

MILAN SPECIAL SCHOOL DISTRICT
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**MILAN SPECIAL SCHOOL DISTRICT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION	
Directory	1
FINANCIAL SECTION	
Independent Auditor's Report	2
Management's Discussion and Analysis	4
Basic Financial Statements:	
District-wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities	13
Fund Financial Statements:	
Balance Sheet – Governmental Funds	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual - General Purpose Fund	19
Notes to the Financial Statements	31
Required Supplementary Information:	
Schedules of Funding Progress - Employee Retirement System	47
OTHER SUPPLEMENTARY INFORMATION SECTION	
Combining Balance Sheet – Other Governmental Funds	48
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Other Governmental Funds	49
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Federal Projects Fund	50
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Centralized Cafeteria Fund	54
Statement of Revenues, Expenditures and Changes in Fund Balances – Actual Education Capital Projects Fund	56
Schedule of Property Tax Rates and Assessments – Past Years	57
Schedule of Long-term Debt	58
Schedule of Interfund Transfers	59
Schedule of Salaries and Bonds	60
Schedule of Expenditures of Federal Awards	61
Schedule of State Financial Assistance	63
INTERNAL CONTROL AND COMPLIANCE SECTION	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	64
Report on Compliance with Requirements Applicable to each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	66
Schedule of Findings and Questioned Costs	68

INTRODUCTORY SECTION

**MILAN SPECIAL SCHOOL DISTRICT
DIRECTORY
JUNE 30, 2009**

ELECTED OFFICIALS

Jimmy Copous, Chairman
Anthony Martin, Vice Chairperson
Marty Elliot, Member
Kenny Carmichael, Member
Don McCurley, Member
Richard Webb, Member
Ruthie Whitby, Member

APPOINTED OFFICIALS

Dr. Mary Reel, Director of Schools
Lisa Bradford, Supervisor of Accountability and Technology
Diane Holt, Bookkeeper – Federal Projects and Central Cafeteria

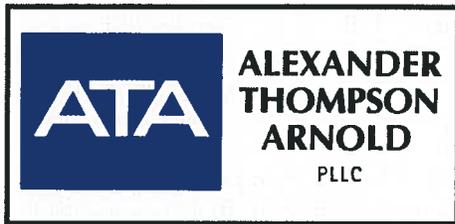
COUNSEL

W. Collins Bonds
Kizer, Bonds & Hughes
Milan, Tennessee

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Alexander Thompson Arnold PLLC
Jackson, Tennessee

FINANCIAL SECTION



Certified Public Accountants

www.atacpa.net

227 Oil Well Road
Jackson, TN 38305

Telephone:(731) 427-8571
Fax: (731) 424-5701

Members of

American Institute of Certified Public Accountants
AICPA Center for Public Company Audit Firms
AICPA Governmental Audit Quality Center
AICPA Employee Benefit Plan Audit Quality Center
Tennessee Society of Certified Public Accountants
Kentucky Society of Certified Public Accountants

Independent Auditor's Report

Board of Education
Milan Special School District
Milan, Tennessee

We have audited the accompanying department-wide financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Milan Special School District, (District), as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2009, and the respective changes in financial position and the respective budgetary comparisons for the general purpose fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated February 28, 2010, 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, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Dyersburg, TN
Fulton, KY
Henderson, TN
Jackson, TN
Martin, TN

McKenzie, TN
Milan, TN
Murray, KY
Paris, TN
Trenton, TN
Union City, TN

Board of Education
Milan Special School District
Milan, Tennessee

The management's discussion and analysis on pages 4 through 11 and the schedule of funding progress - employee retirement system on page 47 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section and the accompanying financial information listed as supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of the District. The accompanying financial information listed as supplementary information in the table of contents and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Alexander Hampton Arnold PLLC

Certified Public Accountants
Jackson, Tennessee
February 28, 2010

Management's Discussion and Analysis

As management of the Milan Special School District (the District), we offer readers of the financial statements for the District this narrative overview and analysis of the financial activities for the year ended June 30, 2009. We encourage readers to consider the information here in conjunction with the Independent Auditor's Report and the District's financial statements. Professional standards require the inclusion of certain comparative information in the Management's Discussion and Analysis (MD&A). Comparative analyses of key elements of total governmental funds have been provided.

Financial Highlights

- The assets of the District exceeded its liabilities at June 30, 2009 by \$4,773,238. Of this amount, \$567,123 is unrestricted and may be used to meet the District's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending reserves and fund balance of \$1,830,529. Approximately 16% represents, local, state, and federal reserves.
- At the end of the current fiscal year, unreserved fund balance for the general purpose fund was \$1,397,437, or 10% percent of total general purpose fund expenditures.
- The District's total bonded debt increased by \$435,000, and capital leases payable decreased by \$26,912.

Overview of the Financial Statements

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

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

The *statement of net assets* presents all the assets and liabilities for the District, with differences between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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

Both of the district-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. The District's governmental activities include general administration, finance and education. The District has no business-type activities to report.

Please refer to the Table of Contents to locate the district-wide financial statements.

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

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the district-wide financial statements. However, unlike the district-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 financial requirements.

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

The District maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general purpose fund, the education capital projects fund and the non-major funds, of which the general purpose and education capital projects funds are considered to be major funds and the federal projects and the cafeteria funds are considered to be non-major funds.

The District adopts an annual appropriated budget for its general purpose and cafeteria funds. The District adopts a federal projects program and the budget for the federal projects fund is determined by the grantor of each grant. A budgetary comparison statement has been provided in the basic financial statements for the general purpose fund to demonstrate compliance with this budget. No annual budget is adopted for the education capital projects fund; therefore, no budgetary comparative statement has been provided. Also, budgetary comparison statements have been provided for each non-major fund in the other supplementary section.

Please refer to the Table of Contents to locate the basic financial statements, the fund financial statements, and the other supplementary information.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. Please refer to the Table of Contents to locate the notes to the financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This required supplementary information has been presented in the required supplementary information section of this report. The non-major funds statements of revenues, expenditures, and changes in fund balances are presented as other supplementary information.

Please refer to the Table of Contents to locate the notes to the financial statements.

District-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$4,773,238 at the close of the fiscal year ended June 30, 2009.

A large portion of the District's net assets reflects its investment in capital assets (e.g., land, buildings, and equipment); less any related debt used to acquire those assets that is still outstanding. Milan Special School District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Milan Special School 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.

The District's Net Assets

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Assets:		
Current and other	\$ 5,516,718	\$ 5,968,403
Capital assets - net of accumulated depreciation	<u>16,236,948</u>	<u>15,611,407</u>
Total assets	<u>21,753,666</u>	<u>21,579,810</u>
Liabilities:		
Long-term liabilities	13,298,893	12,143,539
Other liabilities	<u>3,681,535</u>	<u>3,981,582</u>
Total liabilities	<u>16,980,428</u>	<u>16,125,121</u>
Net Assets:		
Invested in capital assets, net of related debt	3,906,819	3,518,960
Restricted	299,296	495,325
Unrestricted	<u>567,123</u>	<u>1,440,404</u>
Total net assets	<u>\$ 4,773,238</u>	<u>\$ 5,454,689</u>

The above provides a summary of the District's net assets for 2009 and 2008.

An additional portion of the District's net assets, \$299,296, or 7%, represents resources that are subject to external restrictions on how they may be used or their use is narrower than the purpose of the fund in which they are reported. The remaining balance of *unrestricted net assets*, \$567,123, may be used to meet the government's ongoing obligations to citizens and creditors. At the end of the current fiscal year, the District is able to report positive balances in all categories of net assets.

The District's total net assets decreased by \$681,451 during the year ended June 30, 2009.

The following summary shows the changes in net assets for fiscal years ended June 30, 2009 and 2008:

The District's Changes in Net Assets

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Revenues:		
Program revenues		
Charges for services	\$ 405,166	\$ 416,807
Operating grants and contributions	2,881,640	2,646,618
Capital grants and contributions	92,281	36,706
General revenues		
Property taxes	3,256,247	3,280,117
Sales taxes	1,037,028	1,008,889
Alcoholic beverage tax	-	2
Grants and contributions not restricted to certain programs	9,419,833	9,072,914
Interest	33,402	71,627
Gain on sale of assets	-	301
Other miscellaneous revenues	<u>25,441</u>	<u>42,169</u>
Total revenues	<u>17,151,038</u>	<u>16,576,150</u>

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Expenses:		
Instruction	\$ 9,823,501	\$ 9,105,808
Support services	4,993,512	4,755,699
Non-instructional services	<u>3,015,476</u>	<u>2,929,570</u>
Total expenses	<u>17,832,489</u>	<u>16,791,077</u>
Change in net assets	(681,451)	(214,927)
Net assets, beginning	5,454,689	5,683,309
Prior period adjustment	<u>-</u>	<u>(13,693)</u>
Net assets, ending	<u>4,773,238</u>	<u>5,454,689</u>

Governmental activities. Governmental activities decreased the District's net assets by \$681,451. The District adopted deficit budgets in order to use some of the equity that had built up in the past years.

Total governmental activities' revenue for the fiscal year ended June 30, 2009 was \$17,151,038 and \$16,576,150 for the year ended June 30, 2008. The largest single revenue source was grants and contributions not restricted for certain programs (including Basic Education Program funds).

Expense and Program Revenues – Governmental Activities

Certain revenues are generated that are specific to governmental program activities. See the District-wide Statement of Activities on pages 13 and 14.

Revenue by Source – Governmental Funds

Total governmental revenues allocated by each revenue type are as follows:

	<u>June 30, 2009</u>		<u>June 30, 2008</u>	
Revenues:	Amount	Percent	Amount	Percent
Program revenues				
Charges for services	\$ 405,166	2%	\$ 416,807	3%
Operating grants and contributions	2,881,640	17%	2,646,618	16%
Capital grants and contributions	64,281	1%	36,706	0%
General revenues				
Property taxes	3,256,247	19%	3,280,117	20%
Sales taxes	1,037,028	6%	1,008,889	6%
Alcoholic beverage tax	-	0%	2	0%
Grants and contributions not restricted to certain programs	9,447,833	55%	9,072,914	55%
Interest	33,402	0%	71,627	0%
Gain on sale of assets	-	0%	301	0%
Other miscellaneous revenues	<u>25,441</u>	<u>0%</u>	<u>42,169</u>	<u>0%</u>
Total revenues	<u>17,151,038</u>	<u>100%</u>	<u>16,576,150</u>	<u>100%</u>

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 inflow, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved 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 \$1,830,529. Of this amount \$1,531,233 constitutes *unreserved fund balance*, which is available for spending at the District's discretion. The remainder is *reserved* to indicate that it is not available for new spending because it has already been committed 1) to liquidate contract and purchase orders of the prior period, 2) to pay for the construction in the education capital projects fund, 3) for inventory, and 4) for a variety of other restricted purposes.

The general purpose fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance was \$1,397,437.

As a measure of the general purpose fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 10% of the total general purpose fund expenditures, while total fund balances represents 11% of that same amount.

The District's general purpose fund balance increased by \$7,201 during the current fiscal year. A key factor in this increase was the District's receipt of unexpected Basic Education - ARRA funds and the ability to maintain expenditures under the budgeted amounts. The budgeted deficit was \$389,438.

General Purpose Fund Budgetary Highlights

Differences between the original budgets and the final amended budgets for the years ended June 30, 2009 and 2008 are briefly summarized as follows:

	June 30, 2009			June 30, 2008		
	Original	Final	Difference	Original	Final	Difference
General Purpose Fund Revenues						
Taxes	\$4,276,045	\$4,276,045	\$ -	\$4,640,135	\$4,275,847	\$ (364,288)
Intergovernmental	10,105,318	10,162,436	57,118	9,815,852	9,865,538	49,686
Miscellaneous	72,500	72,500	-	161,000	102,000	(59,000)
Total revenues	<u>14,453,863</u>	<u>14,510,981</u>	<u>57,118</u>	<u>14,616,987</u>	<u>14,243,385</u>	<u>(373,602)</u>
Expenditures						
Instruction	8,278,183	8,400,295	122,112	8,622,081	8,581,016	(41,065)
Support services	4,745,285	4,825,081	79,796	4,767,263	4,758,132	(9,131)
Non-instructional services	1,635,203	1,685,043	49,840	1,621,947	1,702,870	80,923
Total expenditures	<u>14,658,671</u>	<u>14,910,419</u>	<u>251,748</u>	<u>15,011,291</u>	<u>15,042,018</u>	<u>30,727</u>
Excess (deficiency) of revenues and other sources (uses) over (under) expenditures	(204,808)	(399,438)	(194,630)	(394,304)	(798,633)	(404,329)
Other financing sources (uses)	<u>10,000</u>	<u>10,000</u>	<u>-</u>	<u>10,000</u>	<u>10,000</u>	<u>-</u>
Net changes in fund balance	<u>\$ (194,808)</u>	<u>\$ (389,438)</u>	<u>\$ (194,630)</u>	<u>\$ (384,304)</u>	<u>\$ (788,633)</u>	<u>\$ (404,329)</u>

For the year ended June 30, 2009, the increase in the budgeted revenues was mainly due to an increase in other State education funds. During the year, revenues were more in the general purpose fund than budgetary estimates. The District had a fund balance surplus in which it could draw on. The increases in budgeted expenditures were the result of increased payroll and related expenditures, increased utilities, and increased capital outlay.

