Milan Area Schools

Milan, Michigan

FINANCIAL STATEMENTS and SINGLE AUDIT ACT COMPLIANCE

For the Year Ended June 30, 2011

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MILAN AREA SCHOOLS

For the Year Ended June 30, 2011

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INDEPENDENT AUDITORS' REPORT

November 3, 2011

Board of Education
Milan Area Schools
Milan, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the ***MILAN AREA SCHOOLS***, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Milan Area Schools, as of June 30, 2011, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated November 3, 2011, on our consideration of the District's internal control over financial reporting and 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 our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Milan Area Schools' basic financial statements. The combining and individual fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit* Organizations, and is also not a required part of the basic financial statements of Milan Area Schools. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

As described in Note IV-F to the financial statements, there was a restatement of beginning net assets as a result of a capital asset inventory valuation.

Rehmann Robson

MANAGEMENT'S DISCUSSION and ANALYSIS

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, 2011.

Financial Highlights

- The liabilities of the District exceeded its assets at the close of the most recent fiscal year by ($5,529,969) *(net assets).*

- The government's total net assets decreased by $4,228,811.

- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of $22,886,178, a decrease of $25,907,346 in comparison with the prior year. Approximately 99% or $22,603,136 is available for spending at the government's discretion. The majority of the available funds are in the 2009 Capital Projects Fund.

- At the end of the current fiscal year, unassigned fund balance for the general fund was $2,576,491, or 10.8 % percent of total general fund expenditures.

Overview of the Financial Statements

This 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 assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets.* Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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)*. The governmental activities of the District include instruction, support services, food service, athletics and community service. The District has no business-type activities as of and for the year ended June 30, 2011.

Fund financial statements

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

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources,* as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities.*

The District maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the 2009 Capital Projects Fund and the 2002 Debt Fund. These are considered to be major funds. Per State requirement, the Athletic Fund was discontinued and athletic activities became part of the General Fund in 2010-2011. Data from the other four 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. A budgetary comparison statement is 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.

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

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities exceeded assets by ($5,529,969) at the close of the most recent fiscal year.

Normally the largest portion of the District's net assets reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment); less any related debt used to acquire those assets that is still outstanding. 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 (property tax collections), since the capital assets themselves cannot be used to liquidate these liabilities. Having passed a Capital Projects Bond in February of 2009 and having realized the proceeds of the sale of those bonds in May of 2009, the District spent the major part of 2009-2010 in the planning and bidding stages of Phase I of the capital project. As a result the District started the 2010-2011 year with an unusually significant balance in current assets (investments). During the 2010-2011 year, the Phase I remodeling of three buildings was completed. The planning and bidding stages of Phase II were then executed. The majority of the remaining funds will be spent down over the next two years to complete the Phase II construction of a new instructional wing at the High School and a new transportation facility.

District's Net Assets
Governmental Activities

	2010-11	2009-10
Current and other assets	$ 30,744,187	$ 56,716,264
Capital assets, net	78,808,880	56,304,737
Total assets	109,553,067	113,021,001
Long-term liabilities outstanding	108,842,167	105,965,738
Other liabilities	6,240,869	8,703,041
Total liabilities	115,083,036	114,668,779
Net assets:		
Invested in capital assets, net of related debt	(8,437,149)	(4,164,006)
Restricted	1,660,555	827,281
Unrestricted	1,246,625	1,688,947
Total net assets	**$ (5,529,969)**	**$ (1,647,778)**

The schedule above reflects a shift from current assets to capital assets, in 2010-2011, as cash was converted to building improvements. However, when accounting for capital assets the District has a threshold of $5,000. Therefore, expenditures for furnishings, equipment and technology, below $5,000 per item, are not included in capital asset inventories. As a result, those purchases result in a decrease in net assets, although those items have useful value to the District.

The District currently has a negative net asset balance. In other words, if all of our liabilities were due on 6/30/11, liquidation of all capital assets would not be sufficient to meet our obligations.

It is not unusual for districts, such as Milan, that participate in the Michigan School Bond Loan Program/School Loan Revolving Fund to achieve a negative net asset balance. When yearly tax collections for debt retirement are not sufficient to meet scheduled debt payments, the District borrows as necessary from the Fund. The increase in Long-Term Liabilities above reflects borrowing of $4,275,350, in 2010-2011. This borrowing allows the District to consistently levy 8.04 mills for debt service. When yearly tax collections exceed interest and principal due, the District will continue to levy 8.04 mills for debt service, using the excess tax collections to repay the School Bond Loan Fund/School Loan Revolving Fund. The final repayment to the Michigan School Bond Loan Program/School Loan Revolving Fund will occur in the year 2044 by current calculations.

Included in Long-Term Liabilities is the current value of the interest rate swap on the 2002 Bonds. The liability at 6/30/11 is $2,389,957. In 2011 the District did liquidate a favorably valued swap, using the proceeds to reduce the interest rate on the current swap. It would not be in the interest of the District to liquidate the current liability and the counter-party has restricted ability to liquidate. The interest rate swap will have zero value at maturity.

Another component of Long-Term Liabilities that reduces net assets is compensated absences. These are sick and vacation days accumulated by employees, which would be payable if all employees, were to resign on 6/30/11. That unlikely scenario creates an accrued liability of $866,986.

In addition to total net assets, another indicator of the District's financial position is unrestricted net assets. The previous table reflects that unrestricted net assets decreased in 2010-2011, from $1,688,947 to $1,196,625. The positive balance indicates that funds that are available for unrestricted activities at 6/30/11.

The government's net assets decreased by $4,228,811 during the current fiscal year. While the first chart reflects the changes in assets and liabilities from 2009-2010 to 2010-2011, the next chart reflects the activities resulting in those changes.

District's Changes in Net Assets

Governmental Activities

	2010-11	2009-10
Revenue:		
Program revenue:		
Charges for services	$ 1,085,752	$ 1,039,631
Operating grants and contributions	3,861,249	4,162,263
General revenue:		
Property taxes	6,021,098	6,018,101
State school aid	17,448,719	16,349,493
Grants and contributions not restricted to specific programs	445,604	580,782
Unrestricted investment earnings	235,729	1,050,081
Gain on Sale of capital assets	2,500	3,300
Total revenue	**29,100,651**	**29,203,650**
Expenses:		
Instruction	14,210,969	13,219,240
Support services	11,550,771	8,598,164
Community service	493,475	434,164
Athletics	339,924	480,554
Food service	825,431	873,329
Interest on long-term debt	4,462,581	4,836,727
Unallocated depreciation	1,446,311	1,413,172
Total expenses	**33,329,462**	**29,855,350**
Change in net assets	**(4,228,811)**	**(651,699)**
Net assets, beginning of year, as restated	(1,301,158)	(996,079)
Net assets, end of year	**$ (5,529,969)**	**$ (1,647,778)**

- Overall revenue stayed flat from 2009-2010 to 2010-2011. There were increases in State Aid due to increased enrollment and decreases in investment earnings due to the spend down in the 2009 Capital Projects Fund (remodeling of three buildings).

