

# Milan Area Schools

Year Ended  
June 30, 2021

Financial  
Statements and  
Single Audit Act  
Compliance

**Rehmann**

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# MILAN AREA SCHOOLS

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## INDEPENDENT AUDITORS' REPORT

October 12, 2021

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, 2021, 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.

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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, 2021, and the respective changes in financial position thereof and the budgetary comparison for the general fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Required Supplementary Information***

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

### ***Other Information***

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2021, 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 Lobson LLC*

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

# MILAN AREA SCHOOLS

## Management's Discussion and Analysis

As management of Milan Area Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2021.

### Financial Highlights

· Total net position	\$ (67,043,987)
· Change in total net position	(29,125)
· Fund balances, governmental funds	7,746,234
· Change in fund balances, governmental funds	1,971,124
· Unassigned fund balance, general fund	5,190,521
· Change in fund balance, general fund	1,312,525
· Installment debt outstanding	89,188,810
· Change in installment debt	(2,186,701)

### Overview of the Financial Statements

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

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

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

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

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

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

# MILAN AREA SCHOOLS

## Management's Discussion and Analysis

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

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

The District maintains various individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund and 2016 debt service fund which are major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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

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

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

### Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$67,043,987 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 \$17,153,475 at June 30, 2021. 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.

# MILAN AREA SCHOOLS

## Management's Discussion and Analysis

	Net Position	
	Governmental Activities	
	2021	2020
Current and other assets	\$ 12,770,136	\$ 9,760,880
Capital assets, net	69,505,363	71,997,333
<b>Total assets</b>	<b>82,275,499</b>	<b>81,758,213</b>
<b>Deferred outflows of resources</b>	<b>18,012,314</b>	<b>21,354,724</b>
Other liabilities	64,829,577	65,247,935
Long-term debt	95,561,899	98,285,681
<b>Total liabilities</b>	<b>160,391,476</b>	<b>163,533,616</b>
<b>Deferred inflows of resources</b>	<b>6,940,324</b>	<b>6,594,183</b>
Net position:		
Net investment in capital assets	17,153,475	15,581,789
Restricted	712,671	110,894
Unrestricted (deficit)	(84,910,133)	(82,707,545)
<b>Total net position</b>	<b>\$ (67,043,987)</b>	<b>\$ (67,014,862)</b>

The District reported a deficit in total net position of \$67,043,987 as of year end. The District's net investment in capital assets represents the District's investment in capital assets less any related debt. Restricted net position represents amounts subject to external restrictions such as amounts restricted for food service and debt service. The District also reported a deficit of \$84,910,133 as unrestricted net position. The negative balance is mainly related to the District's proportionate share of the MPSERS net pension and other postemployment benefit liabilities and the District's general obligation bonded debt.

# MILAN AREA SCHOOLS

## Management's Discussion and Analysis

	Changes in Net Position	
	Governmental Activities	
	2021	2020
Program revenues:		
Charges for services	\$ 423,276	\$ 936,013
Operating grants and contributions	10,003,917	8,009,519
General revenues:		
Property taxes	9,149,484	8,890,219
Unrestricted state aid	14,557,148	14,420,235
Grants and contributions not restricted to specific programs	1,076,889	1,716,030
Unrestricted investment earnings	8,581	51,808
<b>Total revenues</b>	<u>35,219,295</u>	<u>34,023,824</u>
Expenses:		
Instruction	14,974,920	15,968,568
Supporting services	12,183,561	12,856,307
Community service	688,654	976,656
Athletics	554,944	497,949
Food service	613,803	807,857
Interest on long-term debt	3,441,384	4,006,500
Unallocated depreciation	2,791,154	2,584,527
<b>Total expenses</b>	<u>35,248,420</u>	<u>37,698,364</u>
Change in net position	(29,125)	(3,674,540)
Net position, beginning of year	<u>(67,014,862)</u>	<u>(63,340,322)</u>
<b>Net position, end of year</b>	<u>\$ (67,043,987)</u>	<u>\$ (67,014,862)</u>

The District's net position decreased by \$29,125 during the current year as compared to an decrease of \$3,674,540 in the previous year. The significant factors affecting this decrease are as follows:

- Overall revenue increased during the year. The revenue increase is due, in part, to the receipt of federal and state grants to offset the effects of the COVID pandemic on the District. These grants totaled \$1,082,408.
- Overall expenditures decreased during the year. The decrease was due in part to reduced staffing, we had a number of staff work less than full time or take the year off due to COVID concerns. The District also benefitted from a reduction to the interest on long-term debt, this is due to the increase in principal payments for one of the debt issuances.

# MILAN AREA SCHOOLS

## Management's Discussion and Analysis

### Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$7,746,234, an increase of \$1,971,124 in comparison with the prior year. Approximately 67% of this total amount, \$5,190,521, is unassigned fund balance. The remainder of fund balance is nonspendable because the underlying assets are included in inventory and prepaid items, is committed or assigned because the amounts are constrained by the District's intent to be used for specific purposes, or is restricted for food service and debt service, and not available for current expenditure.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$5,190,521, while the total fund balance for the general fund is \$5,924,740. 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 19% of total general fund expenditures. This percentage is slightly higher than in 2019-2020. An unassigned fund balance of 10-12% is generally recommended.

The fund balance of the District's general fund increased by \$1,312,525, during the current fiscal year. The unassigned fund balance increased by \$1,312,206. The increase in fund balance during the year was due to increases in State Aid revenue and federal funding. Due to the District's hybrid schedule, many hourly staff worked less than full time leading to decreased expenditures.

The fund balance of the 2016 debt service fund increased by \$634,396 during the current fiscal year. The timing of tax receipts were after the District had to request funds through the School Loan Revolving Fund. Without knowing if the tax payments were going to be received by the May 1st principal/interest due date, the District had to borrow sufficient funds to make the required payments. The receipt of the tax monies after the loan payment dates increased the fund balance in fiscal year 2021.

### General Fund Budgetary Highlights

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

- Revenues increased by \$3,824,617 mainly due to several things that were not known at the time of the original budget. The foundation allowance for fiscal year 2021 increased by \$700 more than the original budget estimate and we received funding based on the Superblend Formula, which gave us a larger pupil count, leading to increased foundation funding. The District was also allocated a large amount of Federal Coronavirus Relief Funds. We also received grant increases and additional special education funding.

# MILAN AREA SCHOOLS

## Management's Discussion and Analysis

- Expenditures were decreased by \$38,656 due to more current information being available. The majority of the decrease was due to reductions in staffing costs caused by staff who either took a leave of absence or worked a reduced schedule due to COVID concerns. Budgets for a number of items were reduced due to the elimination or reduction of activities based on COVID restrictions (limited professional development opportunities, elimination of field trips, lower substitute costs based on supply/demand).

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

Budget to actual comparisons were generally favorable. Net change in fund balance was \$898,515 more than what was shown in the final amended budget.

### Capital Asset and Debt Administration

**Capital Assets.** The District's investment in capital assets for its governmental activities as of June 30, 2021, amounted to \$69,505,363 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings and improvements, equipment and vehicles. This reflects a decrease of \$2,491,970 from the previous year.

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

Depreciation expense was recognized in the amount of \$2,791,154.

