

Milan Area Schools

Year Ended
June 30, 2017

Financial
Statements and
Single Audit Act
Compliance

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MILAN AREA SCHOOLS

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	6
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Position	14
Statement of Activities	15
Fund Financial Statements:	
Balance Sheet - Governmental Funds	16
Reconciliation - Fund Balances of Governmental Funds to Net Position of Governmental Activities	17
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	18
Reconciliation - Net Changes in Fund Balances of Governmental Funds to Change in Net Position of Governmental Activities	19
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	20
Statement of Fiduciary Net Position	22
Statement of Changes in Fiduciary Net Position - Private-Purpose Trust Fund	23
Notes to Financial Statements	26
Required Supplementary Information	
MPERS Cost-Sharing Multiple Employer Plan:	
Schedule of the District's Proportionate Share of the Net Pension Liability	48
Schedule of District Contributions	49
Combining Fund Financial Statements	
Combining Balance Sheet - Nonmajor Governmental Funds	52
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	53
Single Audit Act Compliance	
Independent Auditors' Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	57
Schedule of Expenditures of Federal Awards	60
Notes to Schedule of Expenditures of Federal Awards	64

MILAN AREA SCHOOLS

Table of Contents

	<u>Page</u>
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 <i>Government Auditing Standards</i>	67
Independent Auditors' Report on Compliance for the Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance	69
Schedule of Findings and Questioned Costs	71
Summary Schedule of Prior Audit Findings	73



INDEPENDENT AUDITORS' REPORT

October 10, 2017

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, 2017, 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, 2017, 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.

Required Supplementary Information

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

Other 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 and annual disclosure information 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 10, 2017, 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 Johnson LLC". The signature is written in a cursive, flowing style.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

MILAN AREA SCHOOLS

Management's Discussion and Analysis

As management of Milan Area Schools, 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, 2017.

Financial Highlights

• Total net position	\$(52,041,133)
• Change in total net position	65,568
• Fund balances, governmental funds	4,609,216
• Change in fund balances, governmental funds	798,525
• Unassigned fund balance, general fund	2,757,108
• Change in fund balance, general fund	577,215
• Installment debt outstanding	104,958,718
• Change in installment debt	(2,434,249)

Overview of the Financial Statements

The discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

The *statement of net position* presents information on all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the net reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the District include instruction, supporting services, community service, athletics and food service. The District had no business-type activities during the current year.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

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 the 2002 and 2009 debt service funds, each of which are considered to be 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.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This is limited to this management's discussion and analysis and the schedules for the MPSERS pension plan immediately following the notes to the financial statements.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$52,041,133 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 \$11,271,131 at June 30, 2017. 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	
	2017	2016
Current and other assets	\$ 8,712,177	\$ 8,278,600
Capital assets, net	78,785,428	81,322,243
Total assets	<u>87,497,605</u>	<u>89,600,843</u>
Deferred outflows of resources	<u>10,755,867</u>	<u>12,970,192</u>
Other liabilities	41,165,982	41,286,772
Long-term liabilities	108,632,020	113,271,546
Total liabilities	<u>149,798,002</u>	<u>154,558,318</u>
Deferred inflows of resources	<u>496,603</u>	<u>119,418</u>
Net position:		
Net investment in capital assets	11,271,131	4,838,938
Restricted	420,890	191,490
Unrestricted (deficit)	(63,733,154)	(57,137,129)
Total net position	<u><u>\$ (52,041,133)</u></u>	<u><u>\$ (52,106,701)</u></u>

The District's net position as of year end was negative \$52,041,133. 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 debt service or food service. The District also reported a deficit of \$60,414,801 as unrestricted net position. The negative balance is mainly related to the District's proportionate share of the MPSERS net pension liability and the District's general obligation bonded debt.

Included in long-term liabilities is the current value of the interest rate swap on the 2002 Bonds. The liability at year end was \$3,318,353. The interest rate swap will have zero value at maturity. As a hedging instrument, this liability is offset by the same amount in deferred outflows in the statement of net position.

MILAN AREA SCHOOLS

Management's Discussion and Analysis

	Changes in Net Position	
	Governmental Activities	
	2017	2016
Program revenues:		
Charges for services	\$ 1,112,139	\$ 1,215,597
Operating grants and contributions	6,723,736	5,775,869
General revenues:		
Property taxes	7,919,891	7,887,089
Unrestricted state aid	15,720,561	15,359,976
Grants and contributions not restricted to specific programs	1,122,911	872,321
Unrestricted investment earnings	376,020	230,049
Gain on sale of capital assets	3,400	-
Total revenues	<u>32,978,658</u>	<u>31,340,901</u>
Expenses:		
Instruction	13,068,407	13,168,858
Supporting services	10,283,188	10,224,268
Community service	796,772	775,678
Athletics	475,665	524,091
Food service	737,354	746,871
Interest on long-term debt	4,866,197	5,396,550
Unallocated depreciation	2,685,507	2,793,901
Total expenses	<u>32,913,090</u>	<u>33,630,217</u>
Change in net position	65,568	(2,289,316)
Net position:		
Beginning of year	(52,106,701)	(49,817,385)
End of year	<u><u>\$ (52,041,133)</u></u>	<u><u>\$ (52,106,701)</u></u>

The District's net position increased by \$65,568 during the current year as compared to a decrease of \$2,289,316 in the previous year. The significant factors affecting this increase are as follows:

- Overall revenue increased during the year. The majority of the revenue increase is due to the special education millage funding from the ISD which was passed during the year.
- Overall expenditures decreased during the year. The decrease was primarily due to the decrease in interest expense as a result of the debt refunding which was done in the previous fiscal year and conservative budgeting practices by the District.

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 \$4,609,216, an increase of \$798,525 in comparison with the prior year. Approximately 60% of this total amount (\$2,757,108) 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 increase to fund balance is primarily made up of revenues from the debt funds (approximately 22% of total) and additions to the general fund balance.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,757,108, while the total fund balance for the general fund is \$3,430,531. 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 11% of total general fund expenditures. This percentage is slightly higher than in 2015-2016. An unassigned fund balance of 10-12% is generally recommended.

