	2018 Debt Service	2019 Debt Service	Totals
Revenues					
Local sources	\$ 253,975	\$ 358,062	\$ 1,580,589	\$ 1,348,325	\$ 3,540,951
State sources	28,849	-	84,806	84,806	198,461
Federal sources	559,116	-	-	-	559,116
Total revenues	841,940	358,062	1,665,395	1,433,131	4,298,528
Expenditures					
Current -					
Supporting services	-	349,416	-	-	349,416
Food service	747,255	-	-	-	747,255
Debt service -					
Principal	-	-	2,125,000	1,525,000	3,650,000
Interest and fiscal charges	-	-	1,245,492	1,617,940	2,863,432
Total expenditures	747,255	349,416	3,370,492	3,142,940	7,610,103
Revenues over (under) expenditures	94,685	8,646	(1,705,097)	(1,709,809)	(3,311,575)
Other financing sources (uses)					
Issuance of long-term debt	-	-	1,715,000	1,269,890	2,984,890
Transfers out	(20,000)	-	-	-	(20,000)
Total other financing sources (uses)	(20,000)	-	1,715,000	1,269,890	2,964,890
Net change in fund balances	74,685	8,646	9,903	(439,919)	(346,685)
Fund balances, beginning of year, as restated	36,209	543,466	23,360	674,382	1,277,417
Fund balances, end of year	\$ 110,894	\$ 552,112	\$ 33,263	\$ 234,463	\$ 930,732

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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 2, 2020

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, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated October 2, 2020, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



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MILAN AREA SCHOOLS

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2020

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number
U.S. Department of Agriculture			
Child Nutrition Cluster:			
Cash Assistance:			
National School Breakfast Program	10.553	MDE	191970
National School Breakfast Program	10.553	MDE	201970
National School Lunch Program	10.555	MDE	191960
National School Lunch Program	10.555	MDE	201960
SFSP COVID19 (Unanticipated Grant Payments)	10.555	MDE	200902
Non-Cash Assistance-			
Food Distribution Entitlement	10.555	MDE	-n/a-
Total Child Nutrition Cluster			
Child and Adult Care Food Program	10.558	MDE	191920
Child and Adult Care Food Program	10.558	MDE	201920
Total U.S. Department of Agriculture			
U.S. Department of Education			
Adult Basic Education Instruction	84.002	MDE	191130-191667
Institutional Adults	84.002	MDE	191190-191667
Adult Basic Education Instruction	84.002	MDE	201130-191667
Institutional Adults	84.002	MDE	201190-191667
Title I:			
Title I, Part A - Improving Basic Programs	84.010	MDE	191530-1819
Title I, Part A - Improving Basic Programs	84.010	MDE	201530-1920
Special Education Cluster:			
IDEA Flow-through	84.027A	WISD	190450-1819
IDEA Flow-through	84.027A	WISD	200450-1920
IDEA Pre-school Grant	84.173A	WISD	200460-1920



Approved Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Unearned) Revenue at July 1, 2019	Current Year Receipts	Current Year Expenditures	Accrued (Unearned) Revenue at June 30, 2020
\$ 10,245	\$ 57,872	\$ 3,238	\$ 10,245	\$ 7,007	\$ -
41,870	-	-	41,870	41,870	-
	57,872	3,238	52,115	48,877	-
48,606	254,039	13,530	48,606	35,076	-
172,960	-	-	172,960	172,960	-
	254,039	13,530	221,566	208,036	-
244,311	-	-	187,744	244,311	56,567
57,892	-	-	57,892	57,892	-
	311,911	16,768	519,317	559,116	56,567
395	3,833	120	395	275	-
2,332	-	-	2,332	2,332	-
	3,833	120	2,727	2,607	-
	315,744	16,888	522,044	561,723	56,567
19,500	18,566	10,566	10,566	-	-
65,000	64,258	29,258	29,258	-	-
19,500	-	-	15,000	17,855	2,855
65,000	-	-	48,000	49,981	1,981
	82,824	39,824	102,824	67,836	4,836
161,694	161,694	85,694	85,694	-	-
143,605	-	-	100,000	131,996	31,996
	161,694	85,694	185,694	131,996	31,996
532,725	532,725	212,367	212,367	-	-
519,192	-	-	133,779	519,192	385,413
18,073	-	-	18,073	18,073	-
	532,725	212,367	364,219	537,265	385,413

continued...