	Capital Assets (Net of Depreciation)	
	2021	2020
Capital assets not being depreciated -		
Land	\$ 1,607,945	\$ 1,607,945
Capital assets being depreciated:		
Land improvements	2,429,394	2,787,465
Buildings and improvements	64,450,200	66,293,514
Equipment	455,303	712,420
Vehicles	562,521	595,989
<b>Total capital assets, net</b>	<b>\$ 69,505,363</b>	<b>\$ 71,997,333</b>

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

**Long-term Debt.** At the end of the current fiscal year, the District had total bonded debt outstanding of \$67,695,000. The District's total bonded long-term debt decreased by \$12,465,000 during the current fiscal year as a result of scheduled principal payments. The change in long-term debt also reflects borrowings from the School Bond Loan Fund of \$10,323,447.

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

# MILAN AREA SCHOOLS

## Management's Discussion and Analysis

### Factors Bearing on the District's Future

The following factors were also considered in preparing the District's budget for the 2021-22 fiscal year:

- The State Aid Foundation Grant was unknown at the time of the original budget adoption. Based on information received from state organizations the District budgeted a \$164 per student increase due to the varying amounts given in budget projection conversations. When the state has adopted a budget revenues will be adjusted accordingly.
- The District projected a loss of 175 students from the 20-21 Superblend Count for the preliminary 21-22 budget. The figure budgeted assumed no change in pupil count from the February 2021 count day. Given the uncertainty of how the pandemic would impact our student enrollment, we were not sure if we would see the number of school of choice students that we normally have transfer in or if the students who left during the 2020/2021 school year would return to the District, we chose to budget for a loss of students.
- The District is still dealing with the effects of the Coronavirus pandemic. The pandemic has caused us to adjust the way that we conduct business. We have looked at providing virtual instruction, the impact of positive Coronavirus cases/quarantines on instruction, and changes to cleaning procedures. All of these items can impact the District's budget.
- The District anticipates the receipt of additional Coronavirus Relief Funding dollars in the form of ESSER II and American Rescue Plan/ESSER III funds in the 21-22 school year. These funds will be used to respond to the needs caused by the Coronavirus pandemic.
- The retirement rate was budgeted at each individual of the staff member's retirement rate based on their chosen retirement rate, and an additional 15.05% that has to be included in the revenue and expense budgets for 21-22 to account for UAAL Stabilization costs that the District is charged and then the state is offsetting through state aid. The District's required contribution for select defined contribution employees will increase in the 21-22 school year. These figures will be adjusted further in future amendments.
- The District is entering into negotiations for all bargaining groups for the 21-22 school year. Once contract negotiations are complete the budget will be amended to reflect any changes.
- All employee groups eligible for health care coverage continue to contribute either 20% or 30% of the illustrative rates toward their health insurance premiums.
- The District, along with the Intermediate School District, will continue to explore cost savings through consolidation of services. The District has shared costs in many areas in the past including internet costs, software implementations, student databases and other.
- Beginning in the 19-20 school year, the District started to pay down the principal on the 2016 Debt Fund, the principal will be paid in installments through fiscal year 2023. This will cause a significant increase to the debt payments for the next 2 years.

# MILAN AREA SCHOOLS

## Management's Discussion and Analysis

- Because of the sacrifices of the staff in the District and conservative budgeting over the last several years, we have been able to maintain a healthy fund balance in 20-21 of 22.25% total fund balance (19.49% unassigned fund balance) while not having to ask for further concessions or cuts to the classrooms or facilities. We will continue to do our best to keep as much money in the classroom as possible and continue to enhance programs and facilities for students.

### Requests for Information

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

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## **BASIC FINANCIAL STATEMENTS**

# MILAN AREA SCHOOLS

## Statement of Net Position

June 30, 2021

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 8,096,164
Receivables	4,272,908
Prepaid items and other assets	401,064
Capital assets not being depreciated	1,607,945
Capital assets being depreciated, net	<u>67,897,418</u>
<b>Total assets</b>	<u>82,275,499</u>
<b>Deferred outflows of resources</b>	
Deferred charge on refunding	3,172,108
Deferred pension amounts	11,058,233
Deferred other postemployment benefit amounts	<u>3,781,973</u>
<b>Total deferred outflows of resources</b>	<u>18,012,314</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	3,332,553
State aid note payable	1,181,172
Unearned revenue	997,877
Long-term debt:	
Due within one year	14,067,960
Due in more than one year	81,493,939
Net pension liability (due in more than one year)	51,299,289
Net other postemployment benefit liability (due in more than one year)	<u>8,018,686</u>
<b>Total liabilities</b>	<u>160,391,476</u>
<b>Deferred inflows of resources</b>	
Deferred pension amounts	693,990
Deferred other postemployment benefit amounts	<u>6,246,334</u>
<b>Total deferred inflows of resources</b>	<u>6,940,324</u>
<b>Net position</b>	
Net investment in capital assets	17,153,475
Restricted for food service	68,660
Restricted for debt service	644,011
Unrestricted (deficit)	<u>(84,910,133)</u>
<b>Total net position</b>	<u>\$ (67,043,987)</u>

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

# MILAN AREA SCHOOLS

## Statement of Activities

For the Year Ended June 30, 2021

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
<b>Governmental activities:</b>				
Instruction	\$ 14,974,920	\$ -	\$ 9,509,190	\$ (5,465,730)
Supporting services	12,183,561	-	-	(12,183,561)
Community service	688,654	399,340	-	(289,314)
Athletics	554,944	13,264	-	(541,680)
Food service	613,803	10,672	494,727	(108,404)
Interest on long-term debt	3,441,384	-	-	(3,441,384)
Unallocated depreciation	2,791,154	-	-	(2,791,154)
<b>Total governmental activities</b>	<u>\$ 35,248,420</u>	<u>\$ 423,276</u>	<u>\$ 10,003,917</u>	<u>(24,821,227)</u>
<b>General revenues:</b>				
Property taxes				9,149,484
Unrestricted state aid				14,557,148
Grants and contributions not restricted to specific programs				1,076,889
Unrestricted investment earnings				<u>8,581</u>
<b>Total general revenues</b>				<u>24,792,102</u>
<b>Change in net position</b>				(29,125)
Net position, beginning of year				<u>(67,014,862)</u>
<b>Net position, end of year</b>				<u>\$ (67,043,987)</u>

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

# MILAN AREA SCHOOLS

## Balance Sheet

Governmental Funds  
June 30, 2021

	General Fund	2016 Debt Service	Nonmajor Governmental Funds	Totals
<b>Assets</b>				
Cash and cash equivalents	\$ 6,591,777	\$ 762,299	\$ 742,088	\$ 8,096,164
Accounts receivable	14,842	-	-	14,842
Due from other governments	4,221,720	-	36,346	4,258,066
Due from other funds	-	104,760	155,858	260,618
Inventory	42,713	-	9,107	51,820
Prepaid items	299,244	-	50,000	349,244
<b>Total assets</b>	<b>\$ 11,170,296</b>	<b>\$ 867,059</b>	<b>\$ 993,399</b>	<b>\$ 13,030,754</b>
<b>Liabilities</b>				
Accounts payable	\$ 302,034	\$ 500	\$ -	\$ 302,534
Accrued liabilities	245,137	-	-	245,137
Salaries and benefits payable	2,294,711	-	2,471	2,297,182
State aid note payable	1,181,172	-	-	1,181,172
Due to other funds	247,389	-	13,229	260,618
Unearned revenue	975,113	-	22,764	997,877
<b>Total liabilities</b>	<b>5,245,556</b>	<b>500</b>	<b>38,464</b>	<b>5,284,520</b>
<b>Fund balances</b>				
Nonspendable:				
Inventory	42,713	-	9,107	51,820
Prepaid items	299,244	-	50,000	349,244
Restricted for:				
Food service	-	-	9,553	9,553
Debt service	-	866,559	265,152	1,131,711
Committed for -				
Student/school activity	-	-	621,123	621,123
Assigned for:				
Curriculum	90,000	-	-	90,000
Technology	75,000	-	-	75,000
Buses	90,000	-	-	90,000
Paddock Early Childhood Center	41,297	-	-	41,297
Athletics	20,965	-	-	20,965
Buildings and grounds	75,000	-	-	75,000
Unassigned	5,190,521	-	-	5,190,521
<b>Total fund balances</b>	<b>5,924,740</b>	<b>866,559</b>	<b>954,935</b>	<b>7,746,234</b>
<b>Total liabilities and fund balances</b>	<b>\$ 11,170,296</b>	<b>\$ 867,059</b>	<b>\$ 993,399</b>	<b>\$ 13,030,754</b>