For the year ended June 30, 2008, the decreases in the budgeted revenues were mainly due to a write off of property tax receivable from a large manufacturer in bankruptcy that was approved after the original budget was approved. During the year, revenues were more in the general purpose fund than budgetary estimates. In addition, the increases in other revenues allowed the District to amend the budget for the expenditures associated with the increased revenues. The District had a fund balance surplus in which it could draw on. The increases in budgeted expenditures were the result of increased payroll and related expenditures, increased utilities, and increased capital outlay.

Capital Asset and Debt Administration

Capital Assets. The District's investment in capital assets for its governmental funds as of June 30, 2009 and 2008, amounts to \$3,736,948 and \$3,519,495 (net of accumulated depreciation and related debt), respectively. This investment in capital assets includes land, buildings and improvements, and other fixed assets (including equipment).

	June 30, 2009			
	6/30/08	Additions	Reductions	
Capital assets not being depreciated:				
Land	\$ 764,415	\$ 90,000	\$ -	\$ 854,415
Construction in process	62,000	-	62,000	-
	<u>826,415</u>	<u>90,000</u>	<u>62,000</u>	<u>854,415</u>
Capital assets being depreciated:				
Buildings and improvements	19,947,806	1,231,601	-	21,179,407
Other capital assets	1,650,007	22,600	-	1,672,607
	<u>21,597,813</u>	<u>1,254,201</u>	<u>-</u>	<u>22,852,014</u>
Accumulated depreciation:				
Buildings and improvements	5,645,335	548,347	-	6,193,682
Other capital assets	1,167,486	108,313	-	1,275,799
	<u>6,812,821</u>	<u>656,660</u>	<u>-</u>	<u>7,469,481</u>
Capital assets being depreciated, net	<u>14,784,992</u>	<u>597,541</u>	<u>-</u>	<u>15,382,533</u>
Capital assets, net of accumulated depreciation	<u>15,611,407</u>	<u>687,541</u>	<u>62,000</u>	<u>16,236,948</u>
Long-term debt related to capital assets	<u>(12,091,912)</u>	<u>(1,760,000)</u>	<u>(1,351,912)</u>	<u>(12,500,000)</u>
Capital assets net of accumulated depreciation and related debt	3,519,495	(1,072,459)	(1,289,912)	3,736,948
Bond premium	(15,271)	-	(955)	(14,316)
Bond issuance costs	159,285	37,348	12,446	184,187
Invested in capital assets, net of related debt	<u>\$ 3,663,509</u>	<u>\$ (1,035,111)</u>	<u>\$ (1,278,421)</u>	<u>\$ 3,906,819</u>

	June 30, 2008			6/30/08
	6/30/07	Additions	Reductions	
Capital assets not being depreciated:				
Land	\$ 764,415	\$ -	\$ -	\$ 764,415
Construction in process	62,000	-	-	62,000
	<u>826,415</u>	<u>-</u>	<u>-</u>	<u>826,415</u>
Capital assets being depreciated:				
Buildings and improvements	19,928,876	18,930	-	19,947,806
Other capital assets	1,650,007	-	-	1,650,007
	<u>21,578,883</u>	<u>18,930</u>	<u>-</u>	<u>21,597,813</u>
Accumulated depreciation:				
Buildings and improvements	5,100,199	545,136	-	5,645,335
Other capital assets	1,043,076	124,410	-	1,167,486
	<u>6,143,275</u>	<u>669,546</u>	<u>-</u>	<u>6,812,821</u>
Capital assets being depreciated, net	<u>15,435,608</u>	<u>(650,616)</u>	<u>-</u>	<u>14,784,992</u>
Capital assets, net	16,262,023	(650,616)	-	15,611,407
Long-term debt related to capital assets	<u>(12,760,824)</u>	<u>-</u>	<u>(668,912)</u>	<u>(12,091,912)</u>
Capital assets net of accumulated depreciation and related debt	<u>\$ 3,501,199</u>	<u>\$ (650,616)</u>	<u>\$ (668,912)</u>	<u>\$ 3,519,495</u>

Long-term debt. As of June 30, 2009, the District had total bonded debt outstanding of \$12,500,000. As of June 30, 2008, the District had total bonded debt outstanding of \$12,065,000, and capital leases payable of \$27,447. All debt is backed by the full faith and credit of the government.

In addition to the above, the District's obligations include compensated absences.

	June 30, 2009	June 30, 2008
Bonds	\$ 12,500,000	\$ 12,065,000
Capital leases payable	-	26,912
OPEB liability	734,783	-
Compensated absences	64,110	51,092
	<u>\$ 13,298,893</u>	<u>\$ 12,143,004</u>

Additional information regarding the long-term debt of the District can be found in the Notes to the Financial Statements in Note 4E beginning on page 40.

The District maintains an "Aaa" rating by Moody's Investors Service, Inc. (Moody's) for general obligation debt.

Economic Factors and Next Year's Budget and Rates

The unemployment rate for Gibson County is currently 15.3%. The State's average unemployment rate is currently 10.6%. The national average unemployment rate is currently 9.6%. All of the rates are from labor statistics released in October 2009.

All of these factors were considered in preparing the District's budget for the 2009-2010 fiscal year.

The District's unreserved fund balance in the general purpose fund was \$1,397,437, for the fiscal year ending June 30, 2009. There is \$242,226 of reserves for the general purpose fund. Of this amount, \$242,226 has been appropriated for spending in the 2009-2010 fiscal year. It is intended that this use of available fund balance and reserves will avoid the need to raise taxes during the 2009-2010 fiscal year.

Request 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 Milan Special School District, 1165 South Main Street, Milan, TN 38358.

BASIC FINANCIAL STATEMENTS

**MILAN SPECIAL SCHOOL DISTRICT
DISTRICT-WIDE STATEMENT OF NET ASSETS
JUNE 30, 2009**

Assets:

Cash and cash equivalents	\$ 2,038,876
Taxes receivable	2,870,053
Due from other governmental agencies - nongrant	229,921
Due from other governmental agencies - grants	136,611
Inventory	57,070
Bond issuance costs	184,187
Capital assets, not being depreciated:	
Land	854,415
Capital assets, net of accumulated depreciation:	
Buildings and improvements	14,985,725
Other capital assets	396,808
Total assets	<u>21,753,666</u>

Liabilities:

Accounts payable	293,542
Accrued payroll	15,434
Other accrued expenses	479,609
Bond premium	14,316
Deferred revenue - grants	8,581
Deferred revenue - taxes	2,870,053
Long-term liabilities:	
Due within one year:	580,000
Due in more than one year	12,718,893
Total liabilities	<u>16,980,428</u>

Net assets:

Invested in capital assets, net of related debt	3,906,819
Restricted for:	
Other local education reserves	194,808
Career Ladder - Extended Contract	16,013
Basic education	31,405
Food service - inventory	57,070
Unrestricted	567,123
Total net assets	<u>\$ 4,773,238</u>

**MILAN SPECIAL SCHOOL DISTRICT
DISTRICT-WIDE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instruction:					
Regular education	\$ 7,699,814	\$ 1,575	\$ 532,625	\$ 89,786	\$ (7,075,828)
Alternate education	116,601	-	2,386	-	(114,215)
Special education	1,398,453	-	445,895	-	(952,558)
Vocational education	604,893	-	32,283	2,495	(570,115)
Adult education	3,740	-	3,101	-	(639)
Support services:					
Attendance	133,564	-	-	-	(133,564)
Health services	156,760	-	104,595	-	(52,165)
Other student support	337,994	-	18,038	-	(319,956)
Regular education	848,510	-	207,104	-	(641,406)
Special education	54,477	-	8,400	-	(46,077)
Vocational education	3,073	-	3,334	-	261
Board of Education	343,420	-	-	-	(343,420)
Office of the Director	324,614	-	1,193	-	(323,421)
Office of the Principal	900,993	-	14,187	-	(886,806)
Fiscal services	227,288	-	-	-	(227,288)
Operation and maintenance of plant	1,283,079	-	-	-	(1,283,079)
Student transportation	379,740	-	-	-	(379,740)
Non-instructional services:					
Food service	1,228,300	403,591	830,298	-	5,589
Community services	200,000	-	200,000	-	-
Early Childhood Education	472,394	-	478,201	-	5,807
Education capital project	430,599	-	-	-	(430,599)
Capital outlay	130,965	-	-	-	(130,965)
Debt service	553,218	-	-	-	(553,218)
	<u>\$ 17,832,489</u>	<u>\$ 405,166</u>	<u>\$ 2,881,640</u>	<u>\$ 92,281</u>	<u>(14,453,402)</u>

**MILAN SPECIAL SCHOOL DISTRICT
DISTRICT-WIDE STATEMENT OF ACTIVITIES (Cont.)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
General revenues:				
				3,256,247
				1,037,028
				9,069,900
				105,100
				241,095
				3,738
				33,402
				25,441
				<u>13,771,951</u>
				(681,451)
				5,454,689
				\$ <u>4,773,238</u>

FUND FINANCIAL STATEMENTS

**MILAN SPECIAL SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2009**

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash and cash equivalents	\$ 1,749,847	\$ 234,367	\$ 54,662	\$ 2,038,876
Taxes receivable	2,870,053	-	-	2,870,053
Due from other governments - non grants	229,921	-	-	229,921
Due from other governments - grants	62,079	-	74,532	136,611
Due from other funds	84,323	-	53,234	137,557
Inventory	-	-	57,070	57,070
Total assets	\$ 4,996,223	\$ 234,367	\$ 239,498	\$ 5,470,088
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 103,447	\$ 181,914	\$ 8,181	\$ 293,542
Accrued payroll	15,434	-	-	15,434
Accrued expenses	314,392	-	-	314,392
Due to other funds	53,234	-	84,323	137,557
Unearned revenue - grants	-	-	8,581	8,581
Deferred revenue - property taxes	2,870,053	-	-	2,870,053
Total liabilities	3,356,560	181,914	101,085	3,639,559
Fund balances:				
Reserved for:				
Other local education reserves	194,808	-	-	194,808
Career Ladder Program	16,013	-	-	16,013
Basic education	31,405	-	-	31,405
Unreserved, designated for				
Food service - inventory	-	-	57,070	57,070
Unreserved, undesignated reported in:				
General purpose	1,397,437	-	-	1,397,437
Capital projects fund	-	52,453	-	52,453
Special revenue funds:				
Centralized cafeteria fund	-	-	81,343	81,343
Total fund balances	1,639,663	52,453	138,413	1,830,529
Total liabilities and fund balances	\$ 4,996,223	\$ 234,367	\$ 239,498	\$ 5,470,088

**MILAN SPECIAL SCHOOL DISTRICT
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2009**

Amounts reported for the governmental activities in the statement of net assets (Page 12) are different because:

Fund balance - total governmental funds (Page 15)	\$ 1,830,529
Capital assets used in governmental funds are not financial resources and therefore are not reported as assets in governmental funds.	16,236,948
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:	
Bond issuance costs	184,187
Some payables are not due and payable in the current period and, therefore, are not reported in the funds:	
Accrued interest	(165,217)
Long-term liabilities are not due in the current period and therefore are not reported in the funds:	
Bonds payable, notes payable, and leases payable	(12,500,000)
OPEB	(734,783)
Accrued leave	(64,110)
Bond premium	<u>(14,316)</u>
Net assets of governmental activities (Page 12)	<u>\$ 4,773,238</u>

**MILAN SPECIAL SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Taxes	\$ 4,293,275	\$ -	\$ -	\$ 4,293,275
Intergovernmental	10,309,968	-	1,988,131	12,298,099
Meal sales	-	-	403,591	403,591
Interest earnings	11,745	-	2,342	14,087
Other local revenues	-	21,599	-	21,599
Miscellaneous	<u>91,433</u>	<u>-</u>	<u>-</u>	<u>91,433</u>
Total revenues	<u>14,706,421</u>	<u>21,599</u>	<u>2,394,064</u>	<u>17,122,084</u>
Expenditures:				
Instruction	8,328,272	-	737,805	9,066,077
Support services	4,711,571	-	214,755	4,926,326
Food service	-	-	1,213,469	1,213,469
Debt service	-	784,802	-	784,802
Capital outlay	-	1,173,345	-	1,173,345
Non-instructional services	<u>1,664,650</u>	<u>-</u>	<u>200,000</u>	<u>1,864,650</u>
Total expenditures	<u>14,704,493</u>	<u>1,958,147</u>	<u>2,366,029</u>	<u>19,028,669</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,928</u>	<u>(1,936,548)</u>	<u>28,035</u>	<u>(1,906,585)</u>
Other financing sources (uses)				
Bond proceeds	-	1,760,000	-	1,760,000
Operating transfers in	5,273	-	-	5,273
Operating transfers out	<u>-</u>	<u>-</u>	<u>(5,273)</u>	<u>(5,273)</u>
	<u>5,273</u>	<u>1,760,000</u>	<u>(5,273)</u>	<u>1,760,000</u>
Net change in fund balance	7,201	(176,548)	22,762	(146,585)
Fund balance - beginning	1,632,462	229,001	115,217	1,976,680
Increase (decrease) in inventory	<u>-</u>	<u>-</u>	<u>434</u>	<u>434</u>
Fund balance - ending	<u>\$ 1,639,663</u>	<u>\$ 52,453</u>	<u>\$ 138,413</u>	<u>\$ 1,830,529</u>