The fund balance of the District's general fund increased by \$577,215, during the current fiscal year. The unassigned fund balance increased by \$625,285. The increase in fund balance during the year was primarily due to increased revenue from the ISD special education millage, and conservative budgeting practices by the District.

General Fund Budgetary Highlights

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

- Revenues increased by \$1,217,882 mainly due to several things that were not known at the time of the original budget. A large portion is due to retirement offset increases, grant increases, and prior year state aid adjustments.
- Expenditures were increased by \$1,171,534 due to more current information being available due to contracts being settled after original budget was adopted. The majority of the increase was due to salary and benefits that were increased in union contracts. There was also an increase in retirement cost offset and grant expenses. Additionally, the District's health insurance premiums increased substantially in January, thus increasing the District's expenditures.

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

MILAN AREA SCHOOLS

Management's Discussion and Analysis

Capital Asset and Debt Administration

Capital Assets. The District's investment in capital assets for its governmental activities as of June 30, 2017, amounted to \$78,785,428 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, equipment and vehicles. This reflects a decrease of \$2,536,815 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 \$2,685,507.

	Capital Assets (Net of Depreciation)	
	2017	2016
Capital assets not being depreciated -		
Land	\$ 1,607,945	\$ 1,607,945
Capital assets being depreciated:		
Land improvements	3,848,478	4,206,235
Buildings and improvements	72,377,368	74,423,098
Equipment	490,717	605,506
Vehicles	460,920	479,459
Total capital assets, net	<u>\$ 78,785,428</u>	<u>\$ 81,322,243</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 \$103,740,000. The change in long-term liabilities also reflects borrowings from the School Bond Loan Fund of \$1,178,593.

The District's total bonded long-term debt decreased by \$3,570,000, (approximately 3.33%) during the current fiscal year.

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

Factors Bearing on the District's Future

The following factors were also considered in preparing the District's budget for the 2017-18 fiscal year:

- The State Aid Foundation Grant is projected to increase by \$120 per pupil.
- The District projected a loss of 30 students for the preliminary 2017-2018 budget. Most of this was due to a larger graduating class than incoming kindergartners. Since the preliminary budget was prepared, the student count is looking much more promising based on preliminary count numbers. Once the final count numbers are in, the budget will be amended accordingly.

MILAN AREA SCHOOLS

Management's Discussion and Analysis

- The retirement rate was budgeted at 36% to reflect an average of the retirement expense the District has to pay out on behalf of all of the staff and the different retirement plans that they choose. This included an additional 11.32% that has to be included in the revenue and expense budget for 2017-2018 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 2017-2018 school year. These figures will be adjusted further in future amendments.
- The District has settled with all bargaining groups. The budgets will be adjusted in future amendments to reflect contract settlements.
- In light of the preceding information the District is planning on a small use of fund balance for 2017-2018. The District did not build in increases for employees into the preliminary budget figures. These figures will be adjusted to reflect the actual increases received.
- The District negotiated a significant change to the teacher's contract in 2014-2015. In 2017-2018, the basic structure was kept. Teacher's will continue to receive increases/decreases based on their effectiveness. The contracts for administrators remains similar to 2017-2018. The rest of the groups received a slight increase and steps depending on the group. All groups received off scale compensation payments in 2016-2017 and will receive another off scale compensation again in 2017-2018. All groups continue to contribute the same percentage of health insurance as they did in 2016-2017 at either 20% or 30% of the illustrative rates.
- The District, along with the Intermediate School District, will continue to explore cost savings through consolidation of services. The District has shared costs in many areas in the past including internet costs, software implementations, student databases and other.
- The county-wide .9719 special education millage is up for renewal in November of 2017. The result of this vote will have an impact on the 2017-2018 budget.
- Because of the sacrifices of all of the staff in Milan Area Schools over the last several years, we were able to increase our fund balance again in 2016-2017 to an 14.1% total fund balance while not having to ask for further concessions or cuts to the classrooms or facilities. We will continue to do our best to keep as much money in the classroom as possible and continue to enhance programs and facilities for students.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

MILAN AREA SCHOOLS

Statement of Net Position

June 30, 2017

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 3,726,314
Receivables	4,687,292
Prepaid items and other assets	298,571
Capital assets not being depreciated	1,607,945
Capital assets being depreciated, net	77,177,483
Total assets	87,497,605
Deferred outflows of resources	
Deferred charge on refunding	899,427
Deferred interest rate swap	3,318,353
Deferred pension amounts	6,538,087
Total deferred outflows of resources	10,755,867
Liabilities	
Accounts payable and accrued liabilities	3,949,597
State aid note payable	806,198
Unearned revenue	104,961
Noncurrent liabilities:	
Due within one year	4,336,445
Due in more than one year	104,295,575
Net pension liability	36,305,226
Total liabilities	149,798,002
Deferred inflows of resources	
Deferred pension amounts	496,603
Net position	
Net investment in capital assets	11,271,131
Restricted for food service	71,405
Restricted for debt service	349,485
Unrestricted (deficit)	(63,733,154)
Total net position	\$ (52,041,133)

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

MILAN AREA SCHOOLS

Statement of Activities

For the Year Ended June 30, 2017

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instruction	\$ 13,068,407	\$ -	\$ 6,227,147	\$ (6,841,260)
Supporting services	10,283,188	-	79,992	(10,203,196)
Community service	796,772	690,623	-	(106,149)
Athletics	475,665	72,015	-	(403,650)
Food service	737,354	349,501	416,597	28,744
Interest on long-term debt	4,866,197	-	-	(4,866,197)
Unallocated depreciation	2,685,507	-	-	(2,685,507)
Total governmental activities	<u>\$ 32,913,090</u>	<u>\$ 1,112,139</u>	<u>\$ 6,723,736</u>	<u>(25,077,215)</u>
General revenues:				
Property taxes				7,919,891
Unrestricted state aid				15,720,561
Grants and contributions not restricted to specific programs				1,122,911
Unrestricted investment earnings				376,020
Gain on sale of capital assets				<u>3,400</u>
Total general revenues				<u>25,142,783</u>
Change in net position				65,568
Net position, beginning of year				<u>(52,106,701)</u>
Net position, end of year				<u>\$ (52,041,133)</u>