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

# MILAN AREA SCHOOLS

## Reconciliation

Fund Balances of Governmental Funds  
to Net Position of Governmental Activities  
June 30, 2021

<b>Fund balances - total governmental funds</b>	\$ 7,746,234
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets	113,218,936
Accumulated depreciation	(43,713,573)
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	(89,188,810)
Unamortized deferred charge on refunding	3,172,108
Unamortized bond premium	(5,698,217)
Accrued interest on long-term debt	(487,700)
Compensated absences	(674,872)
Certain pension and other postemployment benefit-related amounts, such as the net pension liability, net other postemployment benefit liability and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds.	
Net pension liability	(51,299,289)
Net other postemployment benefit liability	(8,018,686)
Deferred outflows related to the net pension liability	11,058,233
Deferred inflows related to the net pension liability	(693,990)
Deferred outflows related to the net other postemployment benefit liability	3,781,973
Deferred inflows related to the net other postemployment benefit liability	<u>(6,246,334)</u>
<b>Net position of governmental activities</b>	<u>\$ (67,043,987)</u>

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

## MILAN AREA SCHOOLS

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

Governmental Funds

For the Year Ended June 30, 2021

	General	2016 Debt Service	Nonmajor Governmental Funds	Totals
<b>Revenues</b>				
Local sources	\$ 6,761,652	\$ 2,984,362	\$ 3,379,606	\$ 13,125,620
State sources	19,253,754	197,527	197,583	19,648,864
Federal sources	1,978,359	-	466,452	2,444,811
<b>Total revenues</b>	<b>27,993,765</b>	<b>3,181,889</b>	<b>4,043,641</b>	<b>35,219,295</b>
<b>Expenditures</b>				
Current:				
Instruction	13,883,995	-	-	13,883,995
Supporting services	12,150,142	-	184,817	12,334,959
Athletics	527,526	-	-	527,526
Food service	-	-	597,633	597,633
Debt service:				
Principal	45,148	8,660,000	3,805,000	12,510,148
Interest and fiscal charges	24,429	624,493	2,678,536	3,327,458
<b>Total expenditures</b>	<b>26,631,240</b>	<b>9,284,493</b>	<b>7,265,986</b>	<b>43,181,719</b>
Revenues over (under) expenditures	1,362,525	(6,102,604)	(3,222,345)	(7,962,424)
<b>Other financing sources (uses)</b>				
Issuance of long-term debt	-	6,737,000	3,196,548	9,933,548
Transfers in	-	-	50,000	50,000
Transfers out	(50,000)	-	-	(50,000)
<b>Total other financing sources (uses)</b>	<b>(50,000)</b>	<b>6,737,000</b>	<b>3,246,548</b>	<b>9,933,548</b>
<b>Net change in fund balances</b>	<b>1,312,525</b>	<b>634,396</b>	<b>24,203</b>	<b>1,971,124</b>
Fund balances, beginning of year	4,612,215	232,163	930,732	5,775,110
<b>Fund balances, end of year</b>	<b>\$ 5,924,740</b>	<b>\$ 866,559</b>	<b>\$ 954,935</b>	<b>\$ 7,746,234</b>

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, 2021

**Net change in fund balances - total governmental funds** \$ 1,971,124

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	299,184
Depreciation expense	(2,791,154)

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

Issuance of long-term debt	(9,933,548)
Principal payments on long-term debt	12,510,148

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	(3,239,937)
Change in net other postemployment benefit liability and related deferred amounts	1,261,420
Change in accrued interest payable on long-term debt	(327,434)
Amortization of bond premium and deferred charge on refunding	213,508
Change in the accrual for compensated absences	7,564

**Change in net position of governmental activities** \$ (29,125)

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

## MILAN AREA SCHOOLS

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

Budget and Actual - General Fund

For the Year Ended June 30, 2021

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Revenues</b>				
Local sources	\$ 6,482,722	\$ 6,610,972	\$ 6,761,652	\$ 150,680
State sources	17,688,453	19,772,647	19,253,754	(518,893)
Federal sources	950,026	2,562,199	1,978,359	(583,840)
<b>Total revenues</b>	<u>25,121,201</u>	<u>28,945,818</u>	<u>27,993,765</u>	<u>(952,053)</u>
<b>Expenditures</b>				
Instruction:				
Basic programs	11,755,007	12,505,974	11,935,445	(570,529)
Added needs	2,656,213	2,312,853	1,747,872	(564,981)
Adult and continuing education	180,764	223,493	200,678	(22,815)
Total instruction	<u>14,591,984</u>	<u>15,042,320</u>	<u>13,883,995</u>	<u>(1,158,325)</u>
Supporting services:				
Pupil services	3,402,656	3,496,449	3,299,382	(197,067)
Instructional support	1,228,303	1,068,281	1,010,458	(57,823)
General administration	523,026	521,167	497,973	(23,194)
School administration	1,516,679	1,590,565	1,567,916	(22,649)
Business services	817,257	379,957	373,423	(6,534)
Operations and maintenance	2,924,595	3,082,965	2,967,986	(114,979)
Transportation	1,283,982	1,125,312	999,860	(125,452)
Central support	841,397	844,711	804,502	(40,209)
Community service	774,661	659,659	628,642	(31,017)
Total supporting services	<u>13,312,556</u>	<u>12,769,066</u>	<u>12,150,142</u>	<u>(618,924)</u>
Athletics	<u>501,776</u>	<u>551,274</u>	<u>527,526</u>	<u>(23,748)</u>
Debt service:				
Principal	45,148	45,148	45,148	-
Interest and fiscal charges	34,000	39,000	24,429	(14,571)
Total debt service	<u>79,148</u>	<u>84,148</u>	<u>69,577</u>	<u>(14,571)</u>
<b>Total expenditures</b>	<u>28,485,464</u>	<u>28,446,808</u>	<u>26,631,240</u>	<u>(1,815,568)</u>
Revenues over (under) expenditures	<u>(3,364,263)</u>	<u>499,010</u>	<u>1,362,525</u>	<u>863,515</u>
<b>Other financing sources (uses)</b>				
Transfers in	20,000	-	-	-
Transfers out	-	(85,000)	(50,000)	(35,000)
Total other financing sources (uses)	<u>20,000</u>	<u>(85,000)</u>	<u>(50,000)</u>	<u>(35,000)</u>
<b>Net change in fund balance</b>	<u>(3,344,263)</u>	<u>414,010</u>	<u>1,312,525</u>	<u>898,515</u>
Fund balance, beginning of year	<u>4,612,215</u>	<u>4,612,215</u>	<u>4,612,215</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 1,267,952</u>	<u>\$ 5,026,225</u>	<u>\$ 5,924,740</u>	<u>\$ 898,515</u>

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

## **NOTES TO FINANCIAL STATEMENTS**

# MILAN AREA SCHOOLS

## Notes to Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

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

#### ***Government-wide and Fund Financial Statements***

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

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

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

#### ***Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

# MILAN AREA SCHOOLS

## Notes to Financial Statements

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

The District reports the following major governmental funds:

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

The *2016 debt service fund* accounts for all financial resources restricted, committed or assigned to expenditure for principal and interest of the 2016 bond issue.

