

Milan Area Schools

Year Ended
June 30, 2015

Financial
Statements and
Single Audit Act
Compliance

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MILAN AREA SCHOOLS

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INDEPENDENT AUDITORS' REPORT

October 29, 2015

Board of Education
Milan Area Schools
Milan, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Milan Area Schools* (the "District"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Milan Area Schools as of June 30, 2015, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Implementation of GASB Statement No. 68

As described in Note 15, the District implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the current year. Accordingly, beginning net position of governmental activities was restated. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Milan Area Schools' internal control over financial reporting and compliance.

Rehmann Johnson LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

MILAN AREA SCHOOLS

Management's Discussion and Analysis

As management of Milan Area Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2015.

Financial Highlights

- The District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the current year. In addition to expanded disclosure requirements, the District is required to report its proportionate share of the MPSERS net pension liability on the statement of net position. This change has resulted in a negative total net position for governmental activities of \$(49,817,385). Of this amount, \$(55,363,630) is unrestricted net position (deficit) and \$110,121 is restricted for other purposes.
- The government's total net position decreased by \$1,693,359.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$3,630,303, an increase of \$776,853 in comparison with the prior year. Approximately 59.5% or \$2,160,709 is available for spending at the government's discretion.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,160,709 or 9.6% of total general fund expenditures.

Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the District include instruction, supporting services, community service, athletics and food service. The District has no business-type activities as of and for the year ending June 30, 2015.

MILAN AREA SCHOOLS

Management's Discussion and Analysis

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 funds 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 four individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund and the 2002 and 2009 debt service funds, each of which are considered to be a major fund. Data for the food service special revenue fund is also presented separately and is considered to be the only nonmajor fund of the District.

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

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

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

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

MILAN AREA SCHOOLS

Management's Discussion and Analysis

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$(49,817,385) at the close of the most recent fiscal year.

Net position invested in capital assets, net of related debt used to acquire those assets that are still outstanding, resulted in a net position of \$5,436,124 at June 30, 2015. The District uses these capital assets to provide services to the students it serves; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Net Position	
	Governmental Activities	
	2015	2014
Current and other assets	\$ 7,766,721	\$ 10,510,909
Capital assets, net	83,942,367	86,475,769
Total assets	91,709,088	96,986,678
Deferred outflows of resources	9,810,835	1,349,142
Other liabilities	34,617,154	4,661,959
Long-term liabilities	113,428,592	112,700,338
Total liabilities	148,045,746	117,362,297
Deferred inflows of resources	3,291,562	-
Net position:		
Net investment in capital assets	5,436,124	9,034,314
Restricted	110,121	68,461
Unrestricted (deficit)	(55,363,630)	(28,129,252)
Total net position	\$ (49,817,385)	\$ (19,026,477)

The District currently has a negative net position balance. In other words, if all of the District's liabilities were due on June 30, 2015, liquidation of all assets would not be sufficient to meet our obligations.

It is not unusual for districts, such as Milan, that participate in the Michigan School Bond Loan Fund Program (the "Fund") to achieve a negative net position balance. When yearly tax collections for debt retirement are not sufficient to meet scheduled debt payments, the District borrows as necessary from the Fund. The majority of the increase in long-term liabilities above reflects borrowing of \$3,409,276 from the Fund, in 2014 - 2015. 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 Michigan School Bond Loan Fund. The final repayment to the Michigan School Bond Loan Fund Program is expected to occur in the year 2044 by current calculations.

MILAN AREA SCHOOLS

Management's Discussion and Analysis

Included in long-term liabilities is the current value of the interest rate swap on the 2002 Bonds. The liability at June 30, 2015 is \$4,233,264. The interest rate swap will have zero value at maturity. As a hedging instrument, this liability is offset by the same amount in assets in the asset section of the statement of net position.

Another component of long-term liabilities that reduces net position is compensated absences. These are sick and vacation days accumulated by employees, which would be payable if all employees were to resign on June 30, 2015. That unlikely scenario creates an accrued liability of \$605,832.

In addition to total net position, another indicator of the District's financial position is unrestricted net position. The previous table reflects that unrestricted net position decreased in 2014-2015, from a negative \$28,129,252 to negative \$55,363,630. The negative balance is mainly related to the implementation of GASB 68 to record the District's proportionate share of the MPSE pension liability.

The government's net position decreased by \$1,693,359 during the current fiscal year. While the first chart reflects the changes in assets and liabilities from 2013-2014 to 2014-2015, the next chart reflects the activities resulting in those changes.

Changes in Net Position		
Governmental Activities		
	2015	2014
Program revenues:		
Charges for services	\$ 1,090,225	\$ 1,052,252
Operating grants and contributions	5,589,047	4,762,737
General revenues:		
Property taxes	6,082,447	5,653,100
Unrestricted state aid	15,149,281	14,989,986
Grants and contributions not restricted to specific programs	1,179,198	930,133
Unrestricted investment earnings	113,758	18,069
Total revenues	29,203,956	27,406,277
Expenses:		
Instruction	11,595,602	11,439,678
Supporting services	9,368,041	8,924,690
Community service	528,417	479,327
Athletics	443,597	475,069
Food service	761,311	711,726
Interest on long-term debt	5,467,705	5,373,071
Unallocated depreciation	2,732,642	2,779,256
Total expenses	30,897,315	30,182,817
Change in net position	(1,693,359)	(2,776,540)
Net position:		
Beginning of year	(19,026,477)	(16,249,937)
Restatement for implementation of GASB 68	(29,097,549)	-
End of year	\$ (49,817,385)	\$ (19,026,477)

MILAN AREA SCHOOLS

Management's Discussion and Analysis

- Overall revenue increased from 2013-2014 to 2014-2015. This is mostly due to increased funding through operating grants and the district's foundation allowance from the State.
- Expenditures increased during the same period. The main factor that contributed to the increase in expenditures was an increase in salaries and benefits due to increase in funding.