- Expenditures increased during the same period. Increases in instructional costs were due to increased enrollment and increases in fringe benefits. The greatest increase was in support services and it is important to note that these are government wide services and not limited to the student services in the general fund.

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. Particular attention to the categories of restricted, assigned and unassigned fund balance may serve as a useful measure of a government's 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 $22,886,178, a decrease of $25,907,346 in comparison with the prior year. Approximately 99% of this total amount ($22,603,163) is available for spending. The remainder of fund balance is nonspendable because the underlying assets are included in inventory and prepaid expenses and are not available for current expenditure. The decrease in fund balance is mostly due to remodeling expenses in the 2009 Capital Projects Fund. Remodeling in three schools was completed in 2010/2011. The majority of the remaining fund balance is restricted for the 2009 Capital Projects Fund. A new instructional wing at the High School and a new transportation facility will be completed over the next two years.

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 $2,576,491, while total general fund balance was $2,926,811. 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 10.8 percent of total general fund expenditures. This percentage is unchanged from 2010/2011. An unassigned fund balance of 10-12 % is generally recommended.

The fund balance of the District's general fund increased by $254,421, during the current fiscal year. The unassigned fund balance increased by $163,389.

The 2009 Capital Projects Fund has a total spendable fund balance of $18,298,812. As mentioned previously, these proceeds from the 2009 bond issue will be spent down over the next two years on capital projects.

The 2002 debt service fund has a total spendable fund balance of $1,437,796. A high balance is maintained in the 2002 debt fund to make monthly interest payments in the summer months prior to summer tax collections.

General Fund Budgetary Highlights

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

- State Aid increased by $1,654,305. A threatened per pupil proration was not enacted. A significant student enrollment increase was realized.

- Federal Aid decreased by $269,646. Although federal funds continued to offset state cuts the federal grants were reduced from the previous year.

- Operation and maintenance budgets were reduced as utility and repairs cost savings were realized due to the renovations and upgrades at three buildings.

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

Capital Asset and Debt Administration

Capital assets

The District's investment in capital assets for its governmental activities as of June 30, 2011, amounted to $78,808,880 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles and equipment. This reflects an increase of $22,504,143 from the previous year.

The major capital asset event during the current fiscal year was the completion of renovations of three buildings over the summer of 2010. Preliminary expenses for those projects were incurred prior to 6/30/10, and were recorded as Construction in Progress at 6/30/10. Those costs have moved to Capital Assets being depreciated in the chart below. Projects begun, but not completed prior to 6/30/11, (the new instructional wing at the High School and the new transportation facility), are now expressed as Construction in Progress in the chart below. At the conclusion of the project these expenditures will be appropriately categorized. The District also purchased two new buses and disposed of two buses.

Increases to capital assets were offset by depreciation expense of $1,446,311.

District's
Capital Assets

	6/30/11	6/30/10
Capital Assets not being depreciated:		
Land	$ 1,607,945	$ 1,607,945
Construction in Progress	1,421,993	5,112,684
Capital assets being depreciated (net of depreciation)		
Site Improvements	2,373,786	2,541,030
Buildings	72,559,995	46,080,373
Equipment	224,181	509,358
Vehicles	620,980	453,347
Total	**$ 78,808,880**	**$ 56,304,737**

Additional information on the District's capital assets can be found in III.C of the notes to this report.

Long-term debt. At the end of the current fiscal year, the District had total bonded debt outstanding of $90,332,510.

The District's total bonded long-term debt decreased by $3,907,487, (approximately 4%) during the current fiscal year.

Additional information on the District's long-term debt can be found in III.F of the notes section to this report.

Factors bearing on the District's Future

The following factors were considered in preparing the District's budget for the 2011-12 fiscal year:

- The State Aid Foundation Grant is projected to decrease by $370 per pupil.

- Loss of Federal ARRA funds will be partially offset by the Federal Edujobs grant.

- The District has been fortunate to experience moderate growth in student enrollment over the last several years. The corresponding increases in State funding have helped the District to weather some of the revenue challenges during the same period. However, enrollment projections indicate a probable decrease for 2011-2012. The preliminary budget for 2011-2012 projects a decrease of 60 students. As of this writing the State has changed the per pupil foundation calculation for State Aid, resulting in reduced State Aid payments to districts with declining enrollment.

- Due to increased State reporting and student and teacher evaluation requirements and increased use of data to further educational goals, the District will be hiring one new student guidance position and 2 new administrative positions. The District expects per pupil administrative costs to remain relatively low compared to other Michigan districts per the annual State Bulletin 1014.

- The District participates in an experience rated health plan. Favorably low experience in 2010 has resulted in a 10% decrease in health premiums for 11-12.

- The retirement rate is scheduled to increase from 20.66% of gross wages to 24.46% on 10/1/2011. The State will provide a retirement cost offset that will partially cover the rate increase cost. The offset will be less than half of the increased cost.

- For 2011-2012 the State has offered a per pupil monetary incentive, for districts who enact four out of five "Best Practices", as defined by the State. The District expects to enact those "Best Practices" and qualify for the incentive.

- Beginning in 2009-2010 the Food Service Fund transferred $50,000 to the General Fund as compensation for indirect costs. The same transfer will be continued in 2011-2012. The amount will be lowered if it exceeds the indirect cost cap allowed by the Michigan Department of Education.

- Beginning in 2010-2011 the Paddock Early Childhood Center, which is a self-funded program, was required to transfer $25,000 to the General Fund for indirect costs. The same transfer will be continued.

- The District will be in negotiations with all bargaining groups given that all bargaining agreements expire at 6/30/2011.

- In light of the preceding information the District passed an $832,402 deficit budget for 2011-2012. This budget would reduce fund balance at 6/30/12 to $1,595,234 or 6.5% of expenditures. It is not the District's intention to fully implement this budget, but rather, as more information becomes available and contract negotiations proceed, it is the intention of the District to achieve savings through adjustments and staff concessions. The District goal is to maintain a fund balance of 10% of expenditures.