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

**MILAN SPECIAL SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Amounts reported for the governmental activities in the statement of activities (Pages 13 and 14) are different because:

Net change in fund balance - total governmental funds (Page 17)	\$	(146,585)
<p>Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:</p>		
Capital outlays		1,282,201
Depreciation		(656,660)
<p>The change in accrued leave is an expenditure in the governmental funds, but the change reduces or increases the liability on the statement of activities.</p>		
		(13,018)
<p>The change in OPEB is an expenditure in the governmental funds, but the change reduces or increases the liability on the statement of activities.</p>		
		(734,783)
<p>The repayment of the principal of long-term debt consumes the current financial resources of governmental funds; however, these repayments have no effect on net assets.</p>		
		1,351,912
<p>Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of activities.</p>		
		(30,809)
<p>Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The amount is the net effect of these differences in the treatment.</p>		
		25,857
<p>The issuance of long-term debt provides current financial resources to governmental funds; however, the issuance increases the liability on the statement of activities.</p>		
		(1,760,000)
<p>The increase (decrease) in inventory is reported as a direct change to beginning fund balance. However, in the statement of activities this increase is reported as an expense based on the consumption method.</p>		
		434
Change in Net Assets of Governmental Activities (Page 14)	\$	<u>(681,451)</u>

**MILAN SPECIAL SCHOOL DISTRICT
GENERAL PURPOSE FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Over (Under)</u>
Revenues:				
Taxes:				
Local option sales tax	\$ 975,000	\$ 975,000	\$ 1,035,538	\$ 60,538
Interstate telecommunications tax	<u>2,000</u>	<u>2,000</u>	<u>1,490</u>	<u>(510)</u>
	<u>977,000</u>	<u>977,000</u>	<u>1,037,028</u>	<u>60,028</u>
 City/Special School District:				
Current property tax	3,051,000	3,051,000	3,008,617	(42,383)
Prior year's property tax	125,000	125,000	134,822	9,822
Interest and penalty	25,000	25,000	19,289	(5,711)
Payment in lieu of taxes	<u>98,045</u>	<u>98,045</u>	<u>93,519</u>	<u>(4,526)</u>
	<u>3,299,045</u>	<u>3,299,045</u>	<u>3,256,247</u>	<u>(42,798)</u>
 Total taxes	 <u>4,276,045</u>	 <u>4,276,045</u>	 <u>4,293,275</u>	 <u>17,230</u>
 Intergovernmental:				
Licenses and Permits:				
Marriage licenses	<u>900</u>	<u>900</u>	<u>905</u>	<u>5</u>
 City General Fund:				
Budget and appropriations	<u>241,095</u>	<u>241,095</u>	<u>241,095</u>	<u>-</u>
 State revenues:				
State education funds:				
Basic Education Program	9,036,000	9,036,000	9,069,900	33,900
Basic Education Program - ARRA	-	-	105,100	105,100
Early Childhood Education	478,201	478,201	478,201	-
Driver education	5,000	5,000	2,745	(2,255)
Other state education funds	1,417	58,535	76,391	17,856
Career Ladder	134,900	134,900	130,850	(4,050)
Career Ladder - Extended Contract	82,705	82,705	72,000	(10,705)
Other vocational	<u>30,000</u>	<u>30,000</u>	<u>15,000</u>	<u>(15,000)</u>
	<u>9,768,223</u>	<u>9,825,341</u>	<u>9,950,187</u>	<u>124,846</u>
 Other State revenues:				
Mixed drink tax	100	100	-	(100)
Other State Grants	80,000	80,000	104,595	24,595
Other state revenues	<u>15,000</u>	<u>15,000</u>	<u>1,117</u>	<u>(13,883)</u>
	<u>95,100</u>	<u>95,100</u>	<u>105,712</u>	<u>10,612</u>
 Total State revenues	 <u>9,863,323</u>	 <u>9,920,441</u>	 <u>10,055,899</u>	 <u>135,458</u>

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

**MILAN SPECIAL SCHOOL DISTRICT
GENERAL PURPOSE FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Cont.)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Over (Under)</u>
Revenues (Cont.):				
Federal revenues:				
Federal funds received through State:				
English language acquisition	\$ -	\$ -	\$ 2,814	\$ 2,814
Education of the handicapped	-	-	9,255	9,255
	<u>-</u>	<u>-</u>	<u>12,069</u>	<u>12,069</u>
Total intergovernmental	<u>10,105,318</u>	<u>10,162,436</u>	<u>10,309,968</u>	<u>147,532</u>
Miscellaneous:				
Charges for current services:				
Tuition - other	2,000	2,000	1,575	(425)
School based health services - FFS	-	-	1,440	1,440
	<u>2,000</u>	<u>2,000</u>	<u>3,015</u>	<u>1,015</u>
Other local revenues:				
Interest earned	60,000	60,000	11,745	(48,255)
Lease/rentals	500	500	216	(284)
Miscellaneous refunds	-	-	23,002	23,002
Damages recovered from individuals	-	-	244	244
Contributions	5,000	5,000	3,739	(1,261)
Fringe benefits (non-cash)	-	-	61,097	61,097
Other local revenues	5,000	5,000	120	(4,880)
	<u>70,500</u>	<u>70,500</u>	<u>100,163</u>	<u>29,663</u>
Total miscellaneous	<u>72,500</u>	<u>72,500</u>	<u>103,178</u>	<u>30,678</u>
Total revenues	<u>14,453,863</u>	<u>14,510,981</u>	<u>14,706,421</u>	<u>195,440</u>
Expenditures:				
Instruction:				
Regular instruction program:				
Teachers	4,688,665	4,751,782	4,692,267	59,515
Career Ladder Program	77,670	77,670	75,100	2,570
Career Ladder - Extended Contract	61,978	61,978	54,978	7,000
Homebound teachers	7,000	10,000	9,510	490
Aides	89,880	92,080	88,617	3,463
Other Salaries and wages	-	4,950	4,588	362
Substitute teachers	11,000	27,800	27,648	152
Non-certified substitute teachers	72,000	63,500	56,960	6,540

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

**MILAN SPECIAL SCHOOL DISTRICT
GENERAL PURPOSE FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Cont.)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Over (Under)</u>
Expenditures (Cont.):				
Instruction (Cont.):				
Regular instruction program (Cont.):				
Social Security	\$ 304,336	\$ 309,756	\$ 287,645	\$ 22,111
State retirement	316,744	322,401	311,690	10,711
Medical insurance	465,253	465,253	487,131	(21,878)
Medicare	70,693	71,955	68,264	3,691
Maintenance and repair - equipment	7,000	7,000	3,550	3,450
Other contracted services	15,000	15,000	32,837	(17,837)
Instructional supplies/materials	110,000	110,000	122,640	(12,640)
Textbooks	125,000	109,200	104,878	4,322
Fee waivers	20,000	20,000	21,354	(1,354)
Fringe benefits (non-cash)	-	-	61,097	(61,097)
Other charges	3,000	3,000	4,797	(1,797)
Equipment	100,000	130,000	137,137	(7,137)
	<u>6,545,219</u>	<u>6,653,325</u>	<u>6,652,688</u>	<u>637</u>
Alternate instruction program:				
Teachers	92,330	92,930	92,930	-
Career Ladder	2,000	2,000	2,000	-
Social Security	5,888	5,925	5,698	227
State retirement	6,097	6,135	6,095	40
Medical insurance	7,886	7,886	7,547	339
Medicare	1,377	1,386	1,332	54
Instructional supplies/materials	1,000	1,000	999	1
	<u>116,578</u>	<u>117,262</u>	<u>116,601</u>	<u>661</u>
Special education program:				
Teachers	684,675	681,197	670,220	10,977
Career Ladder	8,000	8,000	7,000	1,000
Homebound teachers	5,000	5,000	625	4,375
Aides	29,410	33,810	33,463	347
Substitute teachers	3,000	3,000	1,140	1,860
Non-certified substitute teachers	16,800	23,800	23,533	267
Social Security	47,336	47,858	42,341	5,517
State retirement	49,542	50,143	45,218	4,925
Medical insurance	55,172	55,172	62,789	(7,617)
Medicare	11,071	11,194	9,902	1,292
Maintenance and repair - equipment	600	600	1,119	(519)
Other contracted services	50,000	50,000	53,765	(3,765)

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

**MILAN SPECIAL SCHOOL DISTRICT
GENERAL PURPOSE FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Cont.)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Over (Under)</u>
Expenditures (Cont.):				
Instruction (Cont.):				
Special education program (Cont.):				
Instructional supplies/materials	\$ 12,000	\$ 12,000	\$ 10,778	\$ 1,222
Other supplies and materials	-	500	530	(30)
Fee waivers	5,000	5,000	3,928	1,072
Other charges	550	550	321	229
Equipment	<u>10,000</u>	<u>10,000</u>	<u>6,552</u>	<u>3,448</u>
	<u>988,156</u>	<u>997,824</u>	<u>973,224</u>	<u>24,600</u>
Vocational education program:				
Teachers	385,334	379,998	356,283	23,715
Career Ladder	4,000	4,000	3,500	500
Aides	18,673	20,009	20,009	-
Other salaries and wages	46,752	47,052	39,156	7,896
Substitute teachers	1,000	1,000	919	81
Non-certified substitute teachers	5,000	11,000	9,950	1,050
Social Security	28,678	28,877	24,359	4,518
State retirement	29,756	29,965	26,251	3,714
Medical insurance	34,930	34,930	39,282	(4,352)
Medicare	6,707	6,753	5,863	890
Maintenance and repair - equipment	3,000	3,000	206	2,794
Instructional supplies	25,400	25,400	23,563	1,837
Fee waivers	-	900	835	65
Other charges	5,000	5,000	4,767	233
Equipment	<u>30,000</u>	<u>30,000</u>	<u>27,076</u>	<u>2,924</u>
	<u>624,230</u>	<u>627,884</u>	<u>582,019</u>	<u>45,865</u>
Adult education program:				
Other contracted services	<u>4,000</u>	<u>4,000</u>	<u>3,740</u>	<u>260</u>
Total instruction	<u>8,278,183</u>	<u>8,400,295</u>	<u>8,328,272</u>	<u>72,023</u>
Support Services:				
Attendance:				
Director	60,377	60,677	60,216	461
Career Ladder	1,500	2,600	2,600	-
Social workers	36,644	36,944	26,651	10,293

**MILAN SPECIAL SCHOOL DISTRICT
GENERAL PURPOSE FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Cont.)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Over (Under)</u>
Expenditures (Cont.):				
Support Services (Cont.):				
Attendance (Cont.):				
Other salaries and wages	\$ 23,583	\$ 24,263	\$ 24,169	\$ 94
Social Security	6,288	6,336	5,416	920
State retirement	8,391	8,442	6,213	2,229
Medical insurance	3,702	3,702	2,904	798
Medicare	1,896	1,907	1,614	293
Maintenance and repair - equipment	200	200	-	200
Travel	2,000	2,000	1,722	278
Other supplies and materials	500	500	219	281
In-service/staff development	1,500	1,500	1,840	(340)
Equipment	3,000	1,400	-	1,400
	<u>149,581</u>	<u>150,471</u>	<u>133,564</u>	<u>16,907</u>
Health services:				
Supervisor/director	38,217	41,017	40,883	134
Medical personnel	50,800	51,200	50,230	970
Other salaries and wages	15,369	18,269	18,203	66
Non-certified substitute teachers	-	100	55	45
Social Security	6,698	6,754	6,255	499
State retirement	7,542	7,605	7,040	565
Medical insurance	16,362	16,362	13,250	3,112
Medicare	1,567	1,580	1,463	117
Communication	500	500	-	500
Postage	400	400	296	104
Printing, stationery and forms	1,500	120	120	-
Travel	5,679	3,179	3,215	(36)
Other contracted services	1,000	440	440	-
Drugs and medical supplies	1,500	1,500	2,662	(1,162)
Other supplies/materials	14,597	14,537	10,573	3,964
In-service/staff development	800	800	800	-
Other charges	1,500	1,500	370	1,130
Health equipment	1,500	700	778	(78)
	<u>165,531</u>	<u>166,563</u>	<u>156,633</u>	<u>9,930</u>
Other student support:				
Career Ladder	6,000	6,000	4,500	1,500
Guidance personnel	236,413	237,613	236,986	627
Social Security	15,129	15,204	13,299	1,905