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$3,630,303, an increase of \$776,853 in comparison with the prior year. Approximately 60% of this total amount (\$2,160,709) is unassigned fund balance. The remainder of fund balance is nonspendable because the underlying assets are included in inventory and prepaid items, is assigned because the amounts are constrained by the District's intent to be used for specific purposes, or is restricted for food service and debt service, and not available for current expenditure. The increase in fund balance is mostly due to the concessions given by employees in 2014-2015.

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 \$2,160,709, while the total fund balance for the general fund is \$2,813,756. 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 9.6% of total general fund expenditures. This percentage is slightly higher than in 2013-2014. An unassigned fund balance of 10-12% is generally recommended.

The fund balance of the District's general fund increased by \$704,510, during the current fiscal year. The unassigned fund balance **increased** by \$694,222.

General Fund Budgetary Highlights

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

- Revenues increased by \$ 1,222,881 mainly due to adjusting state aid to reflect the increase in per pupil amounts that were not known at the time of the original budget. The other large change in State Sources was due to a change in funding from MPSERS in the form of 147c & 147d funding.
- Expenses were increased by \$651,465 due to more current information on the costs and implementing pay concessions by staff from contracts that were settled after original budget was completed.

MILAN AREA SCHOOLS

Management's Discussion and Analysis

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

Capital Asset and Debt Administration

Capital Assets. The District's investment in capital assets for its governmental activities as of June 30, 2015, amounted to \$83,942,367 (net of accumulated depreciation). This investment in capital assets includes land, building and improvements, equipment and vehicles. This reflects an decrease of \$2,533,402 from the previous year.

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

Any increase to capital assets was offset by depreciation expense of \$2,732,642.

	Capital Assets (Net of Depreciation)	
	2015	2014
Capital assets not being depreciated -		
Land	\$ 1,607,945	\$ 1,607,945
Capital assets being depreciated:		
Land improvements	4,563,992	4,882,696
Buildings and improvements	76,449,897	78,502,368
Equipment	807,299	960,935
Vehicles	513,234	521,825
Total capital assets, net	\$ 83,942,367	\$ 86,475,769

Additional information on the District's capital assets can be found in Note 5 to this report.

Long-term Debt. At the end of the current fiscal year, the District had total bonded debt outstanding of \$75,635,000. Also, there was an additional borrowing from the School Bond Loan Fund of \$3,409,276.

The District's total bonded long-term debt decreased by \$3,295,000, (approximately 4.17%) during the current fiscal year.

Additional information on the District's long term debt can be found in Note 8 to this report.

MILAN AREA SCHOOLS

Management's Discussion and Analysis

Factors Bearing on the District's Future

The following factors were also considered in preparing the District's budget for the 2015-16 fiscal year:

- The State Aid Foundation Grant is projected to increase by \$265 per pupil. The Equity Funding, Best Practices and Performance money was cut from the budget.
- The District projected a loss of 35 students for the preliminary 2015-2016 budget. Most of this is due to a larger graduating class than incoming kindergartners.
- The retirement rate was budgeted at 34% to reflect an average of the retirement expense the District has to pay out on behalf of all of the staff and the different retirement plans that they choose. This includes an additional 10.53% that has to be included in the revenue and expense budget for 2015-2016 to account for UAAL Stabilization costs that the district is charged and then the State is offsetting through state aid.
- The State has removed funding for a per pupil monetary incentive, for districts who enact eight out of nine "Best Practices", as defined by the State. The District is still expected to enact "Best Practices" or be penalized by taking away some state funding.
- Beginning in 2009-2010 the food service fund started transferring \$50,000 to the general fund as compensation for indirect costs. The transfer amount varies depending on how much expense is incurred by the food service fund and was \$43,911 in 2014-2015. We expect that the amount will be similar in 2015-2016.
- The District has settled with all bargaining groups.
- In light of the preceding information the District is planning on a balanced budget for 2015-2016. The District built in an estimate for increases for employees into budget figures. These figures will be adjusted to reflect the actual increases received.
- The district negotiated a significant change to the teacher's contract in 2014-2015. In 2015-2016, the basic structure was kept, however a few changes were made to bring the salaries of lower paid teaching staff up a little more than the higher paid staff. Teacher's will continue to receive increases/decreases based on their effectiveness. The contracts for administrators remains similar to 2014-2015. The rest of the groups received a slight increase and steps. The formula was removed to compensate staff in the event that actual revenue was better than projected. As of this writing, all unions are settled. All groups continue to contribute the same percentage of health insurance as they did in 2014-2015 at either 20% or 30% of the illustrative rates.
- The District, along with the Intermediate School District, will continue to explore cost savings through consolidation of services. The District, through the coordination of the Washtenaw Intermediate School District, purchased financial software as a county-wide software to improve efficiencies in processing payroll and financial data. The District has been on the new financial software for the entire fiscal year for financial purposes and went live on the software for payroll in January 2015. The district shares the cost of the support with the other districts in the county.

MILAN AREA SCHOOLS

Management's Discussion and Analysis

- 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.
- Because of the sacrifices of all of the staff in Milan Area Schools over the last several years, we were able to increase our fund balance again in 2014-2015 to a 12.4% total fund balance while not having to ask for further concessions or cuts to the classrooms or facilities. We will continue to do our best to keep as much money in the classroom as possible and continue to enhance programs and facilities for students.