- Because of uncertain and possibly dire revenue projections for the 2010-2011 year the District and the teacher and support staff unions did agree to salary and benefit concessions, along with a modest reduction in fund balance to avoid major layoffs of staff. A formula was agreed on to compensate staff in the event that actual revenue was better than projected. At that time all staff agreed to a 2% pay cut as well as a 10% co-pay on health insurance premiums. For 2010-2011 the worst revenue projections were not realized and the formula was enacted to rebate concessions to employees. As of 6/30/2011, it was anticipated that a similar formula would be offered to staff for the 2011-2012 school year. In this way the District protects the fund balance and avoids layoffs, but ensures staff that the District will not increase fund balance at the expense of employee compensation. As of this writing the staff accepted the offer to continue the 2% pay cut along with a concession rebate formula to be triggered in the event of a fund balance increase. The 10% health care premium co-pay, began in 2010-11, will continue in 2011-2012, and will expand to apply to all employee benefits.

- Another cost cutting measure to be negotiated with staff is the elimination of the popular block scheduling with a return to a traditional seven period day, at the High School and at the Middle School. Block scheduling offers 4 classes per day on an alternating schedule, for a total of 8 classes per student, over a two day period. This model offers several advantages to both teachers and students, but it requires more teaching staff than the traditional model. It is estimated that the District could operate with four fewer teachers using the traditional seven period model. It is expected that those positions will be vacated by attrition, and that layoffs will be avoided. As of this writing the proposal was accepted and the District will return to seven periods per day at the High School and at the Middle School.

- The District, along with the Intermediate School District, will continue to explore cost savings through consolidation of services. The Washtenaw ISD is currently investigating a common financial software that will increase business office efficiency for individual districts and provide efficiencies and support across districts.

- In the 07-08 school year the District underwent a facilities needs study which resulted in a plan to present a bond proposal to the voters in 2008-09. The bond proceeds would be used for improvements as well as additions to current facilities. The additional debt would not increase the current tax levy, but would return the District to borrowing from the School Loan Revolving Fund and the current debt levy of 8.04 mills would be extended out an additional number of years based on the final amount borrowed. That proposal passed in February of 2009. Bonds were sold in May of 2009. Bond proceeds minus discount were $48,791,689. Early in 2009-2010 the District contracted with architects, construction management and owners representation. Once the project team was together, planning and bidding of bond projects progressed. Projects started after the last day of class in June of 2010. Over the summer of 2010 the two elementary buildings and the Middle School underwent extensive remodeling which was substantially completed by the first day of class in September of 2010. In the fall of 2010-2011 the team began planning and eventually bidding contracts for an addition to the High School and a new transportation facility. In June of 2011 preliminary site work began for the new transportation building and completion is expected in December of 2011. Preliminary site work for the High School addition is expected to start in the fall of 2011. The addition is expected to be complete and open in the fall of 2012. By funding these capital projects with bond dollars the District will upgrade the condition of all facilities and systems resulting in reduced maintenance expense and allow general fund dollars to be dedicated to student education. The same is true for expenditures out of the capital fund for technology and buses. At the same time we are able to provide our students with excellent facilities for learning, extracurricular activities and transportation.

- The District will continue to contract with energy management consultants and will continue to employ an onsite energy management educator to assist the District in further reducing energy usage and containing utility costs. Having fulfilled the original consulting contract, the energy management consultant continues at no cost. The renovations and upgrades achieved through the 2009 bond projects are expected to enhance the savings achieved in previous periods.

- The Milan Area School District continues to be challenged by the poor national economy and especially by the revenue losses in the State of Michigan. By working together with a caring and dedicated staff and community we continue to explore and implement cost saving measures. In this fashion the District has been able to increase to and then maintain a 10% fund balance while enhancing 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

DISTRICT-WIDE FINANCIAL STATEMENTS

MILAN AREA SCHOOLS
Statement of Net Assets
June 30, 2011

	Governmental Activities
Assets	
Cash and cash equivalents	$ 23,412,550
Receivables	4,658,638
Prepaid items and other assets	2,672,999
Capital assets not being depreciated	3,029,938
Capital assets being depreciated, net	75,778,942
Total assets	109,553,067
Liabilities	
Accounts payable and accrued liabilities	4,574,239
State aid note payable	1,639,481
Unearned revenue	27,149
Noncurrent liabilities:	
Due within one year	4,040,361
Due in more than one year	104,801,806
Total liabilities	115,083,036
Net assets (Deficit)	
Invested in capital assets, net of related debt (deficit)	(8,437,149)
Restricted for:	
Debt service	1,543,924
Other purposes	116,631
Unrestricted	1,246,625
Total net assets (deficit)	$ (5,529,969)

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

MILAN AREA SCHOOLS
Statement of Activities
For the Year Ended June 30, 2011

Functions / Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue
Governmental activities:					
Instruction	$ 14,210,969	$ 2,641	$ 3,391,680	$ -	$ (10,816,648)
Supporting services	11,550,771	-	43,190	-	(11,507,581)
Community service	493,475	604,914	-	-	111,439
Athletics	339,924	-	-	-	(339,924)
Food service	825,431	478,197	426,379	-	79,145
Interest on long-term debt	4,462,581	-	-	-	(4,462,581)
Unallocated depreciation	1,446,311	-	-	-	(1,446,311)
Total	$ 33,329,462	$ 1,085,752	$ 3,861,249	$ -	(28,382,461)
	General revenues:				
	Property taxes				6,021,098
	Unrestricted state aid				17,448,719
	Grants and contributions not restricted to specific programs				445,604
	Unrestricted investment earnings				235,729
	Gain on sale of capital assets				2,500
	Total general revenues				24,153,650
	Change in net assets				(4,228,811)
	Net assets (deficit), beginning of year, as restated				(1,301,158)
	Net assets (deficit), end of year				$ (5,529,969)