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

MILAN AREA SCHOOLS

Balance Sheet

Governmental Funds
June 30, 2017

	General Fund	2002 Debt Service	2009 Debt Service	Nonmajor Governmental Funds	Totals
Assets					
Cash and cash equivalents	\$ 2,857,495	\$ 677,003	\$ 44,156	\$ 147,660	\$ 3,726,314
Accounts receivable	12,829	-	-	21,363	34,192
Taxes receivable	114	1,446	899	252	2,711
Due from other governments	4,650,389	-	-	-	4,650,389
Due from other funds	-	219,340	71,259	26,830	317,429
Inventory	14,684	-	-	7,468	22,152
Prepaid items	226,419	-	-	50,000	276,419
Total assets	\$ 7,761,930	\$ 897,789	\$ 116,314	\$ 253,573	\$ 9,029,606
Liabilities					
Accounts payable	\$ 750,597	\$ 1,906	\$ 1,185	\$ 50,998	\$ 804,686
Accrued liabilities	423,050	-	-	-	423,050
Salaries and benefits payable	1,929,164	-	-	34,902	1,964,066
State aid note payable	806,198	-	-	-	806,198
Due to other funds	317,429	-	-	-	317,429
Unearned revenue	104,961	-	-	-	104,961
Total liabilities	4,331,399	1,906	1,185	85,900	4,420,390
Fund balances					
Nonspendable:					
Inventory	14,684	-	-	7,468	22,152
Prepaid items	226,419	-	-	50,000	276,419
Restricted for:					
Food service	-	-	-	13,937	13,937
Debt service	-	895,883	115,129	96,268	1,107,280
Assigned for:					
Curriculum	90,000	-	-	-	90,000
Technology	75,000	-	-	-	75,000
Buses	90,000	-	-	-	90,000
Paddock Early Childhood Center	38,807	-	-	-	38,807
Athletics	63,513	-	-	-	63,513
Buildings and grounds	75,000	-	-	-	75,000
Unassigned	2,757,108	-	-	-	2,757,108
Total fund balances	3,430,531	895,883	115,129	167,673	4,609,216
Total liabilities and fund balances	\$ 7,761,930	\$ 897,789	\$ 116,314	\$ 253,573	\$ 9,029,606

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, 2017

Fund balances - total governmental funds	\$ 4,609,216
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	113,264,769
Accumulated depreciation	(34,479,341)
The deferred outflow related to the interest rate swap agreement is not a financial resource, and therefore not reported in the funds.	3,318,353
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	(104,958,718)
Interest rate swap	(3,318,353)
Unamortized deferred charge on refunding	899,427
Unamortized bond discount	253,852
Accrued interest on bonds payable	(757,795)
Compensated absences	(608,801)
Certain pension-related amounts, such as the net pension liability and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds.	
Net pension liability	(36,305,226)
Deferred outflows related to the net pension liability	6,538,087
Deferred inflows related to the net pension liability	(496,603)
Net position of governmental activities	<u>\$ (52,041,133)</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, 2017

	General	2002 Debt Service	2009 Debt Service	Nonmajor Governmental Funds	Totals
Revenues					
Local sources	\$ 5,562,844	\$ 3,580,411	\$ 2,225,547	\$ 972,112	\$ 12,340,914
State sources	18,643,980	-	-	35,574	18,679,554
Federal sources	713,974	-	859,793	381,023	1,954,790
Total revenues	24,920,798	3,580,411	3,085,340	1,388,709	32,975,258
Expenditures					
Current:					
Instruction	12,801,123	-	-	-	12,801,123
Supporting services	11,022,518	-	-	-	11,022,518
Food service	-	-	-	735,506	735,506
Athletics	477,287	-	-	-	477,287
Debt service:					
Principal	42,842	2,040,000	1,530,000	-	3,612,842
Interest and fiscal charges	22,800	1,302,269	2,638,322	732,931	4,696,322
Total expenditures	24,366,570	3,342,269	4,168,322	1,468,437	33,345,598
Revenues over (under) expenditures	554,228	238,142	(1,082,982)	(79,728)	(370,340)
Other financing sources (uses)					
Issuance of long-term debt	-	-	958,877	206,588	1,165,465
Proceeds from sale of capital assets	3,400	-	-	-	3,400
Transfers in	19,587	-	-	-	19,587
Transfers out	-	-	-	(19,587)	(19,587)
Total other financing sources (uses)	22,987	-	958,877	187,001	1,168,865
Net change in fund balances	577,215	238,142	(124,105)	107,273	798,525
Fund balances, beginning of year	2,853,316	657,741	239,234	60,400	3,810,691
Fund balances, end of year	\$ 3,430,531	\$ 895,883	\$ 115,129	\$ 167,673	\$ 4,609,216

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, 2017

Net change in fund balances - total governmental funds	\$ 798,525
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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	148,692
Depreciation expense	(2,685,507)

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	(1,165,465)
Principal payments on long-term debt	3,612,842

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	(491,203)
Change in accrued interest payable on bonds and loans	(5,038)
Amortization of bond discount and deferred charge on refunding	(164,837)
Change in the accrual for compensated absences	17,559

Change in net position of governmental activities	<u>\$ 65,568</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, 2017

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenues				
Local sources	\$ 4,989,861	\$ 5,432,783	\$ 5,562,844	\$ 130,061
State sources	17,911,005	18,784,693	18,643,980	(140,713)
Federal sources	938,539	839,811	713,974	(125,837)
Total revenues	23,839,405	25,057,287	24,920,798	(136,489)
Expenditures				
Instruction:				
Basic programs	10,148,773	10,669,782	10,398,729	(271,053)
Added needs	2,271,125	2,332,078	2,260,510	(71,568)
Adult and continuing education	190,553	158,682	141,884	(16,798)
Total instruction	12,610,451	13,160,542	12,801,123	(359,419)
Supporting services:				
Pupil services	2,827,900	3,114,571	3,005,341	(109,230)
Instructional support	947,721	985,087	848,419	(136,668)
General administration	466,804	481,017	465,459	(15,558)
School administration	1,324,761	1,303,830	1,258,210	(45,620)
Business services	402,607	413,164	382,302	(30,862)
Operations and maintenance	2,518,583	2,659,731	2,535,523	(124,208)
Transportation	1,207,915	1,215,252	1,146,474	(68,778)
Central support	515,627	632,373	602,633	(29,740)
Community service	740,899	760,577	778,157	17,580
Total supporting services	10,952,817	11,565,602	11,022,518	(543,084)
Athletics	498,091	509,749	477,287	(32,462)
Debt service:				
Principal	42,842	42,842	42,842	-
Interest and fiscal charges	36,200	33,200	22,800	(10,400)
Total debt service	79,042	76,042	65,642	(10,400)
Total expenditures	24,140,401	25,311,935	24,366,570	(945,365)
Revenues over (under) expenditures	(300,996)	(254,648)	554,228	808,876

continued...