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

**MILAN SPECIAL SCHOOL DISTRICT
GENERAL PURPOSE FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Cont.)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Over (Under)</u>
Expenditures (Cont.):				
Support Services (Cont.):				
Other student support (Cont.):				
State retirement	\$ 15,666	\$ 15,743	\$ 15,295	\$ 448
Medical insurance	32,431	32,231	30,652	1,579
Medicare	3,539	3,556	3,110	446
Evaluation/testing	20,000	20,000	19,881	119
Travel	-	200	127	73
In-service/staff development	1,750	1,750	1,600	150
	<u>330,928</u>	<u>332,297</u>	<u>325,450</u>	<u>6,847</u>
Regular education program:				
Director	210,766	210,092	208,720	1,372
Career Ladder	6,500	7,000	7,000	-
Career Ladder - Extended Contract	5,320	5,320	5,320	-
Librarian(s)	171,100	172,500	172,380	120
Instructional computer personnel	33,870	34,520	34,362	158
Secretary	-	70	70	-
Aides	30,230	30,630	29,147	1,483
Other salaries and wages	38,035	38,418	33,864	4,554
Non-certified substitute teachers	-	500	495	5
Social Security	30,450	30,650	28,658	1,992
State retirement	32,623	32,843	31,241	1,602
Medical insurance	49,508	49,508	44,796	4,712
Medicare	7,123	7,170	6,702	468
Travel	4,000	4,000	4,473	(473)
Library books	18,200	18,200	18,200	-
In-service/staff development	30,500	30,500	29,985	515
	<u>668,225</u>	<u>671,921</u>	<u>655,413</u>	<u>16,508</u>
Special education program :				
Director	29,016	29,345	29,316	29
Secretary(s)	-	50	50	-
Other salaries and wages	-	900	825	75
Social Security	1,799	1,810	1,873	(63)
State retirement	1,863	1,875	1,939	(64)
Medicare	421	424	438	(14)
Travel	1,500	1,500	2,237	(737)
In-service/staff development	10,000	10,000	9,116	884

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

**MILAN SPECIAL SCHOOL DISTRICT
GENERAL PURPOSE FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Cont.)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Over (Under)</u>
Expenditures (Cont.):				
Support Services (Cont.):				
Special education program (Cont.):				
Other supplies/materials	\$ 1,000	\$ 1,000	\$ 284	\$ 716
	<u>45,599</u>	<u>46,904</u>	<u>46,078</u>	<u>826</u>
Vocational education program:				
Travel	3,500	2,400	1,301	1,099
Other supplies/materials	200	200	67	133
In-service/staff development	2,000	2,000	925	1,075
Other charges	500	500	191	309
	<u>6,200</u>	<u>5,100</u>	<u>2,484</u>	<u>2,616</u>
Board of Education services:				
Secretary to Board	1,450	1,450	1,363	87
Social Security	85	85	83	2
State retirement	108	108	112	(4)
Unemployment compensation	20,000	43,000	39,128	3,872
Medicare	20	20	19	1
Other fringe benefits	45,000	53,000	52,859	141
Audit services	21,720	21,720	27,803	(6,083)
Dues and memberships	6,000	6,000	6,543	(543)
Legal services	8,000	8,000	11,894	(3,894)
Other contracted services	1,250	1,250	-	1,250
Liability insurance	14,700	14,700	14,810	(110)
Premium on surety bond	2,000	2,000	1,840	160
Trustee commissions	90,000	90,000	77,021	12,979
Workmen's compensation insurance	79,000	79,000	80,440	(1,440)
In-service/staff development	4,000	4,000	3,219	781
Criminal investigation of applicant	3,000	3,000	-	3,000
Other charges	19,300	19,300	26,287	(6,987)
	<u>315,633</u>	<u>346,633</u>	<u>343,421</u>	<u>3,212</u>
Office of the Superintendent:				
County official/administrative officer	114,239	119,039	118,664	375
Career Ladder	1,000	1,000	1,000	-
Secretary(ies)	33,387	35,587	35,427	160
Clerical personnel	29,368	32,068	31,721	347
Other salaries and wages	3,100	3,100	2,953	147
Social Security	11,208	11,252	10,561	691

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

**MILAN SPECIAL SCHOOL DISTRICT
GENERAL PURPOSE FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Cont.)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Over (Under)</u>
Expenditures (Cont.):				
Support Services (Cont.):				
Office of the Superintendent (Cont.):				
State retirement	\$ 12,807	\$ 12,859	\$ 13,438	\$ (579)
Medical insurance	8,262	8,262	8,262	-
Medicare	2,621	2,631	2,652	(21)
Communication	9,000	9,000	11,172	(2,172)
Dues and memberships	2,000	2,000	1,195	805
Postal charges	3,000	3,000	2,715	285
Travel	5,000	5,000	7,105	(2,105)
Other contracted services	3,000	3,000	3,156	(156)
Office supplies	7,500	7,500	5,724	1,776
In-service/staff development	12,000	6,000	5,875	125
Other charges	5,000	5,000	4,473	527
Equipment	6,500	84,298	58,161	26,137
	<u>268,992</u>	<u>350,596</u>	<u>324,254</u>	<u>26,342</u>
Office of the Principal:				
Principals	240,964	251,514	249,533	1,981
Career Ladder	7,000	7,000	7,000	-
Career Ladder - Extended Contract	5,320	5,320	5,320	-
Assistant(s)	183,945	200,945	199,833	1,112
Secretary(ies)	217,800	230,300	229,243	1,057
Other salaries and wages	6,000	6,000	5,464	536
Social Security	41,015	41,251	41,203	48
State retirement	46,075	47,355	47,920	(565)
Medical insurance	48,417	48,417	49,121	(704)
Medicare	9,526	9,580	9,636	(56)
Communication	25,000	23,000	25,247	(2,247)
Dues and memberships	2,400	2,400	3,560	(1,160)
Postal charges	5,000	5,000	5,000	-
Travel	4,500	3,375	3,224	151
Other contracted services	2,500	1,800	1,770	30
Office supplies	2,000	2,000	2,000	-
In-service/staff development	6,000	6,000	5,984	16
Other charges	-	125	125	-
	<u>853,462</u>	<u>891,382</u>	<u>891,183</u>	<u>199</u>
Fiscal services:				
Accountants/bookkeepers	74,578	80,928	80,744	184

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

**MILAN SPECIAL SCHOOL DISTRICT
GENERAL PURPOSE FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Cont.)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Over (Under)</u>
Expenditures (Cont.):				
Support Services (Cont.):				
Fiscal services (Cont.):				
Other salaries & wages	\$ 33,411	\$ 18,511	\$ 17,830	\$ 681
Social Security	6,727	6,755	5,261	1,494
State retirement	8,292	8,326	6,024	2,302
Medical insurance	19,153	15,653	15,242	411
Medicare	1,573	1,580	1,231	349
Other contracted services	7,200	7,200	7,169	31
Office supplies	2,500	2,500	1,589	911
In-service/staff development	1,000	1,000	1,251	(251)
Equipment	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>159,434</u>	<u>142,453</u>	<u>136,341</u>	<u>6,112</u>
Human services/personnel:				
Supervisor/director	33,756	33,906	32,443	1,463
Clerical personnel	31,606	31,206	30,971	235
Other salaries and wages	-	850	825	25
Social security	4,135	4,157	3,573	584
State retirement	-	4,026	4,679	(653)
Medical insurance	12,020	10,620	10,564	56
Medicare	967	972	836	136
Dues and memberships	500	500	880	(380)
Postal charges	300	300	-	300
Travel	3,000	1,200	1,189	11
Office supplies	500	500	745	(245)
In-service/staff development	750	750	1,760	(1,010)
Other charges	1,000	1,000	1,012	(12)
Equipment	<u>2,000</u>	<u>1,500</u>	<u>1,470</u>	<u>30</u>
	<u>90,534</u>	<u>91,487</u>	<u>90,947</u>	<u>540</u>
Operation and maintenance of plant:				
Operation of plant:				
Custodial personnel	247,891	254,431	254,430	1
Other salaries & wages	5,000	8,009	8,008	1
Social Security	15,370	15,504	14,804	700
State retirement	20,352	20,140	18,407	1,733
Medical insurance	35,500	35,500	34,550	950

**MILAN SPECIAL SCHOOL DISTRICT
GENERAL PURPOSE FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Cont.)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Over (Under)</u>
Expenditures (Cont.):				
Support Services (Cont.):				
Operation and maintenance of plant (Cont.):				
Operation of plant (Cont.):				
Medicare	\$ 3,595	\$ 3,627	\$ 3,462	\$ 165
Rentals	18,000	18,000	18,000	-
Other contracted services	37,000	37,000	30,946	6,054
Custodial supplies	60,000	60,000	56,696	3,304
Electricity	344,000	360,000	388,617	(28,617)
Natural gas	78,000	78,000	97,120	(19,120)
Water and sewer	30,000	30,000	35,195	(5,195)
Boiler insurance	3,500	3,500	3,512	(12)
Building and contents insurance	65,000	65,000	63,987	1,013
	<u>963,208</u>	<u>988,711</u>	<u>1,027,734</u>	<u>(39,023)</u>
Maintenance of plant:				
Director	41,691	44,491	44,427	64
Maintenance personnel	68,783	70,083	68,284	1,799
Other salaries and wages	10,000	10,000	8,378	1,622
Social Security	7,470	7,507	6,878	629
State retirement	9,891	9,940	9,815	125
Medical insurance	15,065	15,065	15,082	(17)
Medicare	1,747	1,756	1,608	148
Communication	2,000	2,000	2,019	(19)
Maintenance and repair - buildings	47,000	25,000	23,476	1,524
Maintenance and repair - equipment	25,000	20,000	17,285	2,715
Other contracted services	30,000	30,000	26,333	3,667
Gasoline	7,000	-	-	-
Other supplies and materials	35,000	26,850	19,464	7,386
In-service/staff development	500	500	920	(420)
	<u>301,147</u>	<u>263,192</u>	<u>243,969</u>	<u>19,223</u>
Total operation and maintenance of plant	<u>1,264,355</u>	<u>1,251,903</u>	<u>1,271,703</u>	<u>(19,800)</u>
Student transportation:				
Director	33,756	33,906	32,143	1,763
Bus drivers	112,589	93,789	85,849	7,940
Clerical personnel	4,000	4,000	3,942	58
Other salaries and wages	79,312	56,311	53,656	2,655
Social Security	14,321	14,405	10,665	3,740
State retirement	12,170	12,277	11,664	613
Medical insurance	4,358	4,358	5,778	(1,420)

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

**MILAN SPECIAL SCHOOL DISTRICT
GENERAL PURPOSE FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Cont.)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	Original Budget	Final Budget	Actual	Variance- Over (Under)
Expenditures (Cont.):				
Support Services (Cont.):				
Student transportation (Cont.):				
Medicare	\$ 3,349	\$ 3,369	\$ 2,486	\$ 883
Communication	750	750	221	529
Contracts with public carriers	9,000	9,000	9,255	(255)
Travel	500	500	392	108
Other contracted services	50,000	50,000	51,824	(1,824)
Diesel fuel	75,000	67,000	37,773	29,227
Gasoline	250	250	3,889	(3,639)
Other supplies and materials	200	200	58	142
Vehicle and equipment insurance	19,756	19,756	19,756	-
In-service/staff development	2,000	2,000	1,914	86
Other charges	3,000	3,000	2,774	226
	<u>424,311</u>	<u>374,871</u>	<u>334,039</u>	<u>40,832</u>
Central and Other:				
Other supplies and materials	<u>2,500</u>	<u>2,500</u>	<u>61</u>	<u>2,439</u>
Total support services	<u>4,745,285</u>	<u>4,825,081</u>	<u>4,711,571</u>	<u>113,510</u>
Non-Instructional Services:				
Food service				
Supervisor/director	-	200	200	-
Clerical personnel	-	100	100	-
Cafeteria personnel	-	3,988	3,885	103
Social security	-	266	259	7
State retirement	-	352	344	8
Medicare	-	62	61	1
	<u>-</u>	<u>4,968</u>	<u>4,849</u>	<u>119</u>
Early Childhood Education				
Supervisor/director	10,122	10,167	10,122	45
Teachers	180,565	183,865	183,858	7
Clerical personnel	11,624	11,704	10,739	965
Educational assistants	145,360	149,360	149,338	22
Substitute teachers	1,500	1,500	-	1,500
Non-certified substitute teachers	250	250	83	167
Social Security	21,717	21,942	21,000	942
State retirement	25,297	25,567	24,307	1,260
Medical insurance	31,269	27,469	19,249	8,220
Medicare	5,079	5,131	4,911	220
Other contracted services	4,000	4,000	6,225	(2,225)

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

**MILAN SPECIAL SCHOOL DISTRICT
GENERAL PURPOSE FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Cont.)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	Original Budget	Final Budget	Actual	Variance- Over (Under)
Expenditures (Cont.):				
Non-Instructional Services (Cont.):				
Early Childhood Education (Cont.):				
Instructional supplies and materials	\$ 41,791	\$ 41,791	\$ 37,054	\$ 4,737
In-service/staff development	4,500	4,500	4,184	316
Other charges	800	800	1,033	(233)
Other equipment	-	-	7,450	(7,450)
	<u>483,874</u>	<u>488,046</u>	<u>479,553</u>	<u>8,493</u>
Capital outlay:				
Other capital outlay	72,000	82,500	77,556	4,944
	<u>72,000</u>	<u>82,500</u>	<u>77,556</u>	<u>4,944</u>
Debt service:				
Principal on bonds	565,000	580,000	580,000	-
Principal on capital leases	22,006	22,006	16,678	5,328
Interest on capitalized leases	295	295	266	29
Interest on bonds	489,528	504,728	504,662	66
Other debt service	2,500	2,500	1,086	1,414
	<u>1,079,329</u>	<u>1,109,529</u>	<u>1,102,692</u>	<u>6,837</u>
Total non-instructional services	<u>1,635,203</u>	<u>1,685,043</u>	<u>1,664,650</u>	<u>20,393</u>
Total expenditures	<u>14,658,671</u>	<u>14,910,419</u>	<u>14,704,493</u>	<u>205,926</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(204,808)</u>	<u>(399,438)</u>	<u>1,928</u>	<u>(10,486)</u>
Other financing sources (uses)				
Operating transfers in	10,000	10,000	5,273	(4,727)
Net changes in fund balance	<u>\$ (194,808)</u>	<u>\$ (389,438)</u>	<u>7,201</u>	<u>\$ (15,213)</u>
Fund balance - beginning			<u>1,632,462</u>	
Fund balance - ending			<u>\$ 1,639,663</u>	

**MILAN SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Milan Special School District (the District) was created by an act to amend Chapter 504 of the Private Acts of 1945 as amended by Chapter 82 of the Private Acts of 1981. This act was passed by the General Assembly of the State of Tennessee on July 23, 1981. The purpose of the Milan Special School District is to operate and administer the City of Milan's public schools.