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

FUND FINANCIAL STATEMENTS

MILAN AREA SCHOOLS
Balance Sheet
Governmental Funds
June 30, 2011

ASSETS	General	2009 Capital Projects	2002 Debt Service	Other Governmental Funds	Totals
Assets					
Cash and cash equivalents	$ 3,381,518	$ 18,449,718	$ 1,402,277	$ 179,037	$ 23,412,550
Accounts receivable	102,410	264,883	-	-	367,293
Taxes receivable	79,717	-	47,674	8,118	135,509
Due from other governments	4,118,327	-	-	37,509	4,155,836
Due from other funds	21,437	-	-	6,502	27,939
Inventory	10,939	-	-	7,997	18,936
Prepaid expenditures	214,106	-	-	50,000	264,106
TOTAL ASSETS	$ 7,928,454	$ 18,714,601	$ 1,449,951	$ 289,163	$ 28,382,169
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	$ 138,575	$ 415,789	$ 10,516	$ 17,687	$ 582,567
Accrued expenditures	98,184	-	-	-	98,184
Salaries and health insurance payable	3,083,162	-	-	-	3,083,162
Due to other funds	18,301	-	1,639	7,999	27,939
Deferred revenue	23,940	-	-	40,718	64,658
Notes payable	1,639,481	-	-	-	1,639,481
Total liabilities	5,001,643	415,789	12,155	66,404	5,495,991
Fund balances					
Nonspendable	225,045	-	-	57,997	283,042
Restricted for:					
Food service	-	-	-	58,634	58,634
Debt service fund	-	-	1,437,796	106,128	1,543,924
Capital projects	-	18,298,812	-	-	18,298,812
Assigned for:					
First Steps	35,904				35,904
Paddock Early Childhood Center	46,307	-	-	-	46,307
Curriculum	43,064	-	-	-	43,064
Unassigned	2,576,491	-	-	-	2,576,491
Total fund balances	2,926,811	18,298,812	1,437,796	222,759	22,886,178
TOTAL LIABILITIES AND FUND BALANCES	$ 7,928,454	$ 18,714,601	$ 1,449,951	$ 289,163	$ 28,382,169

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

MILAN AREA SCHOOLS
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2011

Fund balances - total governmental funds	$ 22,886,178
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add - capital assets	97,784,447
Deduct - accumulated depreciation	(18,975,567)
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.	
Add - deferred long-term receivables	37,509
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Deduct - bonds and loans payable	(107,985,425)
Add - unamortized bond issuance costs	271,512
Add - unamortized loss on refunding	1,831,827
Deduct - unamortized bond premium	(43,711)
Add - unamortized bond discount	343,447
Deduct - accrued interest on bonds payable	(810,326)
Deduct - compensated absences and retirement incentive	(869,860)
Net assets (deficit) of governmental activities	$ (5,529,969)

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

MILAN AREA SCHOOLS
Statement of Revenue, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011

	General	2009 Capital Projects	2002 Debt Service	Other Governmental Funds	Totals
Revenue					
Local sources	$ 4,585,019	229,858	3,309,037	$ 1,042,927	$ 9,166,841
State sources	18,004,355	-	-	66,102	18,070,457
Federal sources	1,497,957	-	-	380,383	1,878,340
Total revenue	24,087,331	229,858	3,309,037	1,489,412	29,115,638
Expenditures					
Education:					
Instruction	14,013,548	-	-	-	14,013,548
Support services	9,488,353	-	-	-	9,488,353
Food service activities	-	-	-	824,292	824,292
Athletic programs	339,354	-	-	-	339,354
Capital outlay	-	26,431,021	-	-	26,431,021
Debt service:					
Principal	-	-	1,520,000	2,387,487	3,907,487
Interest	44,155	-	1,553,113	2,066,014	3,663,282
Total expenditures	23,885,410	26,431,021	3,073,113	5,277,793	58,667,337
Revenue over (under) expenditures	201,921	(26,201,163)	235,924	(3,788,381)	(29,551,699)
Other financing sources (uses)					
Proceeds from sale of capital assets	2,500	-	-	-	2,500
Bond proceeds	-	-	-	3,641,853	3,641,853
Transfers in	50,000	-	-	-	50,000
Transfers out	-	-	-	(50,000)	(50,000)
Total other financing sources (uses)	52,500	-	-	3,591,853	3,644,353
Net change in fund balances	254,421	(26,201,163)	235,924	(196,528)	(25,907,346)
Fund balances, beginning of year	2,672,390	44,499,975	1,201,872	419,287	48,793,524
Fund balances, end of year	$ 2,926,811	$ 18,298,812	$ 1,437,796	$ 222,759	$ 22,886,178

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

MILAN AREA SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2011

Net change in fund balances - total governmental funds	$ (25,907,346)
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.	
Add - capital outlay	23,607,680
Deduct - depreciation expense	(1,446,311)
Deduct - loss on disposal of capital assets	(3,846)
The receipt of a long-term receivable represents revenue in the fund financial statements, but is reported as a reduction of the receivable in the statement of activities.	
Deduct - payments received on deferred long-term receivables	(17,487)
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 assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
Deduct - net proceeds from bond issuance	(3,641,853)
Add - principal payments on long-term liabilities	3,907,487
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 the funds.	
Deduct - increase in accrued interest payable on bonds and loans	(608,526)
Deduct - amortization of bond issuance costs, loss on refunding, and bond premium	(190,773)
Deduct - increase in the accrual for compensated absences	(56,962)
Add - decrease in early retirement incentives payable	129,126
Change in net assets of governmental activities	$ (4,228,811)

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

MILAN AREA SCHOOLS
Statement of Revenue, Expenditures and Changes in Fund Balance
General Fund
For the Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Over (under) Final Budget
Revenue				
Local sources	$ 4,600,082	$ 4,500,334	$ 4,585,019	$ 84,685
State sources	16,033,574	17,987,879	18,004,355	16,476
Federal sources	1,828,934	1,559,288	1,497,957	(61,331)
Total revenue	22,462,590	24,047,501	24,087,331	39,830
Expenditures				
Instruction				
Basic programs	12,543,531	12,417,008	12,273,090	(143,918)
Added needs	1,637,001	1,726,537	1,623,751	(102,786)
Adult and continuing education	139,318	117,539	116,707	(832)
Total instruction	14,319,850	14,261,084	14,013,548	(247,536)
Supporting services				
Pupil services	2,378,702	2,559,483	2,532,875	(26,608)
Instructional support	886,385	946,137	878,846	(67,291)
General administration	385,208	398,310	369,667	(28,643)
School administration	1,200,161	1,176,308	1,165,934	(10,374)
Business services	345,466	281,947	257,865	(24,082)
Operations and maintenance	2,730,348	2,423,616	2,433,386	9,770
Transportation	1,098,808	1,145,002	1,114,577	(30,425)
Central support	214,435	221,773	188,471	(33,302)
Community Services	575,881	542,923	546,732	3,809
Total supporting services	9,815,394	9,695,499	9,488,353	(207,146)
Debt service				
Interest and fiscal charges	-	44,401	44,155	(246)
Athletics	-	343,193	339,354	(3,839)
Total expenditures	24,135,244	24,344,177	23,885,410	(458,767)
Revenue over (under) expenditures	(1,672,654)	(296,676)	201,921	498,597
Other financing sources (uses)				
Proceeds from sale of capital assets	-	2,500	2,500	-
Transfers in	-	50,000	50,000	-
Transfers out	(305,522)	(576)	-	576
Total other financing sources (uses)	(305,522)	51,924	52,500	576
Net change in fund balance	(1,978,176)	(244,752)	254,421	499,173
Fund balances, beginning of year	2,672,390	2,672,390	2,672,390	-
Fund balances, end of year	$ 694,214	$ 2,427,638	$ 2,926,811	$ 499,173