MILAN AREA SCHOOLS

Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - General Fund For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Other financing sources				
Proceeds from sale of capital assets	\$ 2,000	\$ 3,400	\$ 3,400	\$ -
Transfers in	44,000	44,000	19,587	(24,413)
Total other financing sources	46,000	47,400	22,987	(24,413)
Net change in fund balance	(254,996)	(207,248)	577,215	784,463
Fund balance, beginning of year	2,853,316	2,853,316	2,853,316	-
Fund balance, end of year	<u>\$ 2,598,320</u>	<u>\$ 2,646,068</u>	<u>\$ 3,430,531</u>	<u>\$ 784,463</u>

concluded.

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

MILAN AREA SCHOOLS

Statement of Fiduciary Net Position

June 30, 2017

	Private- Purpose Trust Fund	Agency Funds
	Scholarships	
Assets		
Cash and cash equivalents	\$ 1,700	<u>\$ 495,322</u>
Liabilities		
Accounts payable		\$ 13,067
Due to student groups	-	<u>482,255</u>
Total liabilities		<u>\$ 495,322</u>
Net position		
Restricted for scholarships	<u>\$ 1,700</u>	

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

MILAN AREA SCHOOLS

Statement of Changes in Fiduciary Net Position

Private-Purpose Trust Fund

For the Year Ended June 30, 2017

	Scholarships
Additions	
Earnings on deposits and investments	\$ -
Deductions	
Scholarships	-
Change in net position	-
Net position, beginning of year	1,700
Net position, end of year	\$ 1,700

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

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NOTES TO FINANCIAL STATEMENTS

MILAN AREA SCHOOLS

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Milan Area Schools (the “District”) has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District had no business-type activities during the current year.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for the agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

MILAN AREA SCHOOLS

Notes to Financial Statements

Property taxes, intergovernmental revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those accounted for and reported in another fund.

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

The *2009 debt service fund* is used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest in relation to the 2009 bonds.

Additionally, the District reports the following fund types:

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

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

The *private-purpose trust fund* accounts for amounts entrusted to the District for scholarship awards and similar trust activities.

The *agency funds* account for assets held for student activity groups and organizations and are custodial in nature.

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

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

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Equity

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value, except for the District's investments in the Michigan Liquid Assets Fund (MILAF), which are recorded at amortized cost.

MILAN AREA SCHOOLS

Notes to Financial Statements

Receivables and Payables

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

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

Inventory and Prepaid Items

Inventory is valued at the lower of cost (first in, first out) or market. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated 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

MILAN AREA SCHOOLS

Notes to Financial Statements

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. The District reports deferred outflows for the 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 reports deferred outflows of resources related to the net pension liability. A portion of these costs represent contributions to the plan subsequent to the plan measurement date. The District also reports deferred outflows of resources related to the interest rate swap. The swap is a hedging instrument and the change in fair value is considered an outflow.

Compensated Absences

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

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

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

Long-term Obligations

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

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

Deferred Inflows of Resources

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

MILAN AREA SCHOOLS

Notes to Financial Statements

Fund Equity

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

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

Pensions

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

2. BUDGETARY INFORMATION

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

During the year ended June 30, 2017, the government incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control as follows:

	Final Budget	Actual	Variance
General fund			
Supporting services -			
Community service	\$ 760,577	\$ 778,157	\$ 17,580

MILAN AREA SCHOOLS

Notes to Financial Statements

3. DEPOSITS AND INVESTMENTS

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

Statement of Net Position	
Cash and cash equivalents	\$ 3,726,314
Statement of Fiduciary Net Position	
Cash and cash equivalents	<u>497,022</u>
Total	<u>\$ 4,223,336</u>
Deposits and investments	
Cash on hand	\$ 2,722
Bank deposits (checking/savings accounts and CD's)	2,096,420
Investments	<u>2,124,194</u>
Total	<u>\$ 4,223,336</u>

Statutory Authority

State statutes authorize the District to invest in:

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

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

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

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

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

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

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

MILAN AREA SCHOOLS

Notes to Financial Statements

Investments

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

Investment	Maturity	Amortized Cost / Fair Value	Rating
Michigan Liquid Asset Fund	n/a	\$ 1,781,627	S&P AAAM
US Bank money market funds	n/a	<u>342,567</u>	Not rated
		<u>\$ 2,124,194</u>	

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

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

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$1,636,915 of the District's bank balance of \$2,138,814 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

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

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

MILAN AREA SCHOOLS

Notes to Financial Statements

The District's only recurring fair value measurements as of June 30, 2017 were related to its investments in money market funds. These investments are valued using quoted market pricing of the underlying securities (Level 1 inputs).