Requests for Information

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

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BASIC FINANCIAL STATEMENTS

MILAN AREA SCHOOLS

Statement of Net Position

June 30, 2015

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 3,366,118
Receivables	4,114,731
Prepaid items and other assets	285,872
Capital assets not being depreciated	1,607,945
Capital assets being depreciated, net	82,334,422
Total assets	91,709,088
Deferred outflows of resources	
Deferred charge on refunding	1,199,237
Deferred interest rate swap	4,233,264
Deferred pension amounts	4,378,334
Total deferred outflows of resources	9,810,835
Liabilities	
Accounts payable and accrued liabilities	3,524,783
State aid note payable	1,311,431
Unearned revenue	6,630
Noncurrent liabilities:	
Due within one year	3,490,446
Due in more than one year	109,938,146
Net pension liability	29,774,310
Total liabilities	148,045,746
Deferred inflows of resources	
Deferred pension amounts	3,291,562
Net position	
Net investment in capital assets	5,436,124
Restricted for food service	66,369
Restricted for debt service	43,752
Unrestricted (deficit)	(55,363,630)
Total net position	\$ (49,817,385)

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

MILAN AREA SCHOOLS

Statement of Activities

For the Year Ended June 30, 2015

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instruction	\$ 11,595,602	\$ -	\$ 5,136,312	\$ (6,459,290)
Supporting services	9,368,041	-	55,703	(9,312,338)
Community service	528,417	664,465	-	136,048
Athletics	443,597	54,221	-	(389,376)
Food service	761,311	371,539	397,032	7,260
Interest on long-term debt	5,467,705	-	-	(5,467,705)
Unallocated depreciation	2,732,642	-	-	(2,732,642)
Total governmental activities	\$ 30,897,315	\$ 1,090,225	\$ 5,589,047	(24,218,043)
General revenues:				
Property taxes				6,082,447
Unrestricted state aid				15,149,281
Grants and contributions not restricted to specific programs				1,179,198
Unrestricted investment earnings				113,758
Total general revenues				22,524,684
Change in net position				(1,693,359)
Net position, beginning of year, as restated				(48,124,026)
Net position, end of year				\$ (49,817,385)

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

MILAN AREA SCHOOLS

Balance Sheet

Governmental Funds
June 30, 2015

	General	2002 Debt Service	2009 Debt Service	Nonmajor Food Service	Totals
Assets					
Cash and cash equivalents	\$ 2,591,210	\$ 686,164	\$ 65,114	\$ 23,630	\$ 3,366,118
Accounts receivable	281,535	-	-	39,908	321,443
Due from other governments	3,793,288	-	-	-	3,793,288
Due from other funds	37,758	-	-	-	37,758
Inventory	6,142	-	-	9,794	15,936
Prepaid items	219,936	-	-	50,000	269,936
Total assets	\$ 6,929,869	\$ 686,164	\$ 65,114	\$ 123,332	\$ 7,804,479
Liabilities					
Accounts payable	\$ 785,713	\$ -	\$ -	\$ 14,337	\$ 800,050
Accrued liabilities	245,270	-	-	-	245,270
Salaries and benefits payable	1,767,069	-	-	5,968	1,773,037
Note payable	1,311,431	-	-	-	1,311,431
Due to other funds	-	-	1,100	36,658	37,758
Unearned revenue	6,630	-	-	-	6,630
Total liabilities	4,116,113	-	1,100	56,963	4,174,176
Fund balances					
Nonspendable:					
Inventory	6,142	-	-	9,794	15,936
Prepaid items	219,936	-	-	50,000	269,936
Restricted for:					
Food service	-	-	-	6,575	6,575
Debt service	-	686,164	64,014	-	750,178
Assigned for:					
Curriculum	110,000	-	-	-	110,000
Technology	75,000	-	-	-	75,000
Buses	90,000	-	-	-	90,000
Paddock Early Childhood Center	45,996	-	-	-	45,996
Athletics	55,973	-	-	-	55,973
Buildings and grounds	50,000	-	-	-	50,000
Unassigned	2,160,709	-	-	-	2,160,709
Total fund balances	2,813,756	686,164	64,014	66,369	3,630,303
Total liabilities and fund balances	\$ 6,929,869	\$ 686,164	\$ 65,114	\$ 123,332	\$ 7,804,479

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

MILAN AREA SCHOOLS

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2015

Fund balances - total governmental funds	\$ 3,630,303
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Amounts reported for *governmental activities* in the statement of
net position are different because:

Capital assets used in governmental activities are not financial resources and
therefore are not reported in the funds.

Capital assets	113,050,943
Accumulated depreciation	(29,108,576)

The deferred outflow related to the interest rate swap agreement is not a financial
resource, and therefore not reported in the funds.

4,233,264

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

Bonds, capital lease and loan fund payable	(108,873,212)
Interest rate swap	(4,233,264)
Unamortized loss on refunding	1,199,237
Unamortized bond discount	283,716
Accrued interest on bonds payable	(706,426)
Compensated absences	(605,832)

Certain pension-related amounts, such as the net pension liability and deferred amounts are
not due and payable in the current period or do not represent current financial resources
and therefore are not reported in the funds.

Net pension liability	(29,774,310)
Deferred outflows related to the net pension liability	4,378,334
Deferred inflows related to the net pension liability	(3,291,562)

Net position of governmental activities	<u>\$ (49,817,385)</u>
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The accompanying notes are an integral part of these financial statements.

MILAN AREA SCHOOLS

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2015

	General	2002 Debt Service	2009 Debt Service	Nonmajor Food Service	Totals
Revenues					
Local sources	\$ 4,514,153	\$ 3,387,657	\$ 970,558	\$ 371,539	\$ 9,243,907
State sources	17,821,171	-	-	27,172	17,848,343
Federal sources	841,535	-	900,311	369,860	2,111,706
Total revenues	23,176,859	3,387,657	1,870,869	768,571	29,203,956
Expenditures					
Education:					
Instruction	11,717,233	-	-	-	11,717,233
Supporting services	10,282,603	-	-	-	10,282,603
Food service	-	-	-	727,328	727,328
Athletics	448,365	-	-	-	448,365
Debt service:					
Principal	38,313	1,855,000	1,440,000	-	3,333,313
Interest	29,170	1,466,134	2,779,704	-	4,275,008
Total expenditures	22,515,684	3,321,134	4,219,704	727,328	30,783,850
Revenue over (under) expenditures	661,175	66,523	(2,348,835)	41,243	(1,579,894)
Other financing sources (uses)					
Issuance of long-term debt	-	-	2,356,747	-	2,356,747
Transfers in	43,911	-	-	576	44,487
Transfers out	(576)	-	-	(43,911)	(44,487)
Total other financing sources (uses)	43,335	-	2,356,747	(43,335)	2,356,747
Net change in fund balances	704,510	66,523	7,912	(2,092)	776,853
Fund balances, beginning of year	2,109,246	619,641	56,102	68,461	2,853,450
Fund balances, end of year	\$ 2,813,756	\$ 686,164	\$ 64,014	\$ 66,369	\$ 3,630,303