The seven-member school board, which is the governing authority, is elected by the public, approves its own budgets and controls surpluses and deficits, has the authority to issue debt and to levy taxes, and has control over hiring and firing employees.

As required by generally accepted accounting principles, these financial statements present all funds, which comprise the District. These financial statements present the District as "The Primary Government" and there are no component units or entities for which the District is considered financially accountable, which should be included.

The financial statements of the District are prepared in accordance with generally accepted accounting principles. The District applies all relevant *Governmental Accounting Standards Board (GASB)* pronouncements and applicable *Financial Accounting Standards Board (FASB)* pronouncements and *Accounting Principle Board (APB)* opinions issued on or before November 30, 1989 unless they conflict with GASB pronouncements. The District does not apply FASB pronouncements issued after November 30, 1989.

B. District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of the 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 statement of activities demonstrates the degree to which the direct expenses of the given function or segment is 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.

C. Measurement Focus, Basis of Accounting, and Financial Statements Presentation

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

**MILAN SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

C. Measurement Focus, Basis of Accounting, and Financial Statements Presentation (Cont.)

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 sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Gross receipt taxes, sales taxes, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and 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 purpose fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The education capital projects fund is used to account for major construction or acquisition of capital assets.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

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

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

D. Assets, Liabilities, and Net Assets or 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 maturities of three months or less from the date of acquisition. State statutes authorize the District to invest in certificates of deposit, obligations of the U.S. Treasury, agencies and instrumentalities, obligations guaranteed by the U.S. government or its agencies, repurchase agreements and the state's investment pool.

Investments for the District are reported at fair value. The State Local Government Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

**MILAN SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

D. Assets, Liabilities, and Net Assets or Equity (Cont.)

Receivables and Payables

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

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1, and become delinquent on March 1. The property taxes are collected by the Trustee of Gibson County and remitted to the District. District property tax revenues are recognized in the period for which they were levied.

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets, in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered "available spendable resources", since they do not represent net current assets. Recognition of governmental fund type revenues represented by non-current receivables is deferred in the governmental fund statements until they become current receivables.

For the purpose of operating and maintaining the District, the private act creating the District authorized an annual property tax on every one hundred (\$100) assessment of real and personal property located within the District. The current property tax is \$1.84 on every \$100 of real and personal property located within the District.

Inventories and Prepaid Items

Inventories are valued at lower of average cost or market, using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchased.

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

Capital Assets

Capital assets, which include land, buildings and improvements, and other capital assets, are reported in the applicable district-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of \$5,000 (amount not rounded) or more and an estimated useful life in excess of two years.

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.

Property, plant, and equipment of the District are depreciated using the straight line method over the following useful lives:

Buildings and improvements	20 – 50 years
Machinery and equipment	4 – 20 years

Deferred Revenue

Deferred revenue represents amounts that were receivable and measurable at June 30, 2009 but were not available to finance expenditures for the year ended June 30, 2009. Deferred revenues primarily include unearned or unavailable revenues.

**MILAN SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

D. Assets, Liabilities, and Net Assets or Equity (Cont.)

Compensated Absences

Vacation Leave – All support personnel who are employed 12 months per year earn one day of vacation for each twenty days of employment and all support personnel employed for 10 or 11 months shall earn one-half day of vacation for each twenty days of employment. The maximum that any employee could accumulate would be either 12 or 13 days depending on their employment status. Therefore, in the event that an employee leaves employment, they will be paid only for a maximum of the 12 or 13 days. This policy was enacted in the year ended June 30, 2002. At the time of implementation, some employees had accumulated greater than the maximum allowed by the policy. These employees were given a 24-month grace period in which to use the accumulated days.

Sick Leave – All support personnel and certified employees earn one day of sick leave for each month of employment. Sick leave days may be accumulated to an unlimited number. At the time employment is terminated, all unused sick leave that has accumulated shall be used for retirement service credit.

Long-term Liabilities

In the district-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

Fund Equity

In the fund financial statements, the governmental fund reports reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 – RECONCILIATION OF DISTRICT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the District-wide Statement of Net Assets

The governmental fund balance sheet includes reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the district-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds, notes payable and capital leases payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this (\$12,500,000) are as follows:

**MILAN SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2009**

NOTE 2 – RECONCILIATION OF DISTRICT-WIDE AND FUND FINANCIAL STATEMENTS (Cont.)

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the District-wide Statement of Net Assets (Cont.)

School bonds payable, Series 2008 (portion of 1997 not refinanced)	\$ (1,705,000)
School bonds payable, Series 2005	(9,115,000)
School bonds payable, Series 2005 (portion of 2001 not refinanced)	(300,000)
School bonds payable, Series 2008	<u>(1,380,000)</u>
	<u>\$ (12,500,000)</u>

Another element of that reconciliation explains that “capital assets used in governmental funds are not financial resources and therefore are not reported as assets in the governmental funds.” The details of this \$16,236,948 are as follows:

Land	\$ 854,415
Buildings and improvements	21,179,407
Other fixed assets	<u>1,672,607</u>
	23,706,429
Less accumulated depreciation	<u>(7,469,481)</u>
Total capital assets, net of accumulated depreciation	<u>\$ 16,236,948</u>

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the District-wide Statement of Activities

One element of that reconciliation states that “the repayment of the principal of long-term debt is expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.” The details of this \$1,351,912 are as follows:

Principal repayments:	
School bonds payable, Series 1997	\$ 1,125,000
School bonds payable, Series 2005	50,000
School bonds payable, Series 2001	150,000
Capital lease payable, Freeman-Spicer Leasing	21,763
Capital lease payable, ORIX	<u>5,149</u>
	<u>\$ 1,351,912</u>

**MILAN SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2009**

NOTE 2 – RECONCILIATION OF DISTRICT-WIDE AND FUND FINANCIAL STATEMENTS (Cont.)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the District-wide Statement of Activities (Cont.)

Another element of that reconciliation states that “the issuance of long-term debt provides current financial resources to governmental funds; however, the issuance increases the liability on the statement of activities.” The details of this (\$1,760,000) are as follows:

Series 2008 issuance	<u>\$ (1,760,000)</u>
----------------------	-----------------------

Another element of that reconciliation states that “capital outlays are reported in the governmental funds as expenditures. However, in the statements of activities, the cost of the assets is allocated over their estimated useful lives as depreciation expense.” The details of this \$1,282,201 and (\$656,660) are as follows:

Capital outlays	<u>\$ 1,282,201</u>
-----------------	---------------------

Depreciation expense	<u>\$ (656,660)</u>
----------------------	---------------------

Another element of that reconciliation states that “the change in accrued leave is an expenditure in the governmental funds, but the change reduces or increases the liability on the statement of activities.” The details of this (\$13,018) are as follows:

Accrued leave as of June 30, 2008	\$ 51,092
Accrued leave as of June 30, 2009	<u>(64,110)</u>
	<u>\$ (13,018)</u>

Another element of that reconciliation states that “the change in OPEB is an expenditure in the governmental funds, but the change reduces or increases the liability on the statement of activities.” The details of this (\$734,783) are as follows:

Net OPEB obligation as of June 30, 2009	<u>\$ (734,783)</u>
-----------------------------------------	---------------------

Another element of that reconciliation states that “interest is reported as an expenditure in the governmental funds, but it is accrued on outstanding debt on the statement of activities.” The details of this (\$30,809) are as follows:

Accrued interest as of June 30, 2008	\$ (196,027)
Accrued interest as of June 30, 2009	<u>165,218</u>
	<u>\$ (30,809)</u>

**MILAN SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2009**

NOTE 2 – RECONCILIATION OF DISTRICT-WIDE AND FUND FINANCIAL STATEMENTS (Cont.)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the District-wide Statement of Activities (Cont.)

Another element of that reconciliation states that “governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas, these amounts are deferred and amortized in the statement of activities.” The details of this \$25,857 are as follows:

Amortization of bond premium	\$ 38,303
Amortization of bond issuance costs	<u>(12,446)</u>
	<u>\$ 25,857</u>

Another element of that reconciliation states that “the increase (decrease) in inventory is reported as a direct change to beginning fund balance. However, in the statement of activities this increase is reported as an expense based on the consumption method.” The details of this \$434 are as follows:

Change in inventory	\$ <u>434</u>
---------------------	---------------

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. These include the general purpose, federal projects, and cafeteria funds. The District approves a budget for the education capital projects fund based on the project. It is not an annual budget and therefore no budget to actual comparative statement is presented for the education capital projects fund. The Board of Education approves and appropriates the budgets for these funds annually. All annual appropriations lapse at fiscal year end. Each budget is presented on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

As an extension of the formal budgetary process, the Board of Education may transfer or appropriate additional funds for expenditures not anticipated at the time of budget adoption. The District’s policy is to not allow expenditures to exceed budgetary amounts at the total function level without obtaining additional appropriation approval from the Board of Education. Line-item transfers within major categories are made upon recommendation of the director of schools and approval by the board.

NOTE 4 – DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Custodial Credit Risk

The District’s policies limit deposits and investments to those instruments allowed by applicable state laws and described in Note 1. State statute requires that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of uninsured deposits. The deposits must be collateralized by federal depository insurance, by the Tennessee Bank Collateral Pool, by collateral held by the District’s agent in the District’s name, or by the Federal Reserve Banks acting as third party agents. State statutes also authorize the District to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, the state pooled

**MILAN SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2009**

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Cont.)

Custodial Credit Risk (Cont.)

investment fund, and mutual funds. Statutes also require that securities underlying repurchase agreements must have a market value of at least equal to the amount of funds invested in the repurchase transaction. As of June 30, 2009, all bank deposits were fully collateralized or insured.

GASB 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, requires investments with a remaining maturity of one year or more to be reported at fair value. The District had no investments as of June 30, 2009.

The following is a summary of cash and cash equivalents as of June 30, 2009

Cash in bank	\$ 2,008,597
Local Government Investment Pool	<u>30,279</u>
Total cash and cash equivalents	<u><u>\$ 2,038,876</u></u>

B. Receivables

Receivables as of the year end for the government's individual major funds and non-major funds in the aggregate are as follows:

	General	Nonmajor Funds	Total
Receivables:			
Taxes	\$ 2,870,053	\$ -	\$ 2,870,053
Grants	62,079	74,532	136,611
Intergovernmental	<u>229,921</u>	<u>-</u>	<u>229,921</u>
Total receivables	<u><u>\$ 3,162,053</u></u>	<u><u>\$ 74,532</u></u>	<u><u>\$ 3,236,585</u></u>

Amounts in the General Fund called "due from other governmental agencies" represent the normal amounts due from state and county governments for shared revenues and tax allocations.

C. Interfund Receivables, Payables, and Transfers

The interfund payable from the general purpose fund to the centralized cafeteria fund was for reimbursements to the general purpose fund for normal expenditures paid from the food service fund for the general purpose fund. The interfund payable from the federal projects fund to the general fund is for the negative cash balance in the pooled bank account at the end of the year. The interfund payable from the federal projects fund to the general purpose fund is for indirect costs.

The composition of interfund balances as of June 30, 2009, is as follows:

Receivable Fund	Payable Fund	Amount
General Purpose	Federal Projects	\$ 45,771
General Purpose	Centralized Cafeteria	38,552
Centralized Cafeteria	General Purpose	<u>53,234</u>
		137,557
Elimination for district-wide statements		<u>(137,557)</u>
		<u><u>\$ -</u></u>

**MILAN SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2009**

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Cont.)