4. RECEIVABLES

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

	General	2002 Debt Service	2009 Debt Service	Nonmajor Governmental Funds	Totals
Accounts receivable	\$ 12,829	\$ -	\$ -	\$ 21,363	\$ 34,192
Taxes receivable	114	1,446	899	252	2,711
Due from other governments	4,650,389	-	-	-	4,650,389
	<u>\$ 4,663,332</u>	<u>\$ 1,446</u>	<u>\$ 899</u>	<u>\$ 21,615</u>	<u>\$ 4,687,292</u>

5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2017 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	97,652,074	31,956	-	97,684,030
Equipment	3,064,419	17,633	-	3,082,052
Vehicles	1,570,523	99,103	53,780	1,615,846
	<u>111,561,912</u>	<u>148,692</u>	<u>53,780</u>	<u>111,656,824</u>
Less accumulated depreciation for:				
Land improvements	5,068,661	357,757	-	5,426,418
Buildings and improvements	23,228,976	2,077,686	-	25,306,662
Equipment	2,458,913	132,422	-	2,591,335
Vehicles	1,091,064	117,642	53,780	1,154,926
	<u>31,847,614</u>	<u>2,685,507</u>	<u>53,780</u>	<u>34,479,341</u>
Total capital assets being depreciated, net	<u>79,714,298</u>	<u>(2,536,815)</u>	<u>-</u>	<u>77,177,483</u>
Governmental activities capital assets, net	<u>\$ 81,322,243</u>	<u>\$ (2,536,815)</u>	<u>\$ -</u>	<u>\$78,785,428</u>

Depreciation expense of \$2,685,507 is reported as "unallocated depreciation," and not allocated to individual functions.

MILAN AREA SCHOOLS

Notes to Financial Statements

6. 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	2002 Debt Service	2009 Debt Service	Nonmajor Governmental Funds	Totals
Fund Financial Statements:					
Accounts payable	\$ 750,597	\$ 1,906	\$ 1,185	\$ 50,998	\$ 804,686
Accrued liabilities	423,050	-	-	-	423,050
Salaries and benefits payable	1,929,164	-	-	34,902	1,964,066
	<u>\$ 3,102,811</u>	<u>\$ 1,906</u>	<u>\$ 1,185</u>	<u>\$ 85,900</u>	3,191,802
Government-wide Financial Statements -					
Accrued interest on long-term debt					<u>757,795</u>
					<u>\$ 3,949,597</u>

7. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

At June 30, 2017, interfund receivables and payables consisted of the following:

	Due from Other Funds	Due to Other Funds
General fund	\$ -	\$ 317,429
2002 debt service fund	219,340	-
2009 debt service fund	71,259	-
Nonmajor governmental funds	<u>26,830</u>	<u>-</u>
	<u>\$ 317,429</u>	<u>\$ 317,429</u>

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

MILAN AREA SCHOOLS

Notes to Financial Statements

For the year ended June 30, 2017, interfund transfers consisted of the following:

	Transfers out	Transfers in
General fund	\$ -	\$ 19,587
Nonmajor governmental funds	19,587	-
	<u>\$ 19,587</u>	<u>\$ 19,587</u>

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

For the year ended June 30, 2017, the District transferred funds from the food service fund to the general fund to cover certain allocable costs.

8. LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental activities					
General obligation bonds	\$107,310,000	\$ -	\$ 3,570,000	\$ 103,740,000	\$ 3,705,000
Capital lease	80,418	-	42,842	37,576	37,576
School bond loan fund	2,549	1,178,593	-	1,181,142	-
Total installment debt	107,392,967	1,178,593	3,612,842	104,958,718	3,742,576
Unamortized bond discount	(268,784)	-	(14,932)	(253,852)	(14,932)
Interest rate swap	5,521,003	-	2,202,650	3,318,353	-
Compensated absences	626,360	1,431,840	1,449,399	608,801	608,801
Total long-term debt	<u>\$113,271,546</u>	<u>\$ 2,610,433</u>	<u>\$ 7,249,959</u>	<u>\$ 108,632,020</u>	<u>\$ 4,336,445</u>

Compensated absences are typically liquidated by the general fund.

MILAN AREA SCHOOLS

Notes to Financial Statements

Bonds payable consist of the following issues:

General obligation bonds

2002 Refunding Bonds (replaced in 2016), due in annual installments of \$2,040,000 to \$2,290,000 through 2030; interest at 3.247%.	\$ 30,635,000
2009 Bonds, due in annual installments of \$1,530,000 to \$3,100,000 through 2034, interest at 5.1% to 7.1%.	37,995,000
2016 Refunding Bonds (taxable), due in annual installments of \$8,500,000 to \$9,100,000 through 2023, interest at 1.931% to 2.544%.	<u>35,110,000</u>
Total general obligation bonds	<u>\$ 103,740,000</u>

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

Year Ended June 30,	Principal	Interest	Total
2018	\$ 3,705,000	\$ 3,677,287	\$ 7,382,287
2019	3,850,000	3,533,046	7,383,046
2020	12,490,000	3,383,292	15,873,292
2021	12,795,000	3,058,278	15,853,278
2022	13,130,000	2,707,132	15,837,132
2023-2027	31,750,000	8,764,862	40,514,862
2028-2032	19,955,000	3,672,912	23,627,912
2033-2034	<u>6,065,000</u>	<u>422,966</u>	<u>6,487,966</u>
Totals	<u>\$103,740,000</u>	<u>\$ 29,219,775</u>	<u>\$132,959,775</u>

Hedging Derivative Instrument - The District has an interest rate swap agreement in connection with its \$44.845 million 2002 variable rate bonds. A swap agreement was entered into in September 2002, with an effective date that coincided with the issuance date of the bonds in October 2002. The intention of the swap was to effectively hedge the changes in cash flows related to the interest payments on the variable rate bonds. At June 30, 2017, the swap's notional amount of \$30,635,000 matched the \$30,635,000 outstanding balance of the variable rate bonds. The notional value of the swap and the principal amount of the associated debt decline at the same rate until maturity on May 1, 2030. Under the swap, the District pays the counterparty a fixed payment of 3.3665% and receives a variable payment computed at Securities Industry and Financial Market Association Municipal Swap Index TM (SIFMA) rate. The bond's variable rate coupons are determined by the remarketing agent based on the rate necessary to remarket the bonds. The rate approximates the SIFMA rate at June 30, 2017. At June 30, 2017, the SIFMA swap had a negative fair value of \$3,318,353, which was recorded in noncurrent liabilities on the statement of net position. As the swap is a hedging instrument, the change in fair value is considered an outflow and is included in deferred outflows on the statement of net position.

MILAN AREA SCHOOLS

Notes to Financial Statements

Fair value. The fair value of the swap was estimated using the zero coupon method (level 2 - significant other observable inputs). This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero coupon bonds due on the date of each future net settlement on the swap.