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

MILAN AREA SCHOOLS
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

	Private-Purpose Trust Fund	
	Scholarships	Agency Funds
Assets		
Cash and cash equivalents	$ 19,208	$ 450,008
Liabilities		
Due to student groups	800	$ 450,008
Net assets		
Unrestricted	$ 18,408	

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

MILAN AREA SCHOOLS
Statement of Changes in Fiduciary Net Assets
Private-Purpose Trust Fund
For the Year Ended June 30, 2011

	Scholarships
Additions	
Earnings on deposits and investments	$ 10
Deductions	
Scholarships	2,826
Decrease in net assets	(2,816)
Net assets, beginning of year	21,224
Net assets, end of year	$ 18,408

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

NOTES to the FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The Milan Area Schools (the "District") has followed the guidelines of the Governmental Accounting Standards Board's Statements No. 14 and No. 39 and 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.

B. District-wide and fund financial statements

The District-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended June 30, 2011.

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 District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The District-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 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 and claims and judgments, are recorded only when payment is due.

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 and reports all financial resources of the general government, except those required to be accounted for in another fund.

The *2009 capital projects fund* accounts for the financial resources to be used for the acquisition or construction of major capital facilities and improvements in relation to the 2009 bonds.

The *2002 debt service fund* is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs of that fund.

Additionally, the District reports the following fund types:

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

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

The *capital projects* funds are used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The *private-purpose trust funds* account 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.

D. Assets, liabilities and equity

1. 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 for the District are reported at fair value.

2. 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 "due to/from other 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.

3. Inventories and prepaid items

All inventories are valued at cost using the first-in/first out (FIFO) method. 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 District-wide and fund financial statements.

4. Capital assets

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Land improvements	10-20
Buildings and improvements	25-50
Equipment	5-20
Licensed vehicles	8

5. 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 District-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

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

Administrators and other support staff working year-round accrue vacation time in varying amounts. Teachers and other personnel working less than twelve months during the year do not receive paid vacation time, but are paid only for the number of days they are required to work each year. Upon termination, an employee may elect to receive the unused portion of his/her vacation time in cash.

6. Long-term obligations

In the District-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received in debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

7. Fund equity

Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually require to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, or laws or regulations of other governments. *Committed fund balance* is reported for amounts that can be used for specific purposes pursuant to constraints imposed by formal action if 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. *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.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

The General and Special Revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted annually on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the General and Special Revenue Funds are adopted on a functional basis.

Variances from the final amended budget are shown in the Statement of Revenues, Expenditures and Changes in Fund Balance for the General Fund.

All annual appropriations lapse at fiscal year end.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

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

Statement of Net Assets	
Cash and cash equivalents	$ 23,412,550
Statement of Fiduciary Net Assets	
Cash and cash equivalents	469,216
	$ 23,881,766
Cash on hand	$ 149
Deposits (checking accounts and certificates of deposit)	3,739,194
Investments, in securities, mutual funds and similar vehicles	20,142,423
	$ 23,881,766

Statutory Authority

Michigan law authorizes the District to deposit and invest in:

(a) 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.

(b) 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.

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

(d) 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.

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

(f) 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.

Deposit and investment risk

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, $2,714,076 of the District's bank balance of $4,078,840 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. Following is a summary of the District's investments as of June 30, 2011:

U.S. agencies	$	18,246,128
Michigan Liquid Asset Fund (MILAF)		1,138,114
Money Market		758,181
	$	**20,142,423**

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.

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. Credit risk ratings on investments are noted above. As of June 30, 2011, the District's investments in securities of U.S. agencies were rated AAa by Moody's and its investment in the Michigan Liquid Asset Fund (MILAF) was rated AAAm by Standard & Poor's. Ratings are not required for money market accounts.

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. At June 30, 2011, the District had greater than 5% of its total investment portfolio concentrated as follows:

Investment Type	Issuer	% of Portfolio
U.S. Agency	Federal Home Loan Bank	16.5%
	Federal National Mortgage Association	37.5%
	Federal Home Loan Mortgage Corporation	36.6%
Money market	Michigan Liquid Asset Fund	5.7%

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified 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. As of June 30, 2011 all of the District's debt maturities were maturing in 1-5 years.

B. Receivables

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

	General	2009 Capital Projects	2002 Debt Service	Other Governmental Funds	Totals
Accounts receivable	$ 102,410	$ 264,883	$ -	$ -	$ 367,293
Taxes receivable	79,717	-	47,674	8,118	135,509
Due from other governments	4,118,327	-	-	37,509	4,155,836
	$ 4,300,454	**$ 264,883**	**$ 47,674**	**$ 45,627**	**$ 4,658,638**

Of the amount due from other governmental units above, $19,191 will not be collected within one year.

C. Capital assets

Capital assets activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	Restatement	Deletions	Ending Balance
Capital assets not being depreciated:					
Land	$ 1,607,945	$ -	$ -	$ -	$ 1,607,945
Construction in progress	5,112,684	1,421,993	-	5,112,684	1,421,993
Total capital assets not being depreciated	6,720,629	1,421,993	-	5,112,684	3,029,938
Capital assets being depreciated:					
Land improvements	5,585,757	40,301	-	-	5,626,058
Buildings and improvements	58,345,151	26,598,487	66,109	8,022	84,869,507
Equipment	3,050,023	460,567	626,544	-	2,884,046
Vehicles	1,283,893	199,016	-	108,011	1,374,898
Total capital assets being depreciated	68,264,824	27,298,371	692,653	116,033	94,754,509
Less accumulated depreciation for:					
Land improvements	3,044,727	207,545	-	-	3,252,272
Buildings and improvements	12,264,778	1,088,183	1,039,273	4,176	12,309,512
Equipment	2,596,676	63,189	-	-	2,659,865
Vehicles	774,535	87,394	-	108,011	753,918
Total accumulated depreciation	18,680,716	1,446,311	1,039,273	112,187	18,975,567
Total capital assets being depreciated, net	49,584,108	25,852,060	(346,620)	3,846	75,778,942
Governmental activities capital assets, net	$ 56,304,737	$ 27,274,053	$ (346,620)	$ 5,116,530	$ 78,808,880

Depreciation expense of $1,446,311 was charged to the function "Unallocated Depreciation," and not allocated to other functions. Amounts in the restatement column are determined from a revaluation of the Districts capital assets during the year ended June 30, 2011.