C. Interfund Receivables, Payables, and Transfers (Cont.)

Transfer activity for indirect costs relating to the grant administration in the federal projects fund for the year ended June 30, 2009 was as follows:

Transferred From Federal Projects	Transferred To General Fund	Amount <u>\$ 5,273</u>
--------------------------------------	--------------------------------	---------------------------

D. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

	6/30/08	Additions	Reductions	6/30/09
Capital assets not being depreciated:				
Land	\$ 764,415	\$ 90,000	\$ -	\$ 854,415
Construction in process	62,000	-	62,000	-
	<u>826,415</u>	<u>90,000</u>	<u>62,000</u>	<u>854,415</u>
Capital assets being depreciated:				
Buildings and improvements	19,947,806	1,231,601	-	21,179,407
Other capital assets	1,650,007	22,600	-	1,672,607
	<u>21,597,813</u>	<u>1,254,201</u>	<u>-</u>	<u>22,852,014</u>
Accumulated depreciation:				
Buildings and improvements	(5,645,335)	(548,347)	-	(6,193,682)
Other capital assets	(1,167,486)	(108,313)	-	(1,275,799)
	<u>(6,812,821)</u>	<u>(656,660)</u>	<u>-</u>	<u>(7,469,481)</u>
Total capital assets being depreciated, net	<u>14,784,992</u>	<u>597,541</u>	<u>-</u>	<u>15,382,533</u>
Capital assets net of accumulated				
Total capital assets, net	<u>\$ 15,611,407</u>	<u>\$ 687,541</u>	<u>\$ 62,000</u>	<u>\$ 16,236,948</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

**MILAN SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2009**

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Cont.)

D. Capital Assets (Cont.)

Instruction:

Regular education	\$ 13,260
Vocational education	8,389

Support services:

Office of the Director of Schools	299
Office of the Principal	9,810
Operation and maintenance of plant	11,375
Student transportation	45,701

Non-instructional services:

Capital outlay	557,413
Food service	10,413
	<u>\$ 656,660</u>

D. Leases

Operating Leases

The District has entered into a lease agreement as lessee for a copier. This lease agreement qualifies as an operating lease for accounting purposes. The lease is for forty-eight month period with monthly payments of \$238. The future minimum lease payments as of June 30, 2009, were as follows:

Year Ended June 30,	
2010	\$ 2,859
2011	2,859
2012	1,906
	<u>\$ 7,624</u>

The lease expense for the year ended June 30, 2009 was \$2,859.

E. Long-term Debt

The annual requirements to amortize all long-term debt and obligations outstanding, excluding compensated absences and OPEB, as of June 30, 2009 are as follows:

Years Ending June 30,	Bonds		Total
	Principal	Interest	
2010	580,000	515,803	1,095,803
2011	595,000	479,987	1,074,987
2012	745,000	453,278	1,198,278
2013	795,000	421,600	1,216,600
2014	835,000	388,275	1,223,275
2015-2019	3,940,000	1,486,845	5,426,845
2019-2024	<u>5,010,000</u>	<u>630,720</u>	<u>5,640,720</u>
	<u>\$ 12,500,000</u>	<u>\$ 4,376,508</u>	<u>\$ 16,876,508</u>

**MILAN SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2009**

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Cont.)

F. Long-term Debt (Cont.)

The following is a summary of long-term debt transactions for the year ended June 30, 2009:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable:					
School Bonds, Series 1997, 4.45% to 4.85% interest, payable serially through 2014	\$ 2,450,000	\$ -	\$ 745,000	\$ 1,705,000	\$ -
School Bonds, Series 2001 3.50% to 5.00% interest, payable serially through 2024, remaining portion not refunded	450,000	-	150,000	300,000	150,000
School Bonds, Series 2005 3.50% to 4.10% interest, payable serially through 2024	9,165,000	-	50,000	9,115,000	50,000
School Bonds, Series 2008 3.00% to 4.375% interest, payable serially through 2024	-	1,760,000	380,000	1,380,000	380,000
Note Payable:					
Capital Leases Payable:					
Capital lease payable, Freeman-Spicer Leasing 14% interest payable through 2009	5,149	-	5,149	-	-
Capital lease payable, ORIX, 5.5% interest, payable in monthly installments through 2009	21,763	-	21,763	-	-
Total bonds and capital leases payable	12,091,912	1,760,000	1,351,912	12,500,000	580,000
Other post employment benefits	-	734,783	-	734,783	-
Compensated absences	51,092	13,018	-	64,110	-
Total long-term liabilities	12,143,004	2,507,801	1,351,912	13,298,893	580,000
Other deferred costs:					
Bond premium	15,271	-	955	14,316	-
Bond issuance costs	(159,285)	(37,348)	(12,446)	(184,187)	-
Net long-term liabilities including associated deferred items	<u>\$ 11,998,990</u>	<u>\$ 2,470,453</u>	<u>\$ 1,340,421</u>	<u>\$ 13,129,022</u>	<u>\$ 580,000</u>

The District issued school bonds for the purpose of providing funds for the acquisition and construction of a new school building. During the year ended June 30, 2005, additional school bonds were issued to refund a portion of the School Bonds, Series 2001. The principal not refunded totaled \$775,000.

During the year ended June 30, 2005, the District issued \$9,355,000 of school refunding bonds for the purpose of providing funds to refund a portion of the District's School Bonds, Series 2001, maturing April 1, 2006 through April 1, 2024, inclusive, and to pay costs of issuance on the bonds. The refunded bonds are considered defeased and the liability has been removed from the statement of net assets except for the portion not refunded. The advance refunding was undertaken to reduce the total debt service payments over the next fifteen years by \$489,012 and resulted in a net present value benefit of \$356,518. At June 30, 2009, defeased bonds of \$9,115,000 were still outstanding. These defeased bonds will be retired April 1, 2011.

The District issued school bonds for the purpose of providing funds for the acquisition and construction of a new school building. During the year ended June 30, 2009, additional school bonds were issued to refund a portion of the School Bonds, Series 2005. The principal not refunded totaled \$745,451.

**MILAN SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2009**

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Cont.)

G. Long-term Debt (Cont.)

During the year ended June 30, 2009, the District issued \$1,760,000 of school refunding and improvement bonds for the purpose of providing funds to refund a portion of the District's School Bonds, Series 1997, maturing April 1, 2009 and April 1, 2010, inclusive, and to pay costs of issuance on the bonds. The refunded bonds are considered defeased and the liability has been removed from the statement of net assets except for the portion not refunded. At June 30, 2009, defeased bonds of \$1,705,000 were still outstanding. These defeased bonds will be retired April 1, 2014.

NOTE 5 – OTHER INFORMATION

A. Pensions

Political Subdivision Pension Plan

Plan Description

Employees of Milan Special School District are members of the Political Subdivision Pension Plan (PSPP), an agent multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who became disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions, such as Milan Special School District, participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us. Copies of footnotes in PDF format can be accessed at <http://www.treasury.state.tn.us/tcrs/PS/>.

Funding Policy

Milan Special School District requires employees to contribute 5.0 percent of earnable compensation.

Milan Special School District is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2009 was 8.21% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Milan Special School District is established and may be amended by the TCRS Board of Trustees.

**MILAN SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2009**

NOTE 5 – OTHER INFORMATION (Cont.)

A. Pensions (Cont.)

Annual Pension Cost

For the year ending June 30, 2009, Milan Special School District's annual pension cost of \$147,352 to TCRS was equal to Milan Special School District's required and actual contributions. The required contribution was determined as part of the July 1, 2007 actuarial valuation using the frozen initial liability actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. Milan Special School District's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2007 was 9 years. An actuarial valuation was performed as of July 1, 2007, which established contribution rates effective July 1, 2008.

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2009	\$ 147,352	100.00%	\$ -
6/30/2008	137,070	100.00%	-
6/30/2007	124,758	100.00%	-

State Employees, Teachers, and Higher Education Employees Pension Plan

Plan Description

The Milan Special School District contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the members were in the performance of duty. Members joining the plan on or after July 1, 1979 are vested after five years of service. Members joining prior to July 1, 1979 are vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increase less than one-half percent. The annual COLA is capped at three percent.

**MILAN SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2009**

NOTE 5 – OTHER INFORMATION (Cont.)

A. Pensions (Cont.)

State Employees, Teachers, and Higher Education Employees Pension Plan (Cont.)

Plan Description (Cont.)

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the SETHEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed www.tn.gov/treasury/tcrs.

Funding Policy

Most teachers are required by state statute to contribute 5.0% of salary to the plan. The employer contribution rate for the District is established at an actuarially determined rate. The employer rate for the fiscal year ending June 30, 2009 was 6.42% percent of annual covered payroll. The employer contribution requirement for the District is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ending June 30, 2009, 2008, and 2007 were \$507,319, \$493,743, and \$449,743, respectively, equal to the required contributions for each year.

B. Postemployment Healthcare Plan

Plan Description

The District participates in the state-administered Teacher Group Insurance Plan for healthcare benefits. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Tennessee Code Annotated (TCA) 8-27-302. Prior to reaching the age of 65, all members have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement plan that does not include pharmacy. The plans are reported in the State of Tennessee Comprehensive Annual Financial Report (CAFR). The CAFR is available on the state's website at <http://tennessee.gov/finance/act/cafr.html>.

Funding Policy

The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. The employers in each plan develop their own contribution policy in terms of subsidizing active employees or retired employees' premiums since the committee is not prescriptive on that issue. The District pays all of its retiree's premiums.

**MILAN SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2009**

NOTE 5 – OTHER INFORMATION (Cont.)

B. Postemployment Healthcare Plan (Cont.)

Funding Policy (Cont.)

ARC	\$ 837,000
Interest on NPO	-
Adjustment to the ARC	-
Annual OPEB cost	837,000
Amount of contribution	(102,217)
Increase/decrease in NPO	734,783
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	\$ 734,783

Year End*	Plan	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End
6/30/2009	Teacher Group	\$ 837,000	12%	\$ 734,783

*Data not available for two preceding years.

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2009, was as follows:

	Teacher Group Plan
Actuarial valuation date	7/1/2007
Actuarial accrued liability (AAL)	\$ 6,597,000
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	\$ 6,597,000
Actuarial Value of Assets as a % of the AAL	-
Covered payroll (active plan members)	\$ 9,696,960
UAAL as a percentage of covered payroll	68.03%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**MILAN SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2009**

NOTE 5 – OTHER INFORMATION (Cont.)

B. Postemployment Healthcare Plan (Cont.)

Actuarial Methods and Assumptions

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the June 30, 2008, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 11 percent initially, reduced by decrements to an ultimate rate of 6 percent after ten years. Both rates include a 3 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30 year period beginning with June 30, 2008.

C. On-Behalf Payments for Fringe Benefits and Salaries

The District recognizes as revenues and expenses contribution made by the State of Tennessee to the Teacher Group Plan and the Medicare Supplement Plan on behalf of the District's employees. In fiscal year 2009 the State made contributions of \$67,924.

D. Contingent Liabilities and Losses

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time although the District's management expects such amounts, if any, to be immaterial.

E. Risk Management

The District is exposed to various risks related to workers' compensation, general liability, automobile liability, and property. The District felt it was more economically feasible to join public entity risk pools as opposed to purchasing commercial insurance for these areas. The District is a member of the Tennessee Risk Management Trust (TNRMT) which is a public entity risk pool established by the Tennessee School Boards Association, an association of member school districts.

The District pays an annual premium to this pool for coverage under the above areas. The Pool provides the specified coverage and pays all claims from its member premiums charged or through its reinsurance policies. TNRMT reinsures through commercial insurance companies for claims in excess of \$100,000 for each uninsured event. The District's premiums are calculated based on its claims history. The District continues to carry commercial insurance for all other risks of loss, including public officials' bond. Settled claims from these losses have not exceeded commercial insurance coverage in any of the past three fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

**MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS - EMPLOYEE RETIREMENT SYSTEM
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2007	\$ 2,759	\$ 3,194	\$ 435	86.38%	\$ 1,580	27.53%
7/1/2005	2,231	2,252	21	99.07%	1,307	1.61%
7/1/2003	1,896	1,920	24	98.75%	1,138	2.11%
7/1/2001	1,670	1,704	34	98.00%	854	3.98%
7/1/1999	1,478	1,545	67	95.66%	912	7.35%

The above schedule is designed to show the extent to which a pension plan has been successful over time in setting aside assets sufficient to cover its actuarial accrued liability.