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

MILAN AREA SCHOOLS

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended June 30, 2015

Net change in fund balances - total governmental funds	\$ 776,853
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital assets purchased/constructed	199,240
Depreciation expense	(2,732,642)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Proceeds from issuance of long-term debt	(2,356,747)
Principal payments on long-term debt	3,333,313

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in net pension liability and related deferred amounts	410,011
Change in accrued interest payable on bonds and loans	(1,027,860)
Amortization of bond discount and loss on refunding	(164,837)
Change in the accrual for compensated absences	(130,690)

Change in net position of governmental activities	<u>\$ (1,693,359)</u>
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The accompanying notes are an integral part of these financial statements.

MILAN AREA SCHOOLS

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - General Fund

For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (under) Final Budget
Revenues				
Local sources	\$ 4,479,171	\$ 4,461,999	\$ 4,514,153	\$ 52,154
State sources	16,609,808	17,801,335	17,821,171	19,836
Federal sources	844,121	892,647	841,535	(51,112)
Total revenues	21,933,100	23,155,981	23,176,859	20,878
Expenditures				
Instruction:				
Basic programs	9,776,136	9,943,881	9,628,385	(315,496)
Added needs	2,010,403	1,941,366	1,871,809	(69,557)
Adult and continuing education	154,828	226,099	217,039	(9,060)
Total instruction	11,941,367	12,111,346	11,717,233	(394,113)
Supporting services:				
Pupil services	2,657,099	2,747,935	2,663,701	(84,234)
Instructional support	994,741	946,458	913,481	(32,977)
General administration	427,833	456,879	426,583	(30,296)
School administration	1,197,480	1,255,057	1,256,984	1,927
Business services	464,032	428,048	365,241	(62,807)
Operations and maintenance	2,487,849	2,512,118	2,461,534	(50,584)
Transportation	1,077,194	1,155,955	1,086,412	(69,543)
Central support	303,097	510,621	476,301	(34,320)
Community service	578,340	575,972	632,366	56,394
Total supporting services	10,187,665	10,589,043	10,282,603	(306,440)
Athletics	486,866	499,491	448,365	(51,126)
Debt service:				
Principal	-	38,313	38,313	-
Interest and fiscal charges	-	29,170	29,170	-
Total debt service	-	67,483	67,483	-
Total expenditures	22,615,898	23,267,363	22,515,684	(751,679)
Revenues over (under) expenditures	(682,798)	(111,382)	661,175	772,557

continued...

MILAN AREA SCHOOLS

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - General Fund
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (under) Final Budget
Other financing sources (uses)				
Transfers in	\$ 50,000	\$ 44,000	\$ 43,911	\$ (89)
Transfers out	(576)	(576)	(576)	-
Total other financing sources (uses)	<u>49,424</u>	<u>43,424</u>	<u>43,335</u>	<u>(89)</u>
Net change in fund balances	(633,374)	(67,958)	704,510	772,468
Fund balances, beginning of year	<u>2,109,246</u>	<u>2,109,246</u>	<u>2,109,246</u>	<u>-</u>
Fund balances, end of year	<u>\$ 1,475,872</u>	<u>\$ 2,041,288</u>	<u>\$ 2,813,756</u>	<u>\$ 772,468</u>

concluded.

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

MILAN AREA SCHOOLS

Statement of Fiduciary Net Position

June 30, 2015

	Private- Purpose Trust Fund	Agency Funds
	Scholarships	
Assets		
Cash and cash equivalents	\$ 1,700	\$ 468,132
Liabilities		
Due to student groups	-	\$ 468,132
Net position		
Restricted for scholarships	\$ 1,700	

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

MILAN AREA SCHOOLS

Statement of Changes in Fiduciary Net Position

Private-Purpose Trust Fund

For the Year Ended June 30, 2015

	Scholarships
Additions	
Earnings on deposits and investments	\$ 2
Deductions	
Scholarships	<u>10,942</u>
Change in net position	<u>(10,940)</u>
Net position, beginning of year	<u>12,640</u>
Net position, end of year	<u><u>\$ 1,700</u></u>

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

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NOTES TO FINANCIAL STATEMENTS

MILAN AREA SCHOOLS

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District had no business-type activities during the year ended 2015.

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

MILAN AREA SCHOOLS

Notes to Financial Statements

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

The District reports the following major governmental funds:

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

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

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

Additionally, the District reports the following fund types:

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

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

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

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

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

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

Deposits and Investments

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

Investments are reported at fair value.

MILAN AREA SCHOOLS

Notes to Financial Statements

Receivables and Payables

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

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

Inventory and Prepaid Items

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

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

Capital Assets

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

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

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

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

MILAN AREA SCHOOLS

Notes to Financial Statements

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. The District reports deferred outflows for the loss on refunding. This amount represents the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The District reports deferred outflows of resources related to the net pension liability. A portion of these costs represent contributions to the plan subsequent to the plan measurement date. More detailed information can be found in Note 13. The District also reports deferred outflows of resources related to the interest rate swap. The swap is a hedging instrument and the change in fair value is considered an outflow. More detailed information can be found in Note 8.

Compensated Absences

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

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

Administrators and other support staff working year-round accrue vacation time in varying amounts. Teachers and other personnel working less than twelve months during the year 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.

Long-term Obligations

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

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

MILAN AREA SCHOOLS

Notes to Financial Statements

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District's deferred inflows of resources are related to pension costs. More detailed information can be found in Note 13.

Fund Equity

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

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

Pensions

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

MILAN AREA SCHOOLS

Notes to Financial Statements

2. BUDGETARY INFORMATION

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

All annual appropriations lapse at fiscal year end.