Additionally, the District reports the following fund types:

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

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

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

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

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

#### ***Deposits and Investments***

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

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

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

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

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

# MILAN AREA SCHOOLS

## Notes to Financial Statements

### *Inventory and Prepaid Items*

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

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

### *Capital Assets*

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

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

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

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

### *Deferred Outflows of Resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. The District reports deferred outflows for the charge on refunding. This amount represents the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The District also reports deferred outflows of resources related to the net pension liability and the net other postemployment benefit liability. A portion of these costs represent contributions to the plan subsequent to the plan measurement date.

# MILAN AREA SCHOOLS

## Notes to Financial Statements

### *Compensated Absences*

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

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

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

### *Long-term Obligations*

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

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

### *Deferred Inflows of Resources*

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

# MILAN AREA SCHOOLS

## Notes to Financial Statements

### *Fund Equity*

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

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

### *Pensions and Other Postemployment Benefits*

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

## 2. BUDGETARY INFORMATION

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

## 3. ACCOUNTABILITY AND COMPLIANCE

During the year ended June 30, 2021, the District did not incur expenditures in excess of the amounts appropriated at the legal level of budgetary control.

# MILAN AREA SCHOOLS

## Notes to Financial Statements

### 4. DEPOSITS AND INVESTMENTS

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

**Statement of Net Position**

Cash and cash equivalents	<u>\$ 8,096,164</u>
<b>Deposits and investments</b>	
Cash on hand	\$ 5,695
Bank deposits (checking and savings accounts)	4,763,612
Investments	<u>3,326,857</u>
<b>Total</b>	<u>\$ 8,096,164</u>

**Statutory Authority**

State statutes authorize the District to invest in:

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

The District's investment policy allows for all of the above investment types.

# MILAN AREA SCHOOLS

## Notes to Financial Statements

### Investments

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

Investment	Maturity	Amortized cost/fair value	Rating
Michigan Liquid Asset Fund	n/a	\$ 3,324,432	S&P AAAM
American Funds money market funds	n/a	416	S&P AAAM
Michigan CLASS government investment pool	n/a	<u>2,009</u>	S&P AAAM
		<u>\$ 3,326,857</u>	

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

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

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$4,048,625 of the District's bank balance of \$4,798,625 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

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

# MILAN AREA SCHOOLS

## Notes to Financial Statements

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

The District's only recurring fair value measurements as of June 30, 2021 were related to its investments in money market funds. These investments are valued using quoted market pricing of the underlying securities (Level 1 inputs).

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

At year end, the net asset value of the District's investment in Michigan CLASS was \$2,009. The investment pool had no unfunded commitments, specific redemption frequency or redemption notice period required. The Michigan CLASS investment pool invests in U.S. treasury obligations, federal agency obligations of the U.S. government, high-grade commercial paper (rated 'A-1' or better) collateralized bank deposits, repurchase agreements (collateralized at 102% by Treasuries and agencies), and approved money market funds. The program seeks to provide safety, liquidity, convenience, and competitive rates of return, and is designed to meet the needs of Michigan public sector investors. It purchases securities that are legally permissible under state statutes and are available for investment by Michigan counties, cities, townships, school districts, authorities and other public agencies.

## 5. RECEIVABLES

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

	General	Nonmajor Governmental Funds	Totals
Accounts receivable	\$ 14,842	\$ -	\$ 14,842
Due from other governments	4,221,720	36,346	4,258,066
	<u>\$ 4,236,562</u>	<u>\$ 36,346</u>	<u>\$ 4,272,908</u>

# MILAN AREA SCHOOLS

## Notes to Financial Statements

### 6. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2021 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets not being depreciated - Land	\$ 1,607,945	\$ -	\$ -	\$ 1,607,945
Capital assets being depreciated:				
Land improvements	9,274,896	-	4,400	9,270,496
Buildings and improvements	97,749,925	186,034	-	97,935,959
Equipment	3,460,248	20,261	953,728	2,526,781
Vehicles	1,862,043	92,889	77,177	1,877,755
	<u>112,347,112</u>	<u>299,184</u>	<u>1,035,305</u>	<u>111,610,991</u>
Less accumulated depreciation for:				
Land improvements	6,487,431	358,071	4,400	6,841,102
Buildings and improvements	31,456,411	2,029,348	-	33,485,759
Equipment	2,747,828	277,378	953,728	2,071,478
Vehicles	1,266,054	126,357	77,177	1,315,234
	<u>41,957,724</u>	<u>2,791,154</u>	<u>1,035,305</u>	<u>43,713,573</u>
Total capital assets being depreciated, net	<u>70,389,388</u>	<u>(2,491,970)</u>	<u>-</u>	<u>67,897,418</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 71,997,333</u>	<u>\$ (2,491,970)</u>	<u>\$ -</u>	<u>\$ 69,505,363</u>

Depreciation expense of \$2,791,154 is reported as unallocated depreciation, and not allocated to individual functions.

# MILAN AREA SCHOOLS

## Notes to Financial Statements

### 7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	General	Nonmajor Governmental Funds	Totals
Fund Financial Statements:			
Accounts payable	\$ 302,034	\$ 500	\$ 302,534
Accrued liabilities	245,137	-	245,137
Salaries and benefits payable	2,294,711	2,471	2,297,182
	<u>\$ 2,841,882</u>	<u>\$ 2,971</u>	2,844,853
Government-wide Financial Statements -			
Accrued interest on long-term debt			<u>487,700</u>
			<u>\$ 3,332,553</u>

### 8. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

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

	Due from Other Funds	Due to Other Funds
General fund	\$ -	\$ 247,389
2016 debt service	104,760	-
Nonmajor governmental funds	155,858	13,229
	<u>\$ 260,618</u>	<u>\$ 260,618</u>

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

For the year ended June 30, 2021, interfund transfers consisted of \$50,000 transferred from the general fund to the nonmajor food service fund to cover the reduction in revenue due to a lower number of students participating in the school breakfast/lunch program during the year.

# MILAN AREA SCHOOLS

## Notes to Financial Statements

### 9. LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2021 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
<b>Governmental activities</b>					
General obligation bonds	\$ 80,160,000	\$ -	\$ 12,465,000	\$ 67,695,000	\$ 12,815,000
Capital lease	125,927	-	45,148	80,779	48,571
Direct borrowings - School bond loan fund	11,089,584	10,323,447	-	21,413,031	-
Total installment debt	91,375,511	10,323,447	12,510,148	89,188,810	12,863,571
Unamortized bond premium	6,227,734	-	529,517	5,698,217	529,517
Compensated absences	682,436	1,240,320	1,247,884	674,872	674,872
<b>Total long-term debt</b>	<b>\$ 98,285,681</b>	<b>\$ 11,563,767</b>	<b>\$ 14,287,549</b>	<b>\$ 95,561,899</b>	<b>\$ 14,067,960</b>

Compensated absences are typically liquidated by the general fund.