OTHER SUPPLEMENTARY INFORMATION

**MILAN SPECIAL SCHOOL DISTRICT
OTHER GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2009**

	<u>Special Revenue Funds</u>		
	<u>Federal Projects Fund</u>	<u>Centralized Cafeteria Fund</u>	<u>Total Special Revenue</u>
Assets:			
Cash	\$ -	\$ 54,662	\$ 54,662
Due from other funds	-	53,234	53,234
Due from other governments - grants	60,905	13,627	74,532
Inventory	-	57,070	57,070
Total assets	<u>\$ 60,905</u>	<u>\$ 178,593</u>	<u>\$ 239,498</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	\$ 6,553	\$ 1,628	\$ 8,181
Due to other funds	45,771	38,552	84,323
Deferred revenue	8,581	-	8,581
Total liabilities	<u>60,905</u>	<u>40,180</u>	<u>101,085</u>
Fund balances:			
Unreserved fund balance:			
Designated - inventory	-	57,070	57,070
Undesignated	-	81,343	81,343
Total fund balances	<u>-</u>	<u>138,413</u>	<u>138,413</u>
Total liabilities and fund balances	<u>\$ 60,905</u>	<u>\$ 178,593</u>	<u>\$ 239,498</u>

**MILAN SPECIAL SCHOOL DISTRICT
OTHER GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	Special Revenue Funds		
	Federal Projects Fund	Centralized Cafeteria Fund	Total Special Revenue
Revenues:			
Charges for current services	\$ -	\$ 403,591	\$ 403,591
Other local revenues	-	2,342	2,342
State revenue	4,543	13,048	17,591
Federal revenue	1,153,290	817,250	1,970,540
Total revenues	1,157,833	1,236,231	2,394,064
Expenditures:			
Instruction	737,805	-	737,805
Support services	214,755	-	214,755
Non-instructional services	200,000	-	200,000
Food service	-	1,213,469	1,213,469
Total expenditures	1,152,560	1,213,469	2,366,029
Excess (deficiency) of revenues over (under) expenditures	5,273	22,762	28,035
Other financing sources (uses)			
Operating transfers out	(5,273)	-	(5,273)
Net changes in fund balance	-	22,762	22,762
Fund balance - beginning	-	115,217	115,217
Increase (decrease) in inventory	-	434	434
Fund balance - ending	\$ -	\$ 138,413	\$ 138,413

**MILAN SPECIAL SCHOOL DISTRICT
FEDERAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Revenues:	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Over (Under)</u>
Federal through State:				
Vocational education -				
Basic grants to states	\$ 27,071	\$ 27,071	\$ 27,071	\$ -
Title I	426,515	426,515	387,599	(38,916)
Education of the Handicapped - IDEA	423,712	423,712	420,470	(3,242)
Education of the Handicapped - Preschool	17,764	18,085	16,220	(1,865)
English language acquisition grants	1,870	1,870	1,870	-
Safe and drug free schools	207,069	207,069	204,700	(2,369)
Eisenhower	112,794	112,794	92,016	(20,778)
Other federal through state	<u>3,347</u>	<u>3,347</u>	<u>3,344</u>	<u>(3)</u>
Total federal through state	<u>1,220,142</u>	<u>1,220,463</u>	<u>1,153,290</u>	<u>(67,173)</u>
Other revenues:				
Fringe benefits (non-cash)	<u>-</u>	<u>-</u>	<u>4,543</u>	<u>4,543</u>
Total revenues	<u>1,220,142</u>	<u>1,220,463</u>	<u>1,157,833</u>	<u>(62,630)</u>
Expenditures:				
Instruction:				
Regular instruction program:				
Teachers	63,135	63,008	61,890	1,118
Aides	76,500	76,500	72,398	4,102
Other salaries and wages	11,000	11,427	11,427	-
Substitute teachers	575	3,074	2,081	993
Non-certified substitute teachers	2,225	5,363	5,363	-
Social Security	9,500	9,500	9,145	355
State retirement	11,400	11,400	9,325	2,075
Medical insurance	5,000	5,000	4,270	730
Medicare	2,600	2,600	2,130	470
Maintenance and repair - equipment	500	500	-	500
Instructional supplies	78,888	61,957	50,352	11,605
Other supplies and materials	5,000	5,000	3,379	1,621
Fringe benefits (non-cash)	-	-	4,543	(4,543)
Equipment	<u>50,000</u>	<u>62,000</u>	<u>61,786</u>	<u>214</u>
	<u>316,323</u>	<u>317,329</u>	<u>298,089</u>	<u>19,240</u>
Special education program:				
Teachers	41,500	29,019	29,019	-
Aides	246,379	234,794	228,662	6,132
Social Security	16,662	16,662	14,736	1,926
State retirement	21,457	19,014	19,076	(62)

See independent auditor's report.

**MILAN SPECIAL SCHOOL DISTRICT
FEDERAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (Cont.)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Over (Under)</u>
Expenditures (Cont.)				
Instruction (Cont.):				
Special education program (Cont.):				
Medical Insurance	\$ 28,344	\$ 36,823	\$ 38,418	\$ (1,595)
Medicare	4,010	3,648	3,446	202
Other contracted services	64,016	86,646	88,338	(1,692)
Instructional supplies	6,732	2,921	2,921	-
Other supplies and materials	700	596	614	(18)
	<u>429,800</u>	<u>430,123</u>	<u>425,230</u>	<u>4,893</u>
Vocational education program:				
Other contracted services	1,500	1,200	1,200	-
Instructional supplies and materials	5,500	10,786	10,790	(4)
Other supplies and materials	1,000	-	-	-
Equipment	2,500	2,500	2,496	4
	<u>10,500</u>	<u>14,486</u>	<u>14,486</u>	<u>-</u>
Total instruction	<u>756,623</u>	<u>761,938</u>	<u>737,805</u>	<u>24,133</u>
Support Services:				
Other student support:				
Other salaries and wages	5,260	5,260	5,260	-
Social security	326	-	-	-
State retirement	338	-	-	-
Medicare	76	76	76	-
Travel	1,000	2,987	2,987	-
In-service/staff development	6,712	2,665	2,665	-
Other charges	2,505	1,682	1,682	-
	<u>16,217</u>	<u>12,670</u>	<u>12,670</u>	<u>-</u>
Regular instruction program:				
Supervisor/director	29,000	29,000	28,215	785
Secretary(s)	10,600	10,600	9,144	1,456
Other salaries and wages	116,000	116,000	102,540	13,460
Social Security	9,780	9,780	8,600	1,180
State retirement	10,468	10,468	9,183	1,285
Medical insurance	3,000	3,000	116	2,884
Medicare	2,580	2,580	2,020	560
Communication	800	800	533	267
Travel	9,700	9,400	7,085	2,315

**MILAN SPECIAL SCHOOL DISTRICT
FEDERAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (Cont.)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Expenditures (Cont.)	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Over (Under)</u>
Support Services (Cont.):				
Regular instruction program (Cont.):				
Other contracted services	\$ 3,000	\$ 2,800	\$ 1,500	\$ 1,300
Other supplies and materials	5,100	6,318	4,493	1,825
In-service-staff development	40,936	40,936	19,622	21,314
Other charges	140	-	45	(45)
Other equipment	<u>3,000</u>	<u>1,743</u>	<u>-</u>	<u>1,743</u>
	<u>244,104</u>	<u>243,425</u>	<u>193,096</u>	<u>50,329</u>
Special education program:				
Secretary(s)	7,300	7,300	6,732	568
Social Security	451	451	412	39
State retirement	598	598	552	46
Medical Insurance	1,207	1,207	-	1,207
Medicare	106	106	97	9
Travel	501	501	233	268
In-service-staff development	<u>1,500</u>	<u>1,500</u>	<u>374</u>	<u>1,126</u>
	<u>11,663</u>	<u>11,663</u>	<u>8,400</u>	<u>3,263</u>
Vocational education program:				
Travel	<u>1,354</u>	<u>589</u>	<u>589</u>	<u>-</u>
Total support services	<u>273,338</u>	<u>268,347</u>	<u>214,755</u>	<u>53,592</u>
Non-Instructional Services:				
Community services:				
Supervisor/director	6,000	7,755	7,755	-
Teachers	59,000	81,022	80,894	128
Educational assistants	33,000	34,500	34,485	15
Other salaries and wages	-	4,200	4,186	14
Certified substitute teachers	500	-	-	-
Non-certified substitute teachers	1,500	2,700	2,698	2
Social Security	4,900	8,170	7,708	462
State retirement	4,200	9,205	6,223	2,982
Medicare	1,400	1,911	1,803	108
Travel	5,000	8,015	8,013	2
Other contracted services	15,000	2,200	2,183	17
Food supplies	2,000	4,412	4,265	147

**MILAN SPECIAL SCHOOL DISTRICT
FEDERAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (Cont.)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Over (Under)</u>
Expenditures (Cont.)				
Non-Instructional Services (Cont.):				
Community services (Cont.):				
Instructional supplies and materials	\$ 62,500	\$ 25,024	\$ 28,901	\$ (3,877)
Other supplies and materials	3,000	2,600	2,600	-
In-service/staff development	<u>2,000</u>	<u>8,286</u>	<u>8,286</u>	<u>-</u>
	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>	<u>-</u>
Total expenditures	<u>1,229,961</u>	<u>1,230,285</u>	<u>1,152,560</u>	<u>77,725</u>
Excess (deficiency) of revenues over (under) expenditures	(9,819)	(9,822)	5,273	15,095
Other financing sources (uses)				
Operating transfers out	<u>(6,127)</u>	<u>(6,127)</u>	<u>(5,273)</u>	<u>854</u>
Net changes in fund balance	<u>\$ (15,946)</u>	<u>\$ (15,949)</u>	<u>-</u>	<u>\$ 15,949</u>
Fund balance - beginning			<u>-</u>	
Fund balance - ending			<u><u>\$ -</u></u>	

**MILAN SPECIAL SCHOOL DISTRICT
CENTRALIZED CAFETERIA FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Over (Under)</u>
Revenues:				
Charges for current services:				
Lunch payments - children	\$ 275,000	\$ 275,000	\$ 264,642	\$ (10,358)
Lunch payments - adults	45,000	45,000	36,457	(8,543)
A La Carte sales	97,000	97,000	92,976	(4,024)
Other charges for services	11,000	11,000	9,516	(1,484)
	<u>428,000</u>	<u>428,000</u>	<u>403,591</u>	<u>(24,409)</u>
Other revenues:				
Fringe benefits (non-cash)	-	-	2,284	2,284
Interest earned	500	500	58	(442)
	<u>500</u>	<u>500</u>	<u>2,342</u>	<u>1,842</u>
State education funds:				
School food service	13,200	13,200	13,048	(152)
Federal through State:				
USDA - lunch	500,000	500,000	485,828	(14,172)
USDA - commodities (non-cash)	-	-	90,865	90,865
USDA - breakfast	225,000	225,000	220,708	(4,292)
USDA - other	26,000	26,000	19,849	(6,151)
	<u>751,000</u>	<u>751,000</u>	<u>817,250</u>	<u>66,250</u>
Total revenues	<u>1,192,700</u>	<u>1,192,700</u>	<u>1,236,231</u>	<u>43,531</u>
Expenditures:				
Food service:				
Director	35,500	37,800	35,448	2,352
Clerical personnel	13,000	18,804	17,464	1,340
Cafeteria personnel	320,000	303,000	289,719	13,281
Other salaries & wages	2,700	2,700	1,906	794
Non-certified substitute teachers	-	416	416	-
Social Security	24,000	21,000	18,928	2,072
State retirement	25,000	23,530	22,205	1,325
Medical insurance	62,250	67,650	63,822	3,828
Medicare liability	5,800	5,300	4,427	873
Communication	3,000	2,100	1,902	198
Maintenance & repair - equipment	7,000	16,000	12,808	3,192
Travel	3,000	4,500	3,232	1,268
Food supplies	600,950	600,950	568,721	32,229

See independent auditor's report.

**MILAN SPECIAL SCHOOL DISTRICT
CENTRALIZED CAFETERIA FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (Cont.)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Over (Under)</u>
Expenditures (Cont.)				
Food service (Cont.):				
USDA - commodities (non-cash)	\$ -	\$ -	\$ 90,865	\$ (90,865)
Other supplies & materials	70,000	82,800	76,733	6,067
In service/staff development	1,500	650	548	102
Fringe benefits (non-cash)	-	-	2,284	(2,284)
Other charges	9,000	2,500	2,041	459
Equipment	10,000	3,000	-	3,000
Total expenditures	<u>1,192,700</u>	<u>1,192,700</u>	<u>1,213,469</u>	<u>(20,769)</u>
Net changes in fund balance	<u>\$ -</u>	<u>\$ -</u>	22,762	<u>\$ 22,762</u>
Fund balance - beginning			115,217	
Increase (decrease) in inventory			<u>434</u>	
Fund balance - ending			<u>\$ 138,413</u>	

The budget does not include non-cash items - commodities and on-behalf fringe benefits.