During the year ended June 30, 2015, the government incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control as follows:

	Final Budget	Actual	Variance
General fund			
Supporting services:			
School administration	\$ 1,255,057	\$ 1,256,984	\$ 1,927
Community service	575,972	632,366	56,394

3. DEPOSITS AND INVESTMENTS

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

Statement of Net Position	
Cash and cash equivalents	\$ 3,366,118
Statement of Fiduciary Net Position	
Cash and cash equivalents	<u>469,832</u>
Total	<u><u>\$ 3,835,950</u></u>
Deposits and investments	
Cash on hand	\$ 1,044
Deposits (checking accounts and certificates of deposit)	1,698,958
Investments	<u>2,135,948</u>
Total	<u><u>\$ 3,835,950</u></u>

MILAN AREA SCHOOLS

Notes to Financial Statements

Statutory Authority

State statutes authorize the District to invest in:

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

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

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

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

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

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

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

Investments

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

Investment	Maturity	Fair Value	Rating
Michigan Liquid Asset Fund	n/a	\$ 1,748,907	S&P AAAm
Money Market	n/a	<u>387,041</u>	Not rated
		<u>\$ 2,135,948</u>	

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

MILAN AREA SCHOOLS

Notes to Financial Statements

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

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$1,465,688 of the District's bank balance of \$1,719,265 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

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

4. RECEIVABLES

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

	General	Nonmajor Governmental Fund	Totals
Accounts receivable	\$ 281,535	\$ 39,908	\$ 321,443
Due from other governments	3,793,288	-	3,793,288
	<u>\$ 4,074,823</u>	<u>\$ 39,908</u>	<u>\$ 4,114,731</u>

MILAN AREA SCHOOLS

Notes to Financial Statements

5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2015 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets not being depreciated - Land	\$ 1,607,945	\$ -	\$ -	\$ 1,607,945
Capital assets being depreciated:				
Land improvements	9,237,703	37,193	-	9,274,896
Buildings and improvements	97,583,820	20,797	-	97,604,617
Equipment	2,984,710	36,454	-	3,021,164
Vehicles	1,494,208	104,796	56,683	1,542,321
	<u>111,300,441</u>	<u>199,240</u>	<u>56,683</u>	<u>111,442,998</u>
Less accumulated depreciation for:				
Land improvements	4,355,007	355,897	-	4,710,904
Buildings and improvements	19,081,452	2,073,268	-	21,154,720
Equipment	2,023,775	190,090	-	2,213,865
Vehicles	972,383	113,387	56,683	1,029,087
	<u>26,432,617</u>	<u>2,732,642</u>	<u>56,683</u>	<u>29,108,576</u>
Total capital assets being depreciated, net	<u>84,867,824</u>	<u>(2,533,402)</u>	<u>-</u>	<u>82,334,422</u>
Governmental activities capital assets, net	<u>\$ 86,475,769</u>	<u>\$ (2,533,402)</u>	<u>\$ -</u>	<u>\$ 83,942,367</u>

Depreciation expense of \$2,732,642 was charged to the function "Unallocated Depreciation," and not allocated to other functions.

MILAN AREA SCHOOLS

Notes to Financial Statements

6. PAYABLES

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

	General	Nonmajor Governmental Fund	Totals
Fund Financial Statements:			
Accounts payable	\$ 785,713	\$ 14,337	\$ 800,050
Accrued liabilities	245,270	-	245,270
Salaries and benefits payable	1,767,069	5,968	1,773,037
	<u>\$ 2,798,052</u>	<u>\$ 20,305</u>	<u>2,818,357</u>
Government-wide Financial Statements -			
Accrued interest on long-term debt			<u>706,426</u>
			<u>\$ 3,524,783</u>

7. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

At June 30, 2015, interfund receivables and payables consisted of the following:

	Due from Other Funds	Due to Other Funds
General fund	\$ 37,758	\$ -
2009 debt service fund	-	1,100
Nonmajor governmental fund	-	36,658
	<u>\$ 37,758</u>	<u>\$ 37,758</u>

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

MILAN AREA SCHOOLS

Notes to Financial Statements

For the year ended June 30, 2015, interfund transfers consisted of the following:

	Transfers out	Transfers in
General fund	\$ 576	\$ 43,911
Nonmajor governmental fund	43,911	576
	<u>\$ 44,487</u>	<u>\$ 44,487</u>

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

For the year ended June 30, 2015, the District transferred funds from the food service fund to the general fund to cover certain allocable costs.

8. LONG-TERM DEBT

Long-term debt of the District consists of the following:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds	\$ 78,930,000	\$ -	\$ 3,295,000	\$ 75,635,000	\$ 3,435,000
Less -					
Unamortized bond discount	(298,648)	-	(14,932)	(283,716)	14,932
Interest rate swap	3,726,595	506,669	-	4,233,264	-
Capital lease	159,245	-	38,313	120,932	40,514
School bond loan fund	29,708,004	3,409,276	-	33,117,280	-
Compensated absences	475,142	130,690	-	605,832	-
	<u>\$ 112,700,338</u>	<u>\$ 4,046,635</u>	<u>\$ 3,318,381</u>	<u>\$ 113,428,592</u>	<u>\$ 3,490,446</u>

Compensated absences are typically liquidated by the general fund.