Bonds payable consist of the following issues:

#### General obligation bonds

2016 SBLF Refunding Bonds, due in annual installments of \$8,500,000 to \$9,100,000 through 2023, interest at 1.931% to 2.544%.	\$ 17,950,000
2018 Refunding Bonds, due in annual installments of \$2,070,000 to \$2,345,000 through 2030, interest at 5.00%	20,540,000
2019 Refunding Bonds, due in annual installments of \$1,525,000 to \$2,940,000 through 2034, interest at 5.00%.	<u>29,205,000</u>
<b>Total general obligation bonds</b>	<b><u>\$ 67,695,000</u></b>

# MILAN AREA SCHOOLS

## Notes to Financial Statements

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

Year Ended June 30,	Principal	Interest	Total
2022	\$ 12,815,000	\$ 2,926,198	\$ 15,741,198
2023	13,180,000	2,520,504	15,700,504
2024	4,190,000	2,085,000	6,275,000
2025	4,250,000	1,875,500	6,125,500
2026	4,315,000	1,663,000	5,978,000
2027-2031	20,530,000	5,010,000	25,540,000
2032-2034	8,415,000	855,000	9,270,000
<b>Totals</b>	<b>\$ 67,695,000</b>	<b>\$ 16,935,202</b>	<b>\$ 84,630,202</b>

### Capital Leases

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

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

Equipment	\$ 182,766
Less accumulated depreciation	<u>(87,976)</u>
	<u>\$ 94,790</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2021, are as follows:

Year Ended June 30,	Amount
2022	\$ 52,855
2023	<u>33,039</u>
	85,894
Less amount representing interest	<u>(5,115)</u>
<b>Total</b>	<b>\$ 80,779</b>

## MILAN AREA SCHOOLS

### Notes to Financial Statements

#### *School Bond Loan Fund*

The School Bond Loan Fund balance represents amounts borrowed from the State of Michigan School Bond Loan Program to supplement property tax revenue for making payments on the District's general obligation bonds. Although interest accrues each year, no payment is due until such time as the District's property tax revenue is sufficient to support the debt service requirements on the general obligation bonds. Changes to the School Bond Loan Fund for the year ended June 30, 2021, are as follows:

	School Loan Revolving Fund		
	Principal	Interest	Total
Beginning balance	\$ 10,871,058	\$ 218,526	\$ 11,089,584
Additions	9,933,548	389,899	10,323,447
<b>Ending balance</b>	<b>\$ 20,804,606</b>	<b>\$ 608,425</b>	<b>\$ 21,413,031</b>

### 10. SHORT-TERM DEBT

During the year, the District financed certain of its operations through the issuance of State Aid Anticipation Notes. These notes were issued for terms of less than one year, and accordingly are recorded as liabilities of the respective funds from which they were issued. The District borrowed \$1,250,000 and \$1,000,000 on August 20, 2020 with interest rates of 0.70% and 0.25%, respectively. These notes are due on August 20, 2021.

Changes in short-term state aid notes for the year ended June 30, 2021, were as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
State aid note	\$ 303,900	\$ 2,258,351	\$ 1,381,079	\$ 1,181,172

### 11. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2021, was as follows:

Capital assets, net	\$ 69,505,363
Capital related bonds payable outstanding	(49,745,000)
Capital lease	(80,779)
Unamortized bond premium	(5,698,217)
Deferred charge on refunding	3,172,108
<b>Net investment in capital assets</b>	<b>\$ 17,153,475</b>

# MILAN AREA SCHOOLS

## Notes to Financial Statements

### 12. RISK MANAGEMENT

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

An independent third party administers the District's flexible benefit program.

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

	2021	2020
Accrued claims, beginning of year	\$ 32,000	\$ 32,000
Incurred claims	427,763	357,808
Claim payments	<u>(427,763)</u>	<u>(357,808)</u>
<b>Accrued claims, end of year</b>	<b><u>\$ 32,000</u></b>	<b><u>\$ 32,000</u></b>

### 13. PROPERTY TAXES

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

### 14. TAX ABATEMENTS

The District received reduced property tax revenues during 2021 as a result of industrial facilities tax exemptions (IFT's) entered into by cities, villages, townships, and authorities within the District boundaries.

The IFT's were entered into based upon the Plant Rehabilitation and Industrial Developments Districts Act (known as the Industrial Facilities Exemption), PA 198 of 1974, as amended. IFT's provide a tax incentive to manufacturers to enable renovation and expansion of aging facilities, assist in the building of new facilities, and to promote the establishment of high-tech facilities. Properties qualifying for IFT status are taxed at 50% of the millage rate applicable to other real and personal property within the District boundaries. The abatements amounted to approximately \$323,000 in reduced District tax revenues for 2021.

# MILAN AREA SCHOOLS

## Notes to Financial Statements

### 15. PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS

#### *Plan Description*

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

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

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

The System's financial statements are available at the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

#### *Pension Benefits Provided*

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

A DB member plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account if applicable. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

## MILAN AREA SCHOOLS

### Notes to Financial Statements

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

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

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

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

# MILAN AREA SCHOOLS

## Notes to Financial Statements

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

### *Contributions*

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2019 valuation will be amortized over a 19-year period beginning October 1, 2019 and ending September 30, 2038.

The table below summarizes pension contribution rates in effect for fiscal year 2021:

<b>Benefit Structure</b>	<b>Member Rate</b>	<b>Employer Rate</b>
Basic	0.00% - 4.00%	19.41% - 19.78%
Member Investment Plan (MIP)	3.00% - 7.00%	19.41% - 19.78%
Pension Plus	3.00% - 6.40%	16.46% - 16.82%
Pension Plus 2	6.20%	19.59%
Defined Contribution	0.00%	13.39%

For the year ended June 30, 2021, required and actual contributions from the District to the pension plan were \$4,372,092, which included \$1,951,516, the amount received from the State and remitted to the System to fund the MPSERS unfunded actuarial accrued liability ("UAAL") stabilization rate.

## MILAN AREA SCHOOLS

### Notes to Financial Statements

The table below summarizes OPEB contribution rates in effect for fiscal year 2021:

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

For the year ended June 30, 2021, required and actual contributions from the District to the OPEB plan were \$1,056,715.

The table below summarizes defined contribution rates in effect for fiscal year 2021:

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

For the year ended June 30, 2021, required and actual contributions from the District for those members with a defined contribution benefit were \$173,582.

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

At June 30, 2021, the District reported a liability of \$51,299,289 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2019. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2020, the District's proportion was 0.14934%, which was a decrease of 0.00144% from its proportion measured as of September 30, 2019.

## MILAN AREA SCHOOLS

### Notes to Financial Statements

For the year ended June 30, 2021, the District recognized pension expense of \$7,513,343. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ 783,811	\$ 109,491	\$ 674,320
Changes in assumptions	5,684,456	-	5,684,456
Net difference between projected and actual earnings on pension plan investments	215,537	-	215,537
Changes in proportion and differences between employer contributions and proportionate share of contributions	271,551	584,499	(312,948)
	<u>6,955,355</u>	<u>693,990</u>	<u>6,261,365</u>
District contributions subsequent to the measurement date	4,102,878	-	4,102,878
	<u>4,102,878</u>	<u>-</u>	<u>4,102,878</u>
<b>Total</b>	<u>\$ 11,058,233</u>	<u>\$ 693,990</u>	<u>\$ 10,364,243</u>

The \$4,102,878 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2022	\$ 3,008,930
2023	1,987,730
2024	973,744
2025	<u>290,961</u>
<b>Total</b>	<u>\$ 6,261,365</u>

## MILAN AREA SCHOOLS

### Notes to Financial Statements

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

At June 30, 2021, the District reported a liability of \$8,018,686 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2019. The District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2020, the District's proportion was 0.14968% which was a decrease of 0.00048% from its proportion measured as of September 30, 2019.