Credit risk. The counterparty holding the swap was rated A by Fitch and A+ by Standard & Poor's as of June 30, 2017. In the event that the counterparty were to default on the swap agreement, the District would have the option to enter into another swap agreement. At June 30, 2017, the District was not exposed to credit risk related to the SIFMA swap as the fair market value of the swap was negative.

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

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

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

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

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

Capital Leases

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

MILAN AREA SCHOOLS

Notes to Financial Statements

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2017, are as follows:

	Year Ended June 30,	Amount
	2018	\$ 38,547
Less amount representing interest		<u>(971)</u>
Total		<u>\$ 37,576</u>

School Bond Loan Fund

The School Bond Loan Fund represents amounts borrowed from the State of Michigan School Bond Loan Program to supplement property tax revenue for making payments on the District's general obligation bonds. Although interest accrues each year, no payment is due until such time as the District's property tax revenue is sufficient to support the debt service requirements on the general obligation bonds. Changes to the School Bond Loan Fund for the year ended June 30, 2017, are as follows:

	Principal	Interest	Total
Beginning balance	\$ 2,541	\$ 8	\$ 2,549
Additions	<u>1,165,465</u>	<u>13,128</u>	<u>1,178,593</u>
Ending balance	<u>\$ 1,168,006</u>	<u>\$ 13,136</u>	<u>\$ 1,181,142</u>

9. SHORT-TERM DEBT

During the year, the District financed certain of its operations through the issuance of State Aid Anticipation Notes. These notes were issued for terms of less than one year, and accordingly are recorded as liabilities of the respective funds from which they were issued. The District borrowed \$2,015,556 on August 22, 2016 with a interest rates of .76% - 1.20%. This note is due on August 21, 2017.

Changes in short-term state aid notes for the year ended June 30, 2017, were as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
State aid note	<u>\$ 1,313,239</u>	<u>\$ 2,015,556</u>	<u>\$ 2,522,597</u>	<u>\$ 806,198</u>

MILAN AREA SCHOOLS

Notes to Financial Statements

10. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2017, was as follows:

Capital assets, net	\$ 78,785,428
Capital related bonds payable outstanding	(68,630,000)
Capital lease	(37,576)
Unamortized bond discount	253,852
Deferred charge on refunding	<u>899,427</u>
Net investment in capital assets	<u><u>\$ 11,271,131</u></u>

11. RISK MANAGEMENT

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

	2017	2016
Accrued claims, beginning of year	\$ 87,000	\$ 87,000
Incurred claims	363,900	382,786
Claim payments	<u>(418,900)</u>	<u>(382,786)</u>
Accrued claims, end of year	<u><u>\$ 32,000</u></u>	<u><u>\$ 87,000</u></u>

12. PROPERTY TAXES

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

MILAN AREA SCHOOLS

Notes to Financial Statements

13. TAX ABATEMENTS

The District received reduced property tax revenues during 2017 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 \$295,000 in reduced District tax revenues for 2017.

Brownfield redevelopment agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties. These agreements were entered into based upon the Brownfield Redevelopment Act, PA 381 of 1996, as amended. Under this act, a municipality may create a brownfield redevelopment authority to develop and implement brownfield projects. Tax increment financing may be used as a tool for property redevelopment. The abatements amounted to approximately \$58,000 in reduced District tax revenues for 2017.

14. RETIREMENT PLAN

Plan Description

The Michigan Public School Employees' Retirement System (the "System" or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (the "State") originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members - eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

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

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

Benefits Provided

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

MILAN AREA SCHOOLS

Notes to Financial Statements

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.

Contributions and Funded Status

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 20-year period for the 2016 fiscal year.

The table below summarizes pension contribution rates in effect for fiscal year 2017.

Benefit Structure	Member Rates	Employer Rates
Basic	0.0% - 4.0%	18.95% - 19.03%
Member Investment Plan (MIP)	3.0% - 7.0%	18.95% - 19.03%
Pension Plus	3.0% - 6.4%	17.73% - 18.40%
Defined Contribution	0.0%	14.56% - 15.27%

The District's contribution to MPSERS under all pension plans for the year ended June 30, 2017 was \$3,477,521.

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

At June 30, 2017, the District reported a liability of \$36,305,226 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2015. 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, 2016, the District's proportion was 0.14552%, which was a decrease of 0.00209% from its proportion measured as of September 30, 2015.

MILAN AREA SCHOOLS

Notes to Financial Statements

For the year ended June 30, 2017, the District recognized pension expense of \$3,970,801. At June 30, 2017, 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	\$ 452,459	\$ 86,044	\$ 366,415
Changes in assumptions	567,604	-	567,604
Net difference between projected and actual earnings on pension plan investments	603,393	-	603,393
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>1,693,586</u>	<u>410,559</u>	<u>1,283,027</u>
	3,317,042	496,603	2,820,439
District contributions subsequent to the measurement date	<u>3,221,045</u>	<u>-</u>	<u>3,221,045</u>
Total	<u>\$ 6,538,087</u>	<u>\$ 496,603</u>	<u>\$ 6,041,484</u>

\$3,221,045 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, 2018. 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
2018	\$ 796,360
2019	748,909
2020	1,206,458
2021	<u>68,712</u>
Total	<u>\$ 2,820,439</u>

MILAN AREA SCHOOLS

Notes to Financial Statements

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The total pension liability in the September 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age, normal
Wage inflation rate	3.5%
Investment rate of return:	
MIP and Basic plans (non-hybrid)	8.0%
Pension Plus plan (hybrid)	7.0%
Projected salary increases	3.5% - 12.3%, including wage inflation at 3.5%
Cost of living adjustments	3% annual non-compounded for MIP members
Mortality	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2016, is based on the results of an actuarial valuation date of September 30, 2015, and rolled forward using generally accepted actuarial procedures, including the experience study.

MILAN AREA SCHOOLS

Notes to Financial Statements

Long-term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2016, are summarized in the following table:

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

Discount Rate

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

MILAN AREA SCHOOLS

Notes to Financial Statements

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

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

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
District's proportionate share of the net pension liability	\$ 46,751,993	\$ 36,305,226	\$ 27,497,597

Pension Plan Fiduciary Net Position

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

Payable to the Pension Plan

At June 30, 2017, the District reported a payable of \$483,940 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2017.