D. Payables

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

	General	2009 Capital Projects	2002 Debt Service	Other Governmental Funds	Totals
Accounts payable	$ 138,575	$ 415,789	$ 10,516	$ 17,687	$ 582,567
Accrued expenditures	98,184	-	-	-	98,184
Salaries and benefits payable	3,083,162	-	-	-	3,083,162
	$ 3,319,921	**$ 415,789**	**$ 10,516**	**$ 17,687**	3,763,913
Accrued interest on long-term debt					810,326
Governmental activities					**$ 4,574,239**

E. Interfund receivables, payables and transfers

At June 30, 2011, interfund receivables and payables consisted of the following:

	Due from	Due to
General Fund	$ 21,437	$ 18,301
2002 Debt Service Fund	-	1,639
Nonmajor governmental funds	6,502	7,999
	$ 27,939	**$ 27,939**

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

For the year ended June 30, 2011, interfund transfers consisted of the following:

	Transfers out	Transfers in
General Fund	$ -	$ 50,000
Nonmajor governmental funds	50,000	-
	$ 50,000	**$ 50,000**

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, 2011, the District transferred funds from the food service fund to the general fund to cover certain allocable costs.

F. Long-term debt

The following is a summary of bond, note, and compensated absence transactions of the District for the year ended June 30, 2011:

Governmental activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation bonds	$ 94,239,997	$ -	$ 3,907,487	$ 90,332,510	$ 4,037,487
Less:					
Unamortized bond issuance costs	(302,818)	-	(31,306)	(271,512)	-
Unamortized loss on refunding	(1,998,217)	-	(166,390)	(1,831,827)	-
Unamortized bond proceeds	65,566	-	21,855	43,711	-
Unamortized bond discount	(358,379)	-	(14,932)	(343,447)	-
Interest rate swap	2,766,429	-	376,472	2,389,957	
School Bond loan fund	13,377,565	4,275,350	-	17,652,915	-
Compensated absences	810,024	56,962	-	866,986	-
Early retirement incentives	132,000	-	129,126	2,874	2,874
	$ 108,732,167	**$ 4,332,312**	**$ 4,222,312**	**$ 108,842,167**	**$ 4,040,361**

Compensated absences and early retirement incentives are typically liquidated by the general fund.

Bonds payable at June 30, 2011, are comprised of the following issues:

General Obligation Bonds:

*	$286,311 1998 Durant School Improvement Bonds, due in annual installments of $15,934 to $19,191 through 2013; interest at 4.80%	$ 37,510
	2002 Refunding Bonds, due in annual installments of $1,520,000 to $2,290,000 through 2030; interest at 4.418%	41,610,000
	2003 Refunding Bonds, due in annual installments of $1,060,000 to $1,070,000 through 2013, interest at 3.0% to 4.0%.	2,135,000
	2009 Bonds, due in annual installments of $1,310,000 to $3,100,000 through 2034, interest at 2.5% to 7.1%.	46,550,000
		$ 90,332,510

* The Durant School Improvement Bonds are serviced from funds made available to Michigan School Districts by an annual appropriation by the Michigan State legislature. If the Legislature does not appropriate the funding required, the District is not liable to pay the debt service.

Hedging Derivative Instrument - At June 30, 2011, the District has entered into an interest rate swap agreement in connection with its $44.845 million 2002 variable rate bonds. A swap agreement was entered into September 2002, with an effective date that coincided with the issuance date of the bonds in October 2002. The intention of the swap was to effectively hedge the changes in cash flows related to the interest payments on the variable rate bonds. At June 30, 2011, the swap's notional amount of $43,130,000 matched the $43,130,000 outstanding balance of the variable rate bonds. The notional value of the swap and the principal amount of the associated debt decline at the same rate until maturity or May 1, 2030. Under the swap, the District pays the counterparty a fixed payment of 3.3665% and receives a variable payment computed at Securities Industry and Financial Market Association Municipal Swap Index TM (SIFMA) rate. The bond's variable rate coupons are determined by the remarketing agent based on the rate necessary to remarket the bonds. The rate approximates the SIFMA rate at June 30, 2011. At June 30, 2011, the SIFMA swap had a negative fair value of $2,389,957, which was recorded in other long-term liabilities on the statement of net assets. As the swap is a hedging instrument, the change in fair value is considered outflow and is included in assets on the statement of net assets.

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

Credit risk – The counterparty holding the swap was rated A+ by Fitch and Standard & Poor's as of June 30, 2011. 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, 2011, the District was not exposed to credit risk related to the SIFMA swap as the fair market value of the swap was negative.

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

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

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

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

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

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

Year Ending	Principal	Interest	Total
2012	$ 4,038,319	$ 3,833,533	$ 7,871,852
2013	4,174,191	3,689,391	7,863,582
2014	3,190,000	3,533,665	6,723,665
2015	3,295,000	3,415,362	6,710,362
2016	3,435,000	3,290,727	6,725,727
2017-2021	19,250,000	14,287,986	33,537,986
2022-2026	22,270,000	9,927,638	32,197,638
2027-2031	21,780,000	4,835,480	26,615,480
2032-2034	8,900,000	833,701	9,733,701
	$ 90,332,510	**$ 47,647,483**	**$ 137,979,993**

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, 2011, are as follows:

	Principal	Interest	Total
Beginning balance	$ 11,232,021	$ 2,145,545	$ 13,377,566
Additions	3,641,853	633,497	4,275,350
Reductions	-	-	-
Ending balance	**$ 14,873,874**	**$ 2,779,042**	**$ 17,652,916**

At June 30, 2011, the balance of the year 2000 bonds considered to be defeased is $40,765,000.

G. Short-Term Debt

During the year, the District financed certain of its operations through the issuance of property tax and State Aid Anticipation Notes. These notes were issued for terms of less than one year, and accordingly are recorded as liabilities of the respective funds from which they were issued.

Changes in short-term state aid notes for the year ended June 30, 2011, were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
State aid note	$ 2,100,000	$ 2,500,000	$ 2,967,360	$1,632,640

The notes payable caption on the general fund balance sheet includes accrued interest of $6,841.

The state aid notes in the amount of $1,000,000, $825,000 and $625,000, which carry interest rates of .977%, 2.29% and 2.29% respectively, and are due August 19 and August 22, 2011. On August 22, 2011 the District borrowed a state aid note in the amount of $1,000,000 which carries an interest rate of .782% and is due August 20, 2012.

H. Leases

Operating leases – The District has commitments under operating lease agreements that provide for annual minimum lease payments as follows:

2012	$ 46,500
2013	46,500
2014	23,251
	$ 116,251

Rental expense for all operating leases aggregated $46,500 for the year ended June 30, 2011.