MILAN AREA SCHOOLS

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2020

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number
U.S. Department of Education (concluded)			
Title III, Part A - English Language	84.365A	WISD	190580
Title II:			
Title II, Part A - Supporting Effective Instruction	84.367	MDE	190520-1819
Title II, Part A - Supporting Effective Instruction	84.367	MDE	200520-1920
Title IV:			
Title IV, Part A - Student Support	84.424	MDE	190750-1819
Title IV, Part A - Student Support	84.424	MDE	200750-1920
 Total U.S. Department of Education			
 Total Federal Financial Assistance			

See notes to schedule of expenditures of federal awards.



Approved Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Unearned) Revenue at July 1, 2019	Current Year Receipts	Current Year Expenditures	Accrued (Unearned) Revenue at June 30, 2020
\$ 4,145	\$ 166	\$ 166	\$ 1,465	\$ 1,299	\$ -
95,852	39,592	24,592	30,849	6,257	-
98,910	-	-	58,000	70,742	12,742
	<u>39,592</u>	<u>24,592</u>	<u>88,849</u>	<u>76,999</u>	<u>12,742</u>
11,276	3,526	2,026	6,149	4,124	-
14,106	-	-	-	7,291	7,291
	<u>3,526</u>	<u>2,026</u>	<u>6,149</u>	<u>11,415</u>	<u>7,291</u>
	<u>820,527</u>	<u>364,669</u>	<u>749,200</u>	<u>826,810</u>	<u>442,278</u>
<u>\$ 1,136,271</u>	<u>\$ 381,557</u>	<u>\$ 1,271,244</u>	<u>\$ 1,388,533</u>	<u>\$ 498,845</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, 2020. 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, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts 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.

MILAN AREA SCHOOLS

Notes to Schedule of Expenditures of Federal Awards

3. 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 2, 2020

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, the major fund, and the aggregate remaining fund information of *Milan Area Schools* (the "District"), as of and for the year ended June 30, 2020, 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 2, 2020.

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. We did identify a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item 2020-001, that we consider to be a material weakness.

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*.

Milan Area Schools' Response to Finding

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

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

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

October 2, 2020

Board of Education
Milan Area Schools
Milan, Michigan

Report on Compliance for the Major Federal Program

We have audited the compliance of *Milan Area Schools* (the "District") with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2020. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Independent Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on the Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2020.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

Purpose of this Report

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

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

MILAN AREA SCHOOLS

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2020

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

 X yes

 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:

CFDA Number

Name of Federal Program or Cluster

Type of Report

84.027 & 84.173

IDEA Special Education Cluster

Unmodified

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

\$ 750,000

Auditee qualified as low-risk auditee?

 X yes

 no

MILAN AREA SCHOOLS

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2020

SECTION II - FINANCIAL STATEMENT FINDINGS

2020-001 - Material Audit Adjustments

Finding Type. Material weakness in internal controls over financial reporting.

Criteria. Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Condition. During our audit, we identified and proposed various adjustments (which were approved and posted by management) that were material, either individually or in the aggregate to the District's financial statements.

Cause. Internal controls did not detect all adjustments necessary to properly record or adjust year-end balances.

Effect. As a result of this condition, the District's accounting records were initially misstated by amounts material to the financial statements. Specifically, salaries and benefits payable and related expenditures in the general fund were initially overstated by approximately \$205,000. Additionally, capital assets were initially understated by approximately \$265,000 in governmental activities.

Recommendation. The necessary adjustments have been made in the accounting records and appropriately presented in the financial statements. Accordingly, no further corrective action is required at this time.

View of Responsible Officials. Management concurs with this finding. Transactions made after the end of the fiscal year will be reviewed for accuracy.

Responsible Official. Finance Director

Estimated Completion Date. June 30, 2021

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, 2020

2019-001 - Significant Audit Adjustments

The audit identified the need for significant adjustments to the District's accounting records, which had a significant effect on the District's financial statements. This finding was repeated.

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