For the year ended June 30, 2021, the District recognized OPEB expense of \$(245,238). At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ -	\$ 5,974,671	\$ (5,974,671)
Changes in assumptions	2,643,920	-	2,643,920
Net difference between projected and actual earnings on OPEB plan investments	66,925	-	66,925
Changes in proportion and differences between employer contributions and proportionate share of contributions	134,116	271,663	(137,547)
	<u>2,844,961</u>	<u>6,246,334</u>	<u>(3,401,373)</u>
District contributions subsequent to the measurement date	937,012	-	937,012
	<u>937,012</u>	<u>-</u>	<u>937,012</u>
<b>Total</b>	<u>\$ 3,781,973</u>	<u>\$ 6,246,334</u>	<u>\$ (2,464,361)</u>

## MILAN AREA SCHOOLS

### Notes to Financial Statements

The \$937,012 reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	Amount
2022	\$ (909,843)
2023	(813,613)
2024	(683,387)
2025	(564,669)
2026	<u>(429,861)</u>
<b>Total</b>	<b><u>\$ (3,401,373)</u></b>

#### **Actuarial Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The total pension and OPEB liabilities in the September 30, 2019 actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age, normal
Wage inflation rate	2.75%
Investment rate of return:	
MIP and Basic plans (non-hybrid)	6.80%
Pension Plus plan (hybrid)	6.80%
Pension Plus 2 plan (hybrid)	6.00%
OPEB plans	6.95%
Projected salary increases	2.75% - 11.55%, including wage inflation at 2.75%
Cost of living adjustments	3% annual non-compounded for MIP members
Healthcare cost trend rate	7.0% Year 1 graded to 3.5% Year 15; 3.0% Year 120
Mortality	RP-2014 Male and Female Employee Annuitant Mortality Tables, adjusted for mortality improvements using projection scale MP-2017 from 2006. For retirees, the tables were scaled by 82% for males and 78% for females. For active members, 100% of the table rates were used for both males and females.

## MILAN AREA SCHOOLS

### Notes to Financial Statements

Other OPEB assumptions:

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

Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension and OPEB valuations beginning with the September 30, 2017 valuation. The total pension and OPEB liabilities as of September 30, 2020, are based on the results of an actuarial valuation date of September 30, 2019, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for pension liabilities is 4.4892 years which is the average of the expected remaining service lives of all employees. The recognition period for OPEB liabilities is 5.6018 years which is the average of the expected remaining service lives of all employees. The recognition period for assets is 5 years.

## MILAN AREA SCHOOLS

### Notes to Financial Statements

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2020, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	25.00%	5.29%	1.32%
Private equity pools	16.00%	8.78%	1.40%
International equity pools	15.00%	6.98%	1.05%
Fixed income pools	10.50%	0.47%	0.05%
Real estate and infrastructure pools	10.00%	4.62%	0.46%
Absolute return pools	9.00%	3.02%	0.27%
Real return/opportunistic pools	12.50%	6.23%	0.78%
Short-term investment pools	2.00%	-0.09%	0.00%
	<u>100.00%</u>		5.33%
Inflation			2.10%
Risk adjustment			<u>-0.63%</u>
<b>Investment rate of return</b>			<u><u>6.80%</u></u>

# MILAN AREA SCHOOLS

## Notes to Financial Statements

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

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2020, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	25.00%	5.29%	1.32%
Private equity pools	16.00%	8.78%	1.40%
International equity pools	15.00%	6.98%	1.05%
Fixed income pools	10.50%	0.47%	0.05%
Real estate and infrastructure pools	10.00%	4.62%	0.46%
Absolute return pools	9.00%	3.02%	0.27%
Real return/opportunistic pools	12.50%	6.23%	0.78%
Short-term investment pools	2.00%	-0.09%	0.00%
	<u>100.00%</u>		5.33%
Inflation			2.10%
Risk adjustment			<u>-0.48%</u>
<b>Investment rate of return</b>			<u><u>6.95%</u></u>

### *Rate of Return*

For the fiscal year ended September 30, 2020, the annual money-weighted rate of return on pension and OPEB plan investments, net of pension and OPEB plan investment expense, was 5.37% and 5.24%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

# MILAN AREA SCHOOLS

## Notes to Financial Statements

### *Discount Rate*

A discount rate of 6.80% was used to measure the total pension liability (6.80% for the Pension Plus plan, 6.00% for the Pension Plus 2 plan, both of which are hybrid plans provided through non-university employers only) and a discount rate of 6.95% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on pension and OPEB plan investments of 6.80% (6.80% for the Pension Plus plan, 6.00% for the Pension Plus 2 plan) and 6.95%, respectively. The projection of cash flows used to determine these discount rates assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension and OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension and OPEB liabilities.

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.80% (6.80% for the Pension Plus plan, 6.00% for the Pension Plus 2 plan), as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

	<b>1% Decrease (5.80% / 5.80% / 5.00%)</b>	<b>Current Discount Rate (6.80% / 6.80% / 6.00%)</b>	<b>1% Increase (7.80% / 7.80% / 7.00%)</b>
District's proportionate share of the net pension liability	\$ 66,398,228	\$ 51,299,289	\$ 38,785,635

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

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

	<b>1% Decrease (5.95%)</b>	<b>Current Discount Rate (6.95%)</b>	<b>1% Increase (7.95%)</b>
District's proportionate share of the net OPEB liability	\$ 10,300,913	\$ 8,018,686	\$ 6,097,242

# MILAN AREA SCHOOLS

## Notes to Financial Statements

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

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

	<b>1% Decrease (6.00%)</b>	<b>Current Healthcare Cost Trend Rate (7.00%)</b>	<b>1% Increase (8.00%)</b>
District's proportionate share of the net OPEB liability	\$ 6,023,673	\$ 8,018,686	\$ 10,287,767

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

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

### *Payable to the Pension Plan*

At June 30, 2021, the District reported a payable of \$635,787 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2021.

### *Payable to the OPEB Plan*

At June 30, 2021, the District reported a payable of \$119,676 for the outstanding amount of OPEB contributions to the Plan required for the year ended June 30, 2021.

## 16. CORONAVIRUS (COVID-19)

In March 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) to be a global pandemic. While the pandemic has resulted in an increase in the demands on the District to deliver education to students in a safe environment, the Federal Government has also provided significant resources to help mitigate the impacts of COVID-19. The District received over \$1.1 million during 2021 from various funding sources to be used to respond to the impacts of the COVID-19 pandemic through the CARES Act and other funding sources. This funding was used to purchase personal protection equipment (PPE), cleaning and sanitizing materials, and supplies, as well as for activities to support remote learning for students. With these additional Federal resources, at this time management does not believe that the negative financial impact of the pandemic, if any, would be material to the District.



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**REQUIRED SUPPLEMENTARY  
INFORMATION**

## MILAN AREA SCHOOLS

### Required Supplementary Information

MPSERS Cost-Sharing Multiple Employer Plan

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

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

See notes to required supplementary information.



