

MILAN SPECIAL SCHOOL DISTRICT
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

**MILAN SPECIAL SCHOOL DISTRICT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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	30
Required Supplementary Information:	
Schedules of Funding Progress - Employee Retirement System	46
OTHER SUPPLEMENTARY INFORMATION SECTION	
Combining Balance Sheet – Other Governmental Funds	47
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Other Governmental Funds	48
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Federal Projects Fund	49
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Centralized Cafeteria Fund	53
Statement of Revenues, Expenditures and Changes in Fund Balances – Actual Education Capital Projects Fund	55
Schedule of Property Tax Rates and Assessments – Past Years	56
Schedule of Long-term Debt	57
Schedule of Interfund Transfers	58
Schedule of Salaries and Bonds	59
Schedule of Expenditures of Federal Awards	60
Schedule of State Financial Assistance	62
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>	63
Report on Compliance with Requirements Applicable to each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	65
Schedule of Findings and Questioned Costs	67

INTRODUCTORY SECTION

**MILAN SPECIAL SCHOOL DISTRICT
DIRECTORY
JUNE 30, 2010**

ELECTED OFFICIALS

Jimmy Copous, Chairman
Anthony Martin, Vice Chairperson
Marty Elliot, Member
Kenny Carmichael, Member
Darren Riggs, 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