Other Postemployment Benefits

Retirees enrolled in MPSERS before September 4, 2012 have the option of participating in the Premium Subsidy plan, a defined benefit postemployment healthcare plan, which is funded by employers on a prefunded basis. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension. Employer contributions range from 5.69% to 6.83% of covered payroll. Plan participants contribute 3% of covered payroll to the Retiree Healthcare Fund. At retirement, these individuals receive a subsidy for healthcare premiums that covers up to 80% of cost.

MILAN AREA SCHOOLS

Notes to Financial Statements

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

The District's contributions to MPSERS for other postemployment benefits amounted to \$1,170,830 for the year ended June 30, 2017.

15. SUBSEQUENT EVENTS

State Aid Notes

On August 21, 2017, the District issued state aid note Series 2017A-1 in the amount of \$1,500,000 with an interest rate of 1.27%, which the District will pay in set asides beginning in March of 2018 through July of 2018, maturing on July 20, 2018. On August 21, 2017, the District also issued state aid note Series 2017A-2 in the amount of \$500,000 with an interest rate of 1.49%, which is due August 20, 2018.

Retirement Plan Discount Rate

In 2017, the Michigan Public Schools Employees' Retirement System's Board approved a decrease in the assumed investment rate of return (discount rate) to be used in the System's annual actuarial valuation for the non-hybrid defined benefit pension plan from 8.0% to 7.5% effective for the 2016 valuation and following. The September 30, 2016 Annual Actuarial Valuation Report will be used to establish the net pension liability for the District as of June 30, 2018, and will result in a material increase to that liability.

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**REQUIRED SUPPLEMENTARY
INFORMATION**

MILAN AREA SCHOOLS

Required Supplementary Information MPERS Cost-Sharing Multiple Employer Plan

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

	Year Ended June 30,		
	2017	2016	2015
District's proportion of the net pension liability	\$ 36,305,226	\$ 36,052,978	\$ 29,774,310
District's proportionate share of the net pension liability	0.14552%	0.14761%	0.13517%
District's covered payroll	\$ 12,305,228	\$ 12,462,109	\$ 11,568,938
District's proportionate share of the net pension liability as a percentage of its covered payroll	295.04%	289.30%	257.36%
Plan fiduciary net position as a percentage of the total pension liability	63.27%	63.17%	66.20%

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

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

MILAN AREA SCHOOLS

Required Supplementary Information MPERS Cost-Sharing Multiple Employer Plan

Schedule of District Contributions

	Year Ended June 30,		
	2017	2016	2015
Contractually required contribution	\$ 3,477,521	\$ 3,475,003	\$ 2,586,933
Contributions in relation to the contractually required contribution	<u>(3,477,521)</u>	<u>(3,475,003)</u>	<u>(2,586,933)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 12,140,365	\$ 12,816,320	\$ 11,859,819
Contributions as a percentage of covered payroll	28.64%	27.11%	21.81%

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

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**COMBINING FUND
FINANCIAL STATEMENTS**

MILAN AREA SCHOOLS

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2017

	Special Revenue	Debt Service	
	Food Service	2016 Debt Service	Total
Assets			
Cash and cash equivalents	\$ 72,242	\$ 75,418	\$ 147,660
Accounts receivable	21,363	-	21,363
Taxes receivable	-	252	252
Due from other funds	5,900	20,930	26,830
Inventory	7,468	-	7,468
Prepaid items	50,000	-	50,000
Total assets	\$ 156,973	\$ 96,600	\$ 253,573
Liabilities			
Accounts payable	\$ 50,666	\$ 332	\$ 50,998
Salaries and benefits payable	34,902	-	34,902
Total liabilities	85,568	332	85,900
Fund balances			
Nonspendable:			
Inventory	7,468	-	7,468
Prepaid items	50,000	-	50,000
Restricted	13,937	96,268	110,205
Total fund balances	71,405	96,268	167,673
Total liabilities and fund balances	\$ 156,973	\$ 96,600	\$ 253,573

MILAN AREA SCHOOLS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended June 30, 2017

	Special Revenue	Debt Service	
	Food Service	2016 Debt Service	Total
Revenues			
Local sources	\$ 349,501	\$ 622,611	\$ 972,112
State sources	35,574	-	35,574
Federal sources	381,023	-	381,023
Total revenues	766,098	622,611	1,388,709
Expenditures			
Current -			
Food service activities	735,506	-	735,506
Debt service -			
Interest on long-term debt	-	732,931	732,931
Total expenditures	735,506	732,931	1,468,437
Revenues over (under) expenditures	30,592	(110,320)	(79,728)
Other financing sources (uses)			
Issuance of long-term debt	-	206,588	206,588
Transfers out	(19,587)	-	(19,587)
Total other financing sources (uses)	(19,587)	206,588	187,001
Net change in fund balances	11,005	96,268	107,273
Fund balances, beginning of year	60,400	-	60,400
Fund balances, end of year	\$ 71,405	\$ 96,268	\$ 167,673

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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 10, 2017

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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated October 10, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Rehmann Robson LLC

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MILAN AREA SCHOOLS

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2017

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Approved Awards Amount
U.S. Department of Agriculture				
Child Nutrition Cluster:				
Cash Assistance:				
National School Breakfast Program	10.553	MDE	161970	\$ 52,142
National School Breakfast Program	10.553	MDE	171970	52,293
National School Lunch Program	10.555	MDE	161960	277,680
National School Lunch Program	10.555	MDE	171960	236,092
Non-Cash Assistance- Food Distribution Entitlement	10.555	MDE	-n/a-	60,737
Total child nutrition cluster				
Child and Adult Care Food Program	10.558	MDE	161920	3,162
Child and Adult Care Food Program	10.558	MDE	171920	2,815
Total U.S. Department of Agriculture				
U.S. Department of Education				
Adult Basic Education Instruction	84.002A	MDE	161130-161667	19,500
Institutional Adults	84.002A	MDE	161190-161667	65,000
Adult Leadership	84.002A	MDE	171150-170905	10,000
Adult Leadership	84.002A	MDE	171150-170925	7,500
Adult Basic Education Instruction	84.002	MDE	171130-171667	13,650
Institutional Adults	84.002	MDE	171190-171667	65,000
Title I:				
Title I, Part A - Improving Basic Programs	84.010	MDE	151530-1415	218,718
Title I, Part A - Improving Basic Programs	84.010	MDE	161530-1516	196,014
Title I, Part A - Improving Basic Programs	84.010	MDE	171530-1617	197,443
Title II:				
Title II, Part A - Improving Teacher Quality	84.367	MDE	150520-1415	92,300
Title II, Part A - Improving Teacher Quality	84.367	MDE	160520-1516	85,726
Title II, Part A - Improving Teacher Quality	84.367	MDE	170520-1617	97,294