I. Net assets invested in capital assets, net of related debt

The composition of net assets invested in capital assets, net of related debt as of June 30, 2011, was as follows:

Capital assets, net	$	78,808,880
Bonds and related debt payable		(107,985,425)
Durant bonds not serviced by District		37,509
Unexpended bond proceeds		18,298,812
Deferred bond costs		2,403,075
Invested in capital assets, net of related debt	**$**	**(8,437,149)**

IV. OTHER INFORMATION

A. Risk management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty and health claims and is self-insured for claims relating to employee injuries/workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

An independent third party administers the District's self-insured workers' compensation program.

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

	2011	2010
Accrued claims, beginning of year	$ 87,000	$ 87,000
Incurred claims	456,452	458,656
Claim payments	(456,452)	(458,656)
Accrued claims, end of year	**$ 87,000**	**$ 87,000**

B. 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. School 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.

C. Defined benefit pension plan

Plan Description

The Milan Area Schools contributes to the Michigan Public School Employees Retirement System (MPSERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPSERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

Funding Policy

Member contribution rates vary based on date of hire and certain voluntary elections. Member Investment Plan ("MIP") members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 through June 30, 2008 contribute at the following graduated permanently fixed contribution rates: 3 percent of the first $5,000; 3.6 percent of $5,001 through $15,000; 4.3 percent of all wages over $15,000. Members first hired July 1, 2008 through June 30, 2010 contribute at the following graduated permanently fixed contribution rates: 3 percent of the first $5,000; 3.6 percent of $5,001 through $15,000; 6.4 percent of all wages over $15,000.Basic Plan members make no contributions. Members first enrolled on or after July 1, 2010 are enrolled in the Pension Plus Plan which contains a defined contribution component. Member contributions are matched at a rate of 50 percent by the employer, up to a maximum of one percent. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The rates for the year ended June 30, 2011 as a percentage of payroll range from 16.94 to 20.66 percent for MIP members and 15.44 to 19.16 percent for Pension Plus members. The contribution requirements of plan members and the District are established by Michigan State statue and may be amended only by action of the State Legislature. The District's contributions to MPSERS under all retirement plans for the years ended June 30, 2011, 2010, and 2009 were $2,532,632, $2,250,682, and $2,183,188, respectively, equal to the required contributions for each year.

Other Postemployment Benefits

Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages 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.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.

2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

D. Bonded construction cost

The Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For the capital projects, the District has complied with the applicable provisions of §1351a of the Michigan Revised School Code, and the applicable sections of the revised Bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.

E. Commitments

Related to the 2009 Capital Projects fund, there are outstanding construction and renovation commitments of approximately $16,746,000 as of June 30, 2011.

F. Restatement

Beginning net assets were restated by a reduction of $346,620 due to a revaluation of capital assets as of July 1, 2010.

* * * * * *

COMBINING and INDIVIDUAL FUND FINANCIAL STATEMENTS

MILAN AREA SCHOOLS
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011

	Special Revenue	
ASSETS	Food Service	2003 Debt Service
Assets		
Cash and cash equivalents	$ 80,748	$ 85,737
Taxes receivable	-	7,080
Due from other governments	-	-
Due from other funds	6,502	-
Inventory	7,997	-
Prepaid items	50,000	-
TOTAL ASSETS	$ 145,247	$ 92,817
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	$ 17,687	$ -
Due to other funds	7,720	243
Deferred revenue	3,209	-
Total liabilities	28,616	243
Fund balances		
Nonspendable	57,997	-
Restricted	58,634	92,574
Total fund balances	116,631	92,574
TOTAL LIABILITIES AND FUND BALANCES	$ 145,247	$ 92,817

Debt Service 2009 Debt Service	Durant Debt Service	Total
$ 12,552	$ -	$ 179,037
1,038	-	8,118
-	37,509	37,509
-	-	6,502
-	-	7,997
-	-	50,000
$ 13,590	$ 37,509	$ 289,163
$ -	$ -	$ 17,687
36	-	7,999
-	37,509	40,718
36	37,509	66,404
-	-	57,997
13,554	-	164,762
13,554	-	222,759
$ 13,590	$ 37,509	$ 289,163

MILAN AREA SCHOOLS
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2011

	Special Revenue	
	Food Service	2003 Debt Service
Revenue		
Local sources:		
Taxes	$ -	$ 490,909
Earnings from investments and deposits	83	-
Food sales	476,463	-
Other local revenue	1,734	531
State aid	45,996	-
Federal sources	380,383	-
Total revenue	904,659	491,440
Expenditures		
Food service activities	824,292	-
Debt service:		
Principal repayment	-	1,060,000
Interest and fiscal charges	-	125,363
Total expenditures	824,292	1,185,363
Revenue over (under) expenditures	80,367	(693,923)
Other financing sources (uses)		
Bond proceeds	-	520,968
Transfers out	(50,000)	-
Total other financing sources (uses)	(50,000)	520,968
Net change in fund balances	30,367	(172,955)
Fund balances, beginning of year	86,264	265,529
Fund balances, end of year	$ 116,631	$ 92,574

Debt Service		
2009 Debt Service	Durant Debt Service	Total
$ 73,039	$ -	$ 563,948
-	-	83
-	-	476,463
168	-	2,433
-	20,106	66,102
-	-	380,383
73,207	20,106	1,489,412
-	-	824,292
1,310,000	17,487	2,387,487
1,938,032	2,619	2,066,014
3,248,032	20,106	5,277,793
(3,174,825)	-	(3,788,381)
3,120,885	-	3,641,853
-	-	(50,000)
3,120,885	-	3,591,853
(53,940)	-	(196,528)
67,494	-	419,287
$ 13,554	$ -	$ 222,759