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

## MILAN AREA SCHOOLS

### Required Supplementary Information

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

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

See notes to required supplementary information.



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

## MILAN AREA SCHOOLS

### Required Supplementary Information

MPSERS Cost-Sharing Multiple Employer Plan

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

	Year Ended June 30,	
	2021	2020
District's proportionate share of the net OPEB liability	\$ 8,018,686	\$ 10,778,002
District's proportion of the net OPEB liability	0.14968%	0.15016%
District's covered payroll	\$ 13,297,556	\$ 13,148,995
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	60.30%	81.97%
Plan fiduciary net position as a percentage of the total OPEB liability	59.44%	48.46%

See notes to required supplementary information.



Year Ended June 30,	
2019	2018

\$ 12,140,099    \$ 13,245,271

0.15273%      0.14957%

\$ 13,025,486    \$ 12,745,796

93.20%      103.92%

42.95%      36.39%

## MILAN AREA SCHOOLS

### Required Supplementary Information

MPSERS Cost-Sharing Multiple Employer Plan

Schedule of the District's Other Postemployment Benefit Contributions

	Year Ended June 30,	
	2021	2020
Statutorily required contributions	\$ 1,056,715	\$ 1,067,693
Contributions in relation to the statutorily required contributions	<u>(1,056,715)</u>	<u>(1,067,693)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 12,926,948	\$ 13,457,804
Contributions as a percentage of covered payroll	8.17%	7.93%

See notes to required supplementary information.



Year Ended June 30,	
2019	2018

\$ 1,015,895    \$ 952,287

(1,015,895)    (952,287)

\$ -    \$ -

\$ 13,081,656    \$ 12,901,049

7.77%    7.38%

# MILAN AREA SCHOOLS

## Notes to Required Supplementary Information

### Pension Information

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

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

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

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

### OPEB Information

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

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

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

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

**COMBINING FUND  
FINANCIAL STATEMENTS**

# MILAN AREA SCHOOLS

## Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2021

	Special Revenue		Debt Service		Totals
	Food Service	Student/School Activity	2018 Debt Service	2019 Debt Service	
<b>Assets</b>					
Cash and cash equivalents	\$ 11,671	\$ 621,123	\$ 54,797	\$ 54,497	\$ 742,088
Due from other governments	36,346	-	-	-	36,346
Due from other funds	-	-	52,195	103,663	155,858
Inventory	9,107	-	-	-	9,107
Prepaid items	50,000	-	-	-	50,000
<b>Total assets</b>	<u>\$ 107,124</u>	<u>\$ 621,123</u>	<u>\$ 106,992</u>	<u>\$ 158,160</u>	<u>\$ 993,399</u>
<b>Liabilities</b>					
Salaries and benefits payable	\$ 2,471	\$ -	\$ -	\$ -	\$ 2,471
Due to other funds	13,229	-	-	-	13,229
Unearned revenue	22,764	-	-	-	22,764
<b>Total liabilities</b>	<u>38,464</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,464</u>
<b>Fund balances</b>					
Nonspendable:					
Inventory	9,107	-	-	-	9,107
Prepaid items	50,000	-	-	-	50,000
Restricted:					
Food service	9,553	-	-	-	9,553
Debt service	-	-	106,992	158,160	265,152
Committed -					
Student/school activity	-	621,123	-	-	621,123
<b>Total fund balances</b>	<u>68,660</u>	<u>621,123</u>	<u>106,992</u>	<u>158,160</u>	<u>954,935</u>
<b>Total liabilities and fund balances</b>	<u>\$ 107,124</u>	<u>\$ 621,123</u>	<u>\$ 106,992</u>	<u>\$ 158,160</u>	<u>\$ 993,399</u>

## MILAN AREA SCHOOLS

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

Nonmajor Governmental Funds

For the Year Ended June 30, 2021

	Special Revenue		Debt Service		Totals
	Food Service	Student/School Activity	2018 Debt Service	2019 Debt Service	
<b>Revenues</b>					
Local sources	\$ 10,672	\$ 253,828	\$ 1,531,847	\$ 1,583,259	\$ 3,379,606
State sources	28,275	-	84,654	84,654	197,583
Federal sources	466,452	-	-	-	466,452
<b>Total revenues</b>	<u>505,399</u>	<u>253,828</u>	<u>1,616,501</u>	<u>1,667,913</u>	<u>4,043,641</u>
<b>Expenditures</b>					
Current:					
Supporting services	-	184,817	-	-	184,817
Food service	597,633	-	-	-	597,633
Debt service:					
Principal	-	-	2,205,000	1,600,000	3,805,000
Interest and fiscal charges	-	-	1,137,772	1,540,764	2,678,536
<b>Total expenditures</b>	<u>597,633</u>	<u>184,817</u>	<u>3,342,772</u>	<u>3,140,764</u>	<u>7,265,986</u>
Revenues over (under) expenditures	<u>(92,234)</u>	<u>69,011</u>	<u>(1,726,271)</u>	<u>(1,472,851)</u>	<u>(3,222,345)</u>
<b>Other financing sources</b>					
Issuance of long-term debt	-	-	1,800,000	1,396,548	3,196,548
Transfers in	50,000	-	-	-	50,000
<b>Total other financing sources</b>	<u>50,000</u>	<u>-</u>	<u>1,800,000</u>	<u>1,396,548</u>	<u>3,246,548</u>
<b>Net change in fund balances</b>	<u>(42,234)</u>	<u>69,011</u>	<u>73,729</u>	<u>(76,303)</u>	<u>24,203</u>
Fund balances, beginning of year	<u>110,894</u>	<u>552,112</u>	<u>33,263</u>	<u>234,463</u>	<u>930,732</u>
<b>Fund balances, end of year</b>	<u>\$ 68,660</u>	<u>\$ 621,123</u>	<u>\$ 106,992</u>	<u>\$ 158,160</u>	<u>\$ 954,935</u>

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## **SINGLE AUDIT ACT COMPLIANCE**

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INDEPENDENT AUDITORS' REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
REQUIRED BY THE UNIFORM GUIDANCE

October 12, 2021

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, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated October 12, 2021, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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# MILAN AREA SCHOOLS

## Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2021

Federal Agency / Cluster / Program Title	Assistance Listing Number	Passed Through	Pass-through / Grantor Number
<b>U.S. Department of Agriculture</b>			
Child Nutrition Cluster:			
Cash Assistance:			
COVID-19 - Unanticipated School Closure - Meal Reimbursement	10.555	MDE	200902
Non-Cash Assistance:			
Entitlement Commodities	10.555	MDE	-n/a-
Bonus Commodities	10.555	MDE	-n/a-
Summer Food Service Program	10.559	MDE	200900
Summer Food Service Program	10.559	MDE	210904
<b>Total Child Nutrition Cluster</b>			
Child and Adult Care Food Program	10.558	MDE	211920
<b>Total U.S. Department of Agriculture</b>			
<b>U.S. Department of Treasury</b>			
COVID-19 - Coronavirus Relief Fund:			
103(2) District COVID Funds	21.019	MDE	-n/a-
11P CRF Funds	21.019	MDE	-n/a-
MiConnect	21.019	CCISD	-n/a-
Device Purchase Program	21.019	CCISD	-n/a-
<b>Total U.S. Department of Treasury</b>			
<b>U.S. Department of Education</b>			
Adult Basic Education Instruction	84.002	MDE	201130-201667
Institutional Adults	84.002	MDE	201190-201667
Adult Basic Education Instruction	84.002	MDE	201130-211667
Institutional Adults	84.002	MDE	201190-211667
Title I:			
Title I, Part A - Improving Basic Programs	84.010	MDE	201530-1920
Title I, Part A - Improving Basic Programs	84.010	MDE	211530-2021