(Memo Only) Prior Year Expenditures	Accrued (Unearned) Revenue at July 1, 2016	Prior Year Adjustments	Current Year Receipts	Current Year Expenditures	Accrued (Unearned) Revenue at June 30, 2017
\$ 47,401	\$ 3,058	\$ -	\$ 7,799	\$ 4,741	\$ -
-	-	-	49,587	52,293	2,706
47,401	3,058	-	57,386	57,034	2,706
250,520	16,171	-	43,331	27,160	-
-	-	-	223,300	236,092	12,792
-	-	-	60,737	60,737	-
250,520	16,171	-	327,368	323,989	12,792
297,921	19,229	-	384,754	381,023	15,498
2,961	39	-	240	201	-
-	-	-	2,794	2,853	59
2,961	39	-	3,034	3,054	59
300,882	19,268	-	387,788	384,077	15,557
19,412	19,412	-	19,412	-	-
63,833	63,833	-	63,833	-	-
-	-	-	-	2,745	2,745
-	-	-	-	762	762
-	-	-	-	13,650	13,650
-	-	-	-	62,666	62,666
83,245	83,245	-	83,245	79,823	79,823
218,718	-	(29,468)	(29,468)	-	-
185,813	45,290	-	45,290	-	-
-	-	-	130,000	162,396	32,396
404,531	45,290	(29,468)	145,822	162,396	32,396
60,378	-	(3,300)	(3,300)	-	-
43,870	43,870	-	43,870	-	-
-	-	-	-	21,950	21,950
104,248	43,870	(3,300)	40,570	21,950	21,950

continued...

MILAN AREA SCHOOLS

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2017

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Approved Awards Amount
U.S. Department of Education (concluded)				
Special Education Cluster:				
IDEA Flow-through	84.027A	WISD	160450-1516	\$ 444,062
IDEA Flow-through	84.027A	WISD	170450-1617	468,930
IDEA Pre-school Grant	84.173A	WISD	170460-1617	10,589

Total U.S. Department of Education

Total Federal Financial Assistance

See notes to schedule of expenditures of federal awards.

(Memo Only) Prior Year Expenditures	Accrued (Unearned) Revenue at July 1, 2016	Prior Year Adjustments	Current Year Receipts	Current Year Expenditures	Accrued (Unearned) Revenue at June 30, 2017
\$ 444,062	\$ 144,623	\$ -	\$ 144,623	\$ -	-
-	-	-	235,396	468,930	233,534
-	-	-	10,589	10,589	-
<u>444,062</u>	<u>144,623</u>	<u>-</u>	<u>390,608</u>	<u>479,519</u>	<u>233,534</u>
1,036,086	317,028	(32,768)	660,245	743,688	367,703
<u>\$ 1,336,968</u>	<u>\$ 336,296</u>	<u>\$ (32,768)</u>	<u>\$ 1,048,033</u>	<u>\$ 1,127,765</u>	<u>\$ 383,260</u>

concluded.

MILAN AREA SCHOOLS

Notes to Schedule of Expenditures of Federal Awards

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Milan Area Schools (the "District") under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, which is described in Note 1 to the District's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

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

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

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

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

MILAN AREA SCHOOLS

Notes to Schedule of Expenditures of Federal Awards

3. RECONCILIATION OF REVENUE ON FINANCIAL STATEMENTS TO EXPENDITURES OF FEDERAL AWARDS

Federal revenue reported on the Statement of Revenues, Expenditures and Changes in Fund Balances	\$ 1,954,790
Less: Revenue from federal government paid directly for interest on long-term debt not considered to be federal expenditures	(859,793)
Adjustments to prior year federal expenditures	<u>32,768</u>
Total expenditures of federal awards	<u>\$ 1,127,765</u>

4. PASS-THROUGH AGENCIES

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

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

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

October 10, 2017

Board of Education
Milan Area Schools
Milan, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Milan Area Schools* (the "District"), as of and for the year ended June 30, 2017, 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 10, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 2017-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

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

October 10, 2017

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, 2017. 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, 2017.

Report on Internal Control Over Compliance

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

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

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

Purpose of this Report

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

The image shows a handwritten signature in black ink that reads "Lehmann Lobson 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, 2017

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes X no

Significant deficiency(ies) identified?

X yes _____ 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, 2017

SECTION II - FINANCIAL STATEMENT FINDINGS

2017-001 - Significant Audit Adjustments

Finding Type. Significant deficiency 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 significant, 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. This was due primarily to turnover in the District's business office during the year.

Effect. As a result of this condition, the District's accounting records were initially misstated by amounts significant to the financial statements. Specifically, the following areas were initially misstated:

- Taxes receivable in the debt service fund and accounts payable in the general fund were overstated by approximately \$222,000. This entry had no net effect on ending fund balance due to interfund payables and receivables.
- Revenue and accounts receivable in the food service special revenue fund were understated by approximately \$30,000.
- Liabilities and interest expense in the general fund were overstated by approximately \$15,000.
- Prepaid amounts were understated and expenditures were overstated in the general fund by approximately \$10,000.

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. During the year we had 100% turnover in the business office staff. The Finance Director started in January and both Payroll and Account Payable staff started after that. Going forward, accounts will be monitored on a regular basis and staff will be trained on all aspects of their jobs to ensure that this issue is resolved.

Responsible Official. Finance Director

Estimated Completion Date. June 30, 2018

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

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MILAN AREA SCHOOLS

Summary Schedule of Prior Audit Findings For the Year Ended June 30, 2017

None reported.

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