Bonds payable consist of the following issues:

General obligation bonds:

2002 Refunding Bonds, due in annual installments of \$1,950,000 to \$2,290,000 through 2030; interest at 4.418%	\$ 34,625,000
2009 Bonds, due in annual installments of \$1,310,000 to \$3,100,000 through 2034, interest at 2.5% to 7.1%.	<u>41,010,000</u>
Total general obligation bonds	<u>\$ 75,635,000</u>

MILAN AREA SCHOOLS

Notes to Financial Statements

Hedging Derivative Instrument - The District has an interest rate swap agreement in connection with its \$44.845 million 2002 variable rate bonds. A swap agreement was entered into 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, 2015, the swap's notional amount of \$34,625,000 matched the \$34,625,000 outstanding balance of the variable rate bonds. The notional value of the swap and the principal amount of the associated debt decline at the same rate until maturity on May 1, 2030. Under the swap, the District pays the counterparty a fixed payment of 3.3665% and receives a variable payment computed at Securities Industry and Financial Market Association Municipal Swap Index TM (SIFMA) rate. The bond's variable rate coupons are determined by the remarketing agent based on the rate necessary to remarket the bonds. The rate approximates the SIFMA rate at June 30, 2015. At June 30, 2015, the SIFMA swap had a negative fair value of \$4,233,264, which was recorded in non-current liabilities on the statement of net position. As the swap is a hedging instrument, the change in fair value is considered an outflow and is included in deferred outflows on the statement of net position.

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, 2015. 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, 2015, the District was not exposed to credit risk related to the SIFMA swap as the fair market value of the swap was negative.

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

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

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

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

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

MILAN AREA SCHOOLS

Notes to Financial Statements

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

Year Ended June 30,	Principal	Interest	Total
2016	\$ 3,435,000	\$ 3,290,727	\$ 6,725,727
2017	3,570,000	3,157,761	6,727,761
2018	3,705,000	3,016,913	6,721,913
2019	3,850,000	2,865,519	6,715,519
2020	3,990,000	2,708,185	6,698,185
2021-2025	21,810,000	10,872,182	32,682,182
2026-2030	23,665,000	5,894,743	29,559,743
2031-2034	11,610,000	1,369,502	12,979,502
Totals	\$ 75,635,000	\$ 33,175,532	\$ 108,810,532

Capital Leases

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

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2015, are as follows:

Year Ended June 30,	Amount
2016	\$ 46,257
2017	46,257
2018	38,548
	<u>131,062</u>
Less amount representing interest	<u>(10,130)</u>
Total	\$ 120,932

MILAN AREA SCHOOLS

Notes to Financial Statements

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, 2015, are as follows:

	Principal	Interest	Total
Beginning balance	\$ 24,463,923	\$ 5,244,081	\$ 29,708,004
Additions	<u>2,356,747</u>	<u>1,052,529</u>	<u>3,409,276</u>
Ending balance	<u>\$ 26,820,670</u>	<u>\$ 6,296,610</u>	<u>\$ 33,117,280</u>

At June 30, 2015, the balance of the year 2000 that were refunded in a previous year and are considered to be defeased is \$35,090,000.

9. SHORT-TERM DEBT

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

Changes in short-term state aid notes for the year ended June 30, 2015, were as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
State aid note	<u>\$ 1,312,087</u>	<u>\$ 2,516,064</u>	<u>\$ 2,516,720</u>	<u>\$ 1,311,431</u>

10. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2015, was as follows:

Capital assets, net	\$ 83,942,367
Bonds and related debt payable	(75,635,000)
Interest rate swap	(4,233,264)
Capital lease	(120,932)
Unamortized bond discount	283,716
Deferred charge on refunding	<u>1,199,237</u>
Net investment in capital assets	<u>\$ 5,436,124</u>

MILAN AREA SCHOOLS

Notes to Financial Statements

11. RISK MANAGEMENT

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

	2015	2014
Accrued claims, beginning of year	\$ 87,000	\$ 87,000
Incurred claims	453,540	453,686
Claim payments	<u>(453,540)</u>	<u>(453,686)</u>
Accrued claims, end of year	<u>\$ 87,000</u>	<u>\$ 87,000</u>

12. PROPERTY TAXES

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

13. RETIREMENT PLAN

General Information about the Pension Plan

Plan Description. The District contributes to the Michigan Public School Employees Retirement System ("MPSERS"), a cost-sharing multiple-employer pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Services with oversight from a 12-member board. Benefit provisions are established and may be amended by state statute. The Office of Retirement Services issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report can be obtained by writing to Michigan Public School Employees Retirement Services, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling (517) 322-5103.

MILAN AREA SCHOOLS

Notes to Financial Statements

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of the pension plans offered by MPSERS is as follows:

Plan Name	Plan Type	Plan Status
Member Investment Plan (MIP)	Defined Benefit	Closed
Basic	Defined Benefit	Closed
Pension Plus	Hybrid	Open
Defined Contribution	Defined Benefit	Open

The *Member Investment Plan (MIP)* includes additional subgroups based on hire date. The *MIP Fixed* plan includes members hired prior to January 1, 1990. The *MIP Graded* plan includes members first hired from January 1, 1990 through June 30, 2008. The *MIP Plus* plan includes members first hired from July 1, 2008 through June 30, 2010. Members who initially enrolled in the MIP plan and made a voluntary election to contribute a higher rate are participants in the *MIP 7%* plan.

Members hired between July 1, 2010 and September 3, 2012 were enrolled in the *Pension Plus* plan. Members hired on or after September 4, 2012 are automatically enrolled in this plan unless an election is made to participate in the defined contribution plan. The plan includes a pension component as well as a savings component. Member contributions to the savings component are match at a rate of 50% by the employer (up to a maximum of 1%) and invested in a 401(k) plan.

Effective February 1, 2013, members that initially enrolled in MIP were provided the option to convert to a defined contribution plan (*Basic 4%*). In these instances, any service credit accumulated under the defined benefit plan before February 1, 2013 is retained. For service performed after this date, the converted plan member receives 4% employer contributions to a personal 401(k) account.

A member first enrolling in MPSERS on or after September 4, 2012 may elect to enroll in the *defined contribution* plan. Employer and employee contribution rates and vesting requirements are consistent with the defined contribution component of the Pension Plus plan as described above.

Benefits Provided. MPSERS provides retirement, death, disability and postemployment benefits to eligible participants. Retirement benefits are calculated as a percentage of the employee's final average compensation times the employee's years of service. All participants qualify for a benefit multiplier of 1.5% for the first 30 years of service. Certain benefit groups receive a reduced rate of 1.25% for service above 30 years. Disability benefits are calculated the same as regular service retirement. Participants are eligible to receive full retirement benefits upon reaching the age and years of service requirements below. Most plans offer additional options for early retirement if certain stipulations have been met. Voluntary contributions vest immediately.