SINGLE AUDIT ACT COMPLIANCE

MILAN AREA SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

Federal Grantor/ Pass-Through Grantor/ Program Title	CFDA Number	Pass-Through Grantor's Number	Approved Award/Grant Amount	Accrued Revenue Beginning of Year	Current Year Receipts	Current Year Expenditures	Accrued Revenue End of Year
U.S. Department of Agriculture							
Child Nutrition Cluster							
Passed-through Michigan Department of Education:							
Food distribution - non-cash assistance:							
Entitlement Commodities	10.555	-n/a-	$ 57,259	$ -	$ 57,259	$ 57,259	$ -
Bonus Commodities	10.555	-n/a-	841	-	841	841	-
				-	58,100	58,100	-
Passed-through Michigan Department of Education:							
Cash assistance							
2010-2011 School Breakfast	10.553	111970	46,368	-	37,754	46,368	8,614
National School Lunch:							
2009-2010 Section 4	10.555	101950	-	-	5,500	5,500	-
2010-2011 Section 4	10.555	111950	52,627	-	38,584	47,127	8,543
2009-2010 Section 11	10.555	101960	-	-	22,062	22,062	-
2010-2011 Section 11	10.555	111960	223,288	-	163,448	201,226	37,778
				-	229,594	275,915	46,321
Total U.S. Department of Agriculture				-	325,448	380,383	54,935
U.S. Department of Labor							
Passed-through Washtenaw Community College-							
ARRA No Worker Left Behind	17.260	-n/a-	45,300	13,331	13,331	-	-
U.S. Department of Education							
Passed-through Michigan Department of Education:							
2009-2010 Adult Basic Education Instruction	84.002	101130-101667	15,000	4,249	4,249	-	-
2010-2011 Adult Basic Education Instruction	84.002	111130-111667	15,000	-	12,128	15,000	2,872
2009-2010 ABE Institutional Programs	84.002	101190-101667	75,000	29,162	29,162	-	-
2010-2011 ABE Institutional Programs	84.002	111190-111667	75,000	-	55,910	75,000	19,090
				33,411	101,449	90,000	21,962
Title I Cluster :							
2009-2010 Title I, Part A	84.010	101530-0910	168,121	66,120	66,120	-	-
2010-2011 Title I, Part A	84.010	111530-1011	199,150	-	105,611	173,706	68,095
				66,120	171,731	173,706	68,095
ARRA 2009-2010 Title I, Part A	84.389	101535-0910	92,269	18,996	22,854	3,858	-
ARRA 2010-2011 Title I, Part A	84.389	111535-1011	42,837	-	26,600	42,837	16,237
				18,996	49,454	46,695	16,237
2009-2010 Title II, Part A	84.367	100520-0910	67,041	14,195	24,161	9,966	-
2010-2011 Title II, Part A	84.367	110520-1011	67,041	-	19,470	30,999	11,529
				14,195	43,631	40,965	11,529
ARRA 2009-2010 Title II, Part A	84.386	104295-0910	3,401	3,401	3,401	-	-
ARRA Education Stabilization Fund	84.394	112525-1011	301,438	-	301,438	301,438	-

continued…

MILAN AREA SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

Federal Grantor/ Pass-Through Grantor/ Program Title	CFDA Number	Pass-Through Grantor's Number	Approved Award/Grant Amount	Accrued Revenue Beginning of Year	Current Year Receipts	Current Year Expenditures	Accrued Revenue End of Year
U.S. Department of Education (concluded)							
Passed-through Monroe Public Schools -							
2010-2011 Title III	84.365	90580-1011	$ 11,780	$ -	$ -	$ 508	$ 508
Passed-through Washtenaw Intermediate School District:							
IDEA Flowthrough Cluster:							
2009-2010 IDEA Flowthrough	84.027	100450-0910	448,486	177,592	194,056	16,464	-
2010-2011 IDEA Flowthrough	84.027	110450-1011	505,031	-	311,045	505,031	193,986
				177,592	505,101	521,495	193,986
ARRA 2009-2010 IDEA Flowthrough	84.391	100455-0910	461,660	70,038	70,038	-	-
ARRA 2010-2011 IDEA Flowthrough	84.391	100455-0910	295,663	-	192,791	295,663	102,872
				70,038	262,829	295,663	102,872
2009-2010 Preschool Incentive	84.173	100460-0910	12,484	4,916	5,333	417	-
2009-2010 Preschool Incentive	84.173	100460-1011	17,140	-	10,845	17,140	6,295
				4,916	16,178	17,557	6,295
ARRA 2009-2010 Preschool Incentive		100465-0910	16,756	3,361	3,361	-	-
ARRA 2010-2011 Preschool Incentive	84.392	100465-0910	8,495	-	5,422	8,495	3,073
				3,361	8,783	8,495	3,073
2009-2010 IDEA Part C, Early On	84.181A	101340-190	11,148	2,787	2,787	-	-
Total U.S. Department of Education				394,817	1,466,782	1,496,522	424,557
U.S. Department of Health and Human Services							
Passed-through Michigan Department of Community Health -							
Medicaid Outreach	93.778	-n/a-	1,435	-	1,435	1,435	-
Total Expenditures of Federal Awards				$ 408,148	$ 1,806,996	$ 1,878,340	$ 479,492

1. Expenditures in this schedule are in agreement with amounts reported in the financial statements and the financial reports submitted to the MDE.

2. The amounts reported on the Grants Auditor's Report reconcile with this schedule.

3. The amounts reported on the Recipient Entitlement Balance (PAL) Report agree with this schedule for USDA donated food commodities and are reported in the current year receipts column.

4. Expenditures include spoilage or pilferage.

MILAN AREA SCHOOLS

Notes To Schedule Of Expenditures Of Federal Awards

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1. SECTION I - SUMMARY OF AUDITORS' RESULTS

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of Milan Area Schools (the "District"). Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the Schedule.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The reporting entity of Milan Area Schools is defined in Note I of the District's basic financial statements.

2. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting which is described in Note I of the District's basic financial statements.

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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*

November 3, 2011

To the Board of Education of
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, 2011, which collectively comprise the District's financial statements, and have issued our report thereon dated November 3, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

In addition, we noted a certain other matter we reported to management of the District in a separate letter dated November 3, 2011.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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Rehmann

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

November 3, 2011

To the Board of Education of
Milan Area Schools
Milan, Michigan

Compliance

We have audited the compliance of *Milan Area Schools* (the "District") with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on 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. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, Milan Area Schools complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rehmann Robson

MILAN AREA SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2011

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	_____ yes __X__ no
Significant deficiency(ies) identified?	_____ yes __X__ none reported
Noncompliance material to financial statements noted?	_____ yes __X__ no

Federal Awards

Internal Control over major programs:	
Material weakness(es) identified?	_____ yes __X__ no
Significant deficiency(ies) identified?	_____ yes __X__ none reported
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?	_____ yes __X__ no

MILAN AREA SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Concluded)

FOR THE YEAR ENDED JUNE 30, 2011

SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010, 84.389	Title I, Part A Cluster
84.027, 84.173, 84.391, 84.392	Special Education Cluster
84.394	ARRA - State Fiscal Stabilization Fund

Dollar threshold used to distinguish between Type A and Type B programs: $300,000

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

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

SECTION IV – PRIOR YEAR FINDINGS

2010-1 Allocation and Certification of Payroll Expenditures

Issue was adequately resolved.

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