Approved Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Unearned) Revenue at July 1, 2020	Current Year Receipts	Current Year Expenditures	Accrued (Unearned) Revenue at June 30, 2021
\$ 244,311	\$ 244,311	\$ 56,567	\$ 56,567	\$ -	\$ -
41,546	-	-	41,546	41,546	-
1,191	-	-	1,191	1,191	-
	<u>244,311</u>	<u>56,567</u>	<u>99,304</u>	<u>42,737</u>	<u>-</u>
36,161	-	-	36,161	36,161	-
387,553	-	-	356,454	387,554	31,100
	<u>-</u>	<u>-</u>	<u>392,615</u>	<u>423,715</u>	<u>31,100</u>
	488,622	113,134	548,486	466,452	31,100
1,009	-	-	1,009	1,009	-
	<u>488,622</u>	<u>113,134</u>	<u>549,495</u>	<u>467,461</u>	<u>31,100</u>
26,683	-	-	26,683	26,683	-
758,051	-	-	758,051	758,051	-
17,725	-	-	17,725	17,725	-
50,818	-	-	50,818	50,818	-
	<u>-</u>	<u>-</u>	<u>853,277</u>	<u>853,277</u>	<u>-</u>
19,500	17,855	2,855	2,855	-	-
65,000	49,981	1,981	1,981	-	-
20,475	-	-	14,000	17,995	3,995
65,000	-	-	56,000	65,000	9,000
	<u>67,836</u>	<u>4,836</u>	<u>74,836</u>	<u>82,995</u>	<u>12,995</u>
143,605	131,996	31,996	31,996	-	-
176,322	-	-	97,000	176,322	79,322
	<u>131,996</u>	<u>31,996</u>	<u>128,996</u>	<u>176,322</u>	<u>79,322</u>

continued...

# MILAN AREA SCHOOLS

## Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2021

Federal Agency / Cluster / Program Title	Assistance Listing Number	Passed Through	Pass-through / Grantor Number
<b>U.S. Department of Education (concluded)</b>			
Special Education Cluster:			
IDEA Flow-through	84.027A	WISD	200450-1920
IDEA Flow-through	84.027A	WISD	200450-2021
IDEA Pre-school Grant	84.173A	WISD	190460-2021
Title III, Part A - English Language	84.365A	WISD	2010580-2021
Title II:			
Title II, Part A - Supporting Effective Instruction	84.367	MDE	200520-1920
Title II, Part A - Supporting Effective Instruction	84.367	MDE	210520-2021
Title IV:			
Title IV, Part A - Student Support	84.424	MDE	200750-1920
Title IV, Part A - Student Support	84.424	MDE	210750-2021
COVID-19 - Education Stabilization Fund:			
Elementary and Secondary School Emergency Relief (ESSER) Program - Formula	84.425D	MDE	203710-1920
Elementary and Secondary School Emergency Relief (ESSER) Program - Equity	84.425D	MDE	203720-1920
<b>Total U.S. Department of Education</b>			
<b>Total Federal Financial Assistance</b>			

See notes to schedule of expenditures of federal awards.

Approved Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Unearned) Revenue at July 1, 2020	Current Year Receipts	Current Year Expenditures	Accrued (Unearned) Revenue at June 30, 2021
\$ 519,192	\$ 519,192	\$ 385,413	\$ 385,413	\$ -	\$ -
580,658	-	-	405,853	525,886	120,033
19,306	-	-	19,306	19,306	-
	<u>519,192</u>	<u>385,413</u>	<u>810,572</u>	<u>545,192</u>	<u>120,033</u>
6,289	-	-	-	1,167	1,167
98,910	70,742	12,742	12,742	-	-
74,519	-	-	42,000	74,519	32,519
	<u>70,742</u>	<u>12,742</u>	<u>54,742</u>	<u>74,519</u>	<u>32,519</u>
14,106	7,291	7,291	7,291	-	-
17,220	-	-	-	14,747	14,747
	<u>7,291</u>	<u>7,291</u>	<u>7,291</u>	<u>14,747</u>	<u>14,747</u>
117,527	-	-	117,527	117,527	-
18,804	-	-	18,804	18,804	-
	<u>-</u>	<u>-</u>	<u>136,331</u>	<u>136,331</u>	<u>-</u>
	<u>797,057</u>	<u>442,278</u>	<u>1,212,768</u>	<u>1,031,273</u>	<u>260,783</u>
	<u>\$ 1,285,679</u>	<u>\$ 555,412</u>	<u>\$ 2,615,540</u>	<u>\$ 2,352,011</u>	<u>\$ 291,883</u>

concluded.

# MILAN AREA SCHOOLS

## Notes to Schedule of Expenditures of Federal Awards

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Milan Area Schools (the "District") under programs of the federal government for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

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

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

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

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

### 2. 10% DE MINIMIS COST RATE

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

### 3. RECONCILIATION TO BASIC FINANCIAL STATEMENTS

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

Federal revenues as reported in the financial statements	\$ 2,444,811
Federal assistance received as beneficiary	<u>(92,800)</u>
<b>Expenditures per schedule of expenditures of federal awards</b>	<b><u>\$ 2,352,011</u></b>

# MILAN AREA SCHOOLS

## Notes to Schedule of Expenditures of Federal Awards

### 4. PASS-THROUGH AGENCIES

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

<b>Pass-through Agency Abbreviation</b>	<b>Pass-through Agency Name</b>
MDE	Michigan Department of Education
CCISD	Copper Country Intermediate School District
WISD	Washtenaw Intermediate School District



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

October 12, 2021

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, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 12, 2021.

### **Internal Control Over Financial Reporting**

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

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

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

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## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*Rehmann Johnson LLC*



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

October 12, 2021

Board of Education  
Milan Area Schools  
Milan, Michigan

**Report on Compliance for Each Major Federal Program**

We have audited the compliance of *Milan Area Schools* (the "District") with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2021. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Independent Auditors' Responsibility***

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

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

Rehmann is an independent member of Nexia International.



675 Robison Road, Jackson, MI 49203

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### ***Opinion on Each 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 each of its major federal programs for the year ended June 30, 2021.

### **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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

### ***Purpose of this Report***

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

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

# MILAN AREA SCHOOLS

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2021

### SECTION I - SUMMARY OF AUDITORS' RESULTS

#### Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?            yes     X     no

Significant deficiency(ies) identified?            yes     X     none reported

Noncompliance material to financial statements noted?            yes     X     no

#### Federal Awards

Internal control over major programs:

Material weakness(es) identified?            yes     X     no

Significant deficiency(ies) identified?            yes     X     none reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?            yes     X     no

Identification of major programs and type of auditor's report issued on compliance for each major program:

<u>Assistance Listing Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Type of Report</u>
21.019	COVID-19 - Coronavirus Relief Fund	Unmodified
84.027 & 84.173	Special Education Cluster (IDEA)	Unmodified

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

Auditee qualified as low-risk auditee?            yes     X     no

# MILAN AREA SCHOOLS

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2021

### SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were reported

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

No matters were reported



## MILAN AREA SCHOOLS

### Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2021

#### 2020-001 – Material Audit Adjustments

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



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