Plan	Eligibility Based on Years of Service	Vesting
Member Investment Plan (MIP)	Age 46 with 30 years or age 60 with 10 years	10 years
Basic	Age 55 with 30 years or age 60 with 10 years	10 years
Pension Plus	Age 60 with 10 years	4 years
Defined Contribution	Age 46 with 30 years or age 60 with 10 years	4 years

MILAN AREA SCHOOLS

Notes to Financial Statements

Contributions. Employer contributions to the plans are based on a percentage of covered payroll that has been actuarially determined as an amount that, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Member contributions are determined based on date of hire and the plan selected. In addition, the District is invoiced monthly an amount that approximates 7.63% of covered payroll for "MPSERS UAAL Stabilization." This additional contribution is offset by monthly State aid payments equal to the amounts actually billed by the Office of Retirement Services. For the plan year ended September 30, 2015, an additional 1.13% MPSERS liability prepayment was invoiced as a one-time cost. Employer contribution requirements for pension inclusive of the MPSERS UAAL Stabilization and one-time prepayment rates, range from 27.52% to 31.83% of covered payroll. Plan member contributions range from 0.0% to 7.0% of covered payroll.

The District's contribution to MPSERS under all pension plans for the year ended June 30, 2015, inclusive of the MPSERS UAAL Stabilization and one-time prepayment, was \$3,483,589.

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

At June 30, 2015, the District reported a liability of \$29,774,310 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2013. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At September 30, 2014, the District's proportion (as calculated by MPSERS) was 0.13517%.

For the year ended June 30, 2015, the District recognized pension expense of \$2,411,804. At June 30, 2015, the District reported pension-related deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Changes in assumptions	\$ 1,098,608	\$ -	\$ 1,098,608
Net difference between projected and actual earnings on pension plan investments	-	3,291,562	(3,291,562)
	1,098,608	3,291,562	(2,192,954)
District contributions subsequent to the measurement date	3,279,726	-	3,279,726
Total	\$ 4,378,334	\$ 3,291,562	\$ 1,086,772

MILAN AREA SCHOOLS

Notes to Financial Statements

The amount of deferred outflows of resources related to District contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2016. Other amounts reported as pension-related deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2016	\$ (537,219)
2017	(537,219)
2018	(537,219)
2019	<u>(581,297)</u>
Total	<u>\$ (2,192,954)</u>

Actuarial Assumptions. The total pension liability in the September 30, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage inflation	3.5%
Salary increases	3.5% to 12.3%, including wage inflation at 3.5%
Investment rate of return	8.0% (7.0% for the Pension Plus plan)
Cost of living adjustments	3.0% annual, non-compounded for MIP members
Healthcare cost trend rate	8.5% year 1 graded to 3.5% year 12

The mortality table used in this valuation was the RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

MILAN AREA SCHOOLS

Notes to Financial Statements

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	28.00%	4.80%	1.34%
Alternative investment pools	18.00%	8.50%	1.53%
International equity	16.00%	6.10%	0.98%
Fixed income pools	10.50%	1.50%	0.16%
Real estate and infrastructure pools	10.00%	5.30%	0.53%
Absolute return pools	15.50%	6.30%	0.98%
Short-term investment pools	2.00%	-0.20%	-0.02%
	<u>100.00%</u>		5.50%
Inflation			<u>2.50%</u>
Investment rate of return			<u>8.00%</u>

Discount Rate. The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that District contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the District, calculated using the discount rate of 8.0%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1% lower (7.0%) or 1% higher (9.0%) than the current rate:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
District's proportionate share of the net pension liability	\$ 39,254,835	\$ 29,774,310	\$ 21,786,828

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

MILAN AREA SCHOOLS

Notes to Financial Statements

Payable to the Pension Plan. At June 30, 2015, the District reported a payable of \$422,327 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2015.

Other Postemployment Benefits

Retirees enrolled in MPSERS before September 4, 2012 have the option of participating in the *Premium Subsidy* plan, a defined benefit postemployment healthcare plan, which is funded by employers on a cash disbursement basis. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension. Employer contributions range from 2.20% to 2.71% of covered payroll. Plan participants contribute 3% of covered payroll to the Retiree Healthcare Fund. At retirement, these individuals receive a subsidy for healthcare premiums that covers up to 80% of cost.

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

The District's contributions to MPSERS for other postemployment benefits amounted to \$436,528 for the year ended June 30, 2015.

14. SUBSEQUENT EVENT

On August 20, 2015, the District issued a state aid note in the amount of \$1,019,354 with an interest rate of 0.76% which the District will pay in set asides beginning in March of 2016 through August of 2016. On August 20, 2015, the District also issued additional state aid notes in the amounts of \$480,646, \$571,568 and \$428,432 with interest rates of 0.64%, 1.463% and 1.08%, respectively, which are due August 20, 2016.

15. RESTATEMENT

The District adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the current year. As a result of this change, beginning net position of governmental activities was decreased by \$29,097,549.