Total expenditures - variance with final budget	(20,769)
Fringe benefits - non-cash	2,284
Commodities expense - non-cash	<u>90,865</u>
Expenditures on budgeted basis - variance with final budget	<u>\$ 72,380</u>

**MILAN SPECIAL SCHOOL DISTRICT
 EDUCATION CAPITAL PROJECTS FUND
 STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Revenues:

Other local revenues:

Interest earned \$ 21,599

Expenditures:

Non-instructional Services:

Capital Outlay:

Architectural 30,199

Building construction 1,133,542

Design expense 9,300

Site development 304

Total capital outlay 1,173,345

Debt service:

Principal 747,451

Bond Issuance costs 37,351

Total debt service 784,802

Total expenditures 1,958,147

Excess (deficiency) of revenues over (under) expenditures (1,936,548)

Other financing sources (uses)

Bond proceeds 1,760,000

Net changes in fund balance (176,548)

Fund balance - beginning 229,001

Fund balance - ending \$ 52,453

MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF PROPERTY TAX RATES AND ASSESSMENTS - PAST YEARS
JUNE 30, 2009

<u>Year Ended</u> <u>June, 30</u>	<u>Tax Rates</u>	<u>Assessments</u>	<u>Tax Levy</u>
2009	\$ 2.01	\$ 159,464,081	\$ 3,205,228
2008	2.01	152,075,084	3,056,709
2007	2.01	158,879,223	3,193,472
2006	2.01	152,057,840	3,056,363
2005	2.01	142,773,666	2,869,751
2004	2.10	139,720,712	2,934,135
2003	2.10	141,754,439	2,976,843
2002	2.10	138,467,161	2,907,810
2001	1.51	127,718,859	1,928,555
2000	1.69	107,734,779	1,820,718
1999	1.69	105,734,779	1,786,918

The following is the tax levied January 1, 2009:

2010	\$ 1.8415	\$ 155,854,061	\$ 2,870,053
------	-----------	----------------	--------------

**MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF LONG-TERM DEBT
JUNE 30, 2009**

Bonds											
Year Ended June 30,	Series 2008 Portion of Series 1997 Not Refinanced		Series 2005		Series 2005 Portion of Series 2001 Not Refinanced		Series 2008		Total Requirements		
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
	2010	-	98,390	50,000	353,463	150,000	12,000	380,000	51,950	580,000	515,803
2011	395,000	81,600	50,000	351,837	150,000	6,000	-	40,550	595,000	479,987	1,074,987
2012	415,000	62,640	330,000	350,088	-	-	-	40,550	745,000	453,278	1,198,278
2013	440,000	42,513	355,000	338,537	-	-	-	40,550	795,000	421,600	1,216,600
2014	455,000	21,612	380,000	326,113	-	-	-	40,550	835,000	388,275	1,223,275
2015	-	-	600,000	312,812	-	-	100,000	40,550	700,000	353,362	1,053,362
2016	-	-	645,000	290,313	-	-	100,000	36,900	745,000	327,213	1,072,213
2017	-	-	690,000	266,125	-	-	100,000	33,250	790,000	299,375	1,089,375
2018	-	-	730,000	240,250	-	-	100,000	29,250	830,000	269,500	1,099,500
2019	-	-	775,000	212,145	-	-	100,000	25,250	875,000	237,395	1,112,395
2020	-	-	820,000	181,920	-	-	100,000	21,250	920,000	203,170	1,123,170
2021	-	-	860,000	149,530	-	-	100,000	17,250	960,000	166,780	1,126,780
2022	-	-	900,000	115,130	-	-	100,000	13,000	1,000,000	128,130	1,128,130
2023	-	-	945,000	79,130	-	-	100,000	8,750	1,045,000	87,880	1,132,880
2024	-	-	985,000	40,385	-	-	100,000	4,375	1,085,000	44,760	1,129,760
	<u>\$ 1,705,000</u>	<u>\$ 306,755</u>	<u>\$ 9,115,000</u>	<u>\$ 3,607,778</u>	<u>\$ 300,000</u>	<u>\$ 18,000</u>	<u>\$ 1,380,000</u>	<u>\$ 443,975</u>	<u>\$ 12,500,000</u>	<u>\$ 4,376,508</u>	<u>\$ 16,876,508</u>

See independent auditor's report.

**MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF INTERFUND TRANSFERS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Operating Transfers					
Transfer In	Budget	Actual	Transfer Out	Budget	Actual
General Purpose	\$ 10,000	\$ 5,273	Federal Projects	\$ 6,127	\$ 5,273

**MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF SALARIES AND BONDS
JUNE 30, 2009**

	<u>Salary</u>	<u>Bond</u>	
Director of Schools	<u>\$ 101,745</u>	<u>\$ 373,000</u>	*

*All other employees of the school district are covered by a fidelity bond of \$150,000 for each occurrence.

**MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	Federal CFDA Number	Agency or Pass-through Number	Balance 7/1/08	Cash Receipts	Expenditures/ Amount Earned/ Amount Issued	Balance Unearned (Receivable) 6/30/09	(Receivable) 6/30/09	Unearned 6/30/09	Balance Unearned (Receivable) 6/30/09
U.S. Department of Agriculture									
Pass-through the Tennessee Department of Education									
School Breakfast Program	10.553*	N/A	\$ (6,506)	\$ 224,017	\$ 220,708	(3,197)	\$ (3,197)	\$ -	\$ (3,197)
National School Lunch Program - Snack	10.555*	N/A	-	18,607	19,849	(1,242)	(1,242)	-	(1,242)
National School Lunch Program	10.555*	N/A	(14,482)	491,122	485,828	(9,188)	(9,188)	-	(9,188)
			<u>(14,482)</u>	<u>509,729</u>	<u>505,677</u>	<u>(10,430)</u>	<u>(10,430)</u>	<u>-</u>	<u>(10,430)</u>
Total U.S. Department of Agriculture			<u>(20,988)</u>	<u>733,746</u>	<u>726,385</u>	<u>(13,627)</u>	<u>(13,627)</u>	<u>-</u>	<u>(13,627)</u>
U.S. Department of Labor									
Pass-through the Tennessee Department of Education									
Incentive Grants - WIA Section 503	17.267	N/A	(16,771)	16,771	-	-	-	-	-
Total U.S. Department of Labor			<u>(16,771)</u>	<u>16,771</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
U.S. Department of Education									
Pass-through the Tennessee Department of Education									
Special Education - Grants to States									
IDEA, Part B	84.027*	N/A	(929)	411,752	420,470	(9,647)	(9,700)	53	(9,647)
Additional Special Education Funds	84.027*	N/A	-	9,071	18,326	(9,255)	(9,255)	-	(9,255)
			<u>(929)</u>	<u>420,823</u>	<u>438,796</u>	<u>(18,902)</u>	<u>(18,955)</u>	<u>53</u>	<u>(18,902)</u>
Special Education - Preschool Grants:									
IDEA Preschool	84.173*	N/A	(5,405)	22,584	16,220	959	-	959	959
Total special education grants			<u>(6,334)</u>	<u>443,407</u>	<u>455,016</u>	<u>(17,943)</u>	<u>(18,955)</u>	<u>1,012</u>	<u>(17,943)</u>
Adult Education - Basic Grants to States									
Jobs for Tennessee Graduates - Division of									
Vocational-Technical Education	84.002		(12,500)	25,000	12,500	-	-	-	-
			<u>(12,500)</u>	<u>25,000</u>	<u>12,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Cont.)
 FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Federal CFDA Number	Agency or Pass-through Number	Balance 7/1/08	Cash Receipts	Expenditures/ Amount Earned/ Amount Issued	Balance Unearned (Receivable) 6/30/09	(Receivable) 6/30/09	Unearned 6/30/09	Balance Unearned (Receivable) 6/30/09
U.S. Department of Education (Cont.)									
Pass-through the Tennessee Department of Education (Cont.)									
Title I, Grants to Local Education Agencies									
Part A	84.010*	N/A	12,141	358,918	387,599	(16,540)	(18,617)	2,077	(16,540)
Career and Technical Education - Basic Grants to States									
Perkins IV Reserve	84.048	N/A	(66,218)	66,218	-	-	-	-	-
Carl D. Perkins	84.048	N/A	(5,707)	26,875	27,071	(5,903)	(5,903)	-	(5,903)
			<u>(71,925)</u>	<u>93,093</u>	<u>27,071</u>	<u>(5,903)</u>	<u>(5,903)</u>	<u>-</u>	<u>(5,903)</u>
Safe and Drug Free Schools and Communities - State Grants									
Title IV, Part A	84.186	N/A	(342)	4,508	4,700	(534)	(534)	-	(534)
Twenty-First Century Community Learning Centers									
Title IV, Part B	84.287	N/A	(46,261)	220,364	200,000	(25,897)	(25,897)	-	(25,897)
English Language Acquisition Grants									
Title III, Part A	84.365	N/A	-	4,430	4,684	(254)	(254)	-	(254)
State Fiscal Stabilization Fund - Education State Grants									
Recovery Act	84.394	N/A	-	105,100	105,100	-	-	-	-
Education Technology State Grants									
Title II, Part D	84.318	N/A	706	100,146	95,360	5,492	-	5,492	5,492
Total US Department of Education			(124,515)	1,354,966	1,292,030	(61,579)	(70,160)	8,581	(61,579)
Total cash federal awards			(162,274)	2,105,483	2,018,415	(75,206)	(83,787)	8,581	(75,206)
U.S. Department of Agriculture									
Pass-through the Tennessee Department of Education									
Food-Distribution - Commodities	10.555*	N/A	-	90,865	90,865	-	-	-	-
Total federal awards			\$ (162,274)	\$ 2,196,348	\$ 2,109,280	\$ (75,206)	\$ (83,787)	\$ 8,581	\$ (75,206)

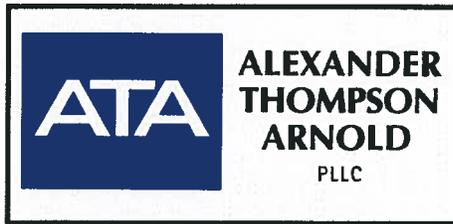
*Major federal financial assistance program.

All expenditures reported are under the modified accrual basis of accounting whereby revenues are recorded when measurable and available and expenditures are recorded when the liability is incurred.

**MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF STATE FINANCIAL ASSISTANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Contract Number	Balance 7/1/08	Cash Receipts	Expenditures/ Amount Earned/ Amount Issued	Balance Unearned (Receivable) 6/30/09	(Receivable) 6/30/09	Unearned 6/30/09	Balance Unearned (Receivable) 6/30/09
Early Childhood	\$ (70,110)	\$ 513,854	\$ 478,201	\$ (34,457)	\$ (34,457)	\$ -	\$ (34,457)
Model Dropout Prevention	GU8/AAX (6,000)	6,000	-	-	-	-	-
Coordinated School Health	GZ8 AAX9 -	86,228	104,595	(18,367)	(18,367)	-	(18,367)
Jobs for Tennessee Graduates - Department of Education	(17,500)	20,000	2,500	-	-	-	-
Safe Schools	(15,176)	23,643	8,467	-	-	-	-
Total State Awards	\$ (108,786)	\$ 649,725	\$ 593,763	\$ (52,824)	(52,824)	-	(52,824)
				Total per Schedule of Expenditures of Federal / (75,206)	(83,787)	8,581	(75,206)
				Total grants	\$ (136,611)	\$ 8,581	\$ (128,030)

INTERNAL CONTROL AND COMPLIANCE SECTION



Certified Public Accountants

www.atacpa.net

227 Oil Well Road
Jackson, TN 38305

Telephone: (731) 427-8571
Fax: (731) 424-5701

Members of

American Institute of Certified Public Accountants
AICPA Center for Public Company Audit Firms
AICPA Governmental Audit Quality Center
AICPA Employee Benefit Plan Audit Quality Center
Tennessee Society of Certified Public Accountants
Kentucky Society of Certified Public Accountants

**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***

Members of the Board of Education
Milan Special School District
Milan, Tennessee

We have audited the district-wide financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Milan Special School District (District) as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 28, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Members of the Board of Education
Milan Special School District
Milan, Tennessee

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

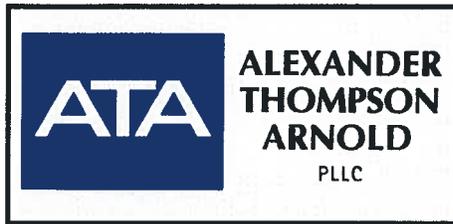
As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

We noted certain matters that we reported to management of the District in a separate letter dated February 28, 2010.

This report is intended for the information and the use of the Board of Education, management, and State of Tennessee, Comptroller of the Treasury and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants
Jackson, Tennessee
February 28, 2010



Certified Public Accountants

www.atacpa.net

227 Oil Well Road
Jackson, TN 38305

Telephone:(731) 427-8571
Fax: (731) 424-5701

Members of

American Institute of Certified Public Accountants
AICPA Center for Public Company Audit Firms
AICPA Governmental Audit Quality Center
AICPA Employee Benefit Plan Audit Quality Center
Tennessee Society of Certified Public Accountants
Kentucky Society of Certified Public Accountants

Report on Compliance with Requirements
Applicable to Each Major Program and on
Internal Control over Compliance in
Accordance with OMB Circular A-133

Members of the Board of Education
Milan Special School District
Milan, Tennessee

Compliance

We have audited the compliance of the Milan Special School District (District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control over Compliance

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

Members of the Board of Education
Milan Special School District
Milan, Tennessee

A control deficiency in the District's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Alexander Hampton Arnold PLLC

Certified Public Accountants
Jackson, Tennessee
February 28, 2010

**MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2009**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor's report issued:		Unqualified
Internal control over financial reporting:		
Material weaknesses identified?	_____ yes	_____ X _____ no
Significant deficiency identified not considered to be material weaknesses?	_____ yes	_____ X _____ none reported
Noncompliance material to financial statements noted?	_____ yes	_____ X _____ no

Federal Awards

Internal control over major programs:		
Material weaknesses identified?	_____ yes	_____ X _____ no
Significant deficiency identified not considered to be material weaknesses?	_____ yes	_____ X _____ none reported

Type of auditor's report issued on compliance for major programs:		Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	_____ yes	_____ X _____ no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster Programs:</u>
	USDA Cluster:
10.555	Food Donation - Commodities
10.553	School Breakfast Program
10.555	National School Lunch Program
84.010	Title I, Part A, Improving Basic Programs Operated by Local Education Agencies
	IDEA Cluster:
84.027	IDEA, Part B, Special Education Grants to States
84.173	IDEA, Special Education Preschool Grants

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

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

**MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Cont.)
JUNE 30, 2009**

SECTION II – FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Prior Year Findings

None reported.

Current Year Findings

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Prior Year Findings

None reported.

Current Year Findings

None reported.