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**REQUIRED SUPPLEMENTARY
INFORMATION**

MILAN AREA SCHOOLS

Required Supplementary Information MPERS Cost-Sharing Multiple-Employer Plan

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

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

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

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

MILAN AREA SCHOOLS

Required Supplementary Information

MPSERS Cost-Sharing Multiple-Employer Plan

Schedule of District Contributions

	Year Ended June 30, 2015
Contractually required contribution	\$ 3,483,589
Contributions in relation to the contractually required contribution	<u>(3,483,589)</u>
Contribution deficiency (excess)	<u>\$ -</u>
District's covered-employee payroll	\$ 11,859,819
Contributions as a percentage of covered employee payroll	29.37%

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

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SINGLE AUDIT ACT COMPLIANCE

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**INDEPENDENT AUDITORS' REPORT
ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY OMB CIRCULAR A-133**

October 29, 2015

Board of Education
Milan Area Schools
Milan, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Milan Area Schools* (the "District") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated October 29, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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MILAN AREA SCHOOLS

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2015

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Approved Awards Amount
U.S. Department of Agriculture				
Nutrition Cluster:				
Non-Cash Assistance-				
Food Distribution				
Entitlement	10.555	MDE	-n/a-	\$ 43,655
Cash Assistance:				
National School Breakfast Program	10.553	MDE	141970	13,296
National School Breakfast Program	10.553	MDE	151970	43,418
National School Lunch Program	10.555	MDE	141960	79,892
National School Lunch Program	10.555	MDE	151960	244,341
Child and Adult Care Food Program	10.558	MDE	151920	1,194
Total U.S. Department of Agriculture				
U.S. Department of Education				
Adult Basic Education Instruction	84.002A	MDE	141130-141667	15,000
Institutional Adults	84.002A	MDE	141190-141667	65,000
Adult Basic Education Instruction	84.002	MDE	151130-151667	15,000
Institutional Adults	84.002	MDE	151190-151667	65,000
Title I Cluster:				
Title I, Part A - Improving Basic Programs	84.010	MDE	141530-1314	199,185
Title I, Part A - C/O	84.010	MDE	141530-1314	10,606
Title I, Part A - Improving Basic Programs	84.010	MDE	151530-1415	218,718
Title II:				
Title II, Part A - Improving Teacher Quality	84.367	MDE	140520-1314	84,386
Title II, Part A - C/O	84.367	MDE	140520-1314	5,242
Title II, Part A - Improving Teacher Quality	84.367	MDE	150520-1415	92,300
Title III - English Language Acquisition	84.365A	MPS	150580-1415	2,003

(Memo Only) Prior Year Expenditures	Accrued (Unearned) Revenue at July 1, 2014	Current Year Receipts	Current Year Expenditures	Accrued (Unearned) Revenue at June 30, 2015
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\$ 47,320	\$ -	\$ 43,655	\$ 43,655	\$ -
40,335	8,784	13,297	4,513	-
-	-	41,324	43,418	2,094
229,608	45,960	79,892	33,932	-
-	-	232,409	244,341	11,932
317,263	54,744	410,577	369,859	14,026
-	-	1,194	1,194	-
317,263	54,744	411,771	371,053	14,026
15,000	15,000	15,000	-	-
65,000	65,000	65,000	-	-
-	-	-	12,898	12,898
-	-	-	65,000	65,000
80,000	80,000	80,000	77,898	77,898
169,152	82,690	82,690	-	-
-	-	10,606	10,606	-
-	-	125,887	208,505	82,618
169,152	82,690	219,183	219,111	82,618
46,177	19,647	19,647	-	-
-	-	2,868	5,242	2,374
-	-	24,754	56,569	31,815
46,177	19,647	47,269	61,811	34,189
-	-	-	2,003	2,003

continued...

MILAN AREA SCHOOLS

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2015

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Approved Awards Amount
U.S. Department of Education (concluded)				
Special Education Cluster:				
IDEA Flow-through	84.027A	WISD	140450-1314	\$ 451,406
IDEA Flow-through	84.027A	WISD	140450-1314	18,847
IDEA Flow-through	84.027A	WISD	150450-1415	451,954
IDEA Pre-school Grant	84.173A	WISD	150460-1415	12,976

Total U.S. Department of Education

Total Federal Financial Assistance

See notes to schedule of expenditures of federal awards.

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(Memo Only) Prior Year Expenditures	Accrued (Unearned) Revenue at July 1, 2014	Current Year Receipts	Current Year Expenditures	Accrued (Unearned) Revenue at June 30, 2015
\$ 432,559	\$ 155,475	\$ 155,475	\$ -	\$ -
17,422	-	11,441	18,847	7,406
-	-	156,442	447,696	291,254
-	-	12,976	12,976	-
449,981	155,475	336,334	479,519	298,660
745,310	337,812	682,786	840,342	495,368
\$ 1,062,573	\$ 392,556	\$ 1,094,557	\$ 1,211,395	\$ 509,394

concluded.

MILAN AREA SCHOOLS

Notes to Schedule of Expenditures of Federal Awards

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Milan Area Schools (the "District") under programs of the federal government for the year ended June 30, 2015. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets or cash flows of the District.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, which is described in Note 1 to the District's financial statements. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

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

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

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

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

Federal revenue reported on the Statement of Revenues, Expenditures and Changes in Fund Balances	\$ 2,111,706
Less: Revenue from federal government paid directly for interest on long-term debt not considered to be federal expenditures	<u>(900,311)</u>
Total expenditures of federal awards	<u>\$ 1,211,395</u>

MILAN AREA SCHOOLS

Notes to Schedule of Expenditures of Federal Awards

4. PASS-THROUGH AGENCIES

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

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

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

October 29, 2015

Board of Education
Milan Area Schools
Milan, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Milan Area Schools** (the "District"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 29, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Rehmann Lohman LLC

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

October 29, 2015

Board of Education
Milan Area Schools
Milan, Michigan

Report on Compliance for the Major Federal Program

We have audited the compliance of *Milan Area Schools* (the "District") with the types of compliance requirements described in the *2 CFR 200 Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2015. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and 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 the major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on the Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Rehmann Lobson LLC

MILAN AREA SCHOOLS

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2015

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes X no

Significant deficiency(ies) identified?

_____ yes X none reported

Noncompliance material to financial statements
noted?

_____ yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

_____ yes X no

Significant deficiency(ies) identified?

_____ yes X none reported

Type of auditors' report issued on compliance
for major programs:

Unmodified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section 510(a)?

_____ yes X no

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

10.553 & 10.555

Child Nutrition Cluster

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

\$ 300,000

Auditee qualified as low-risk auditee?

X yes _____ no

MILAN AREA SCHOOLS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

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MILAN AREA SCHOOLS

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2015

None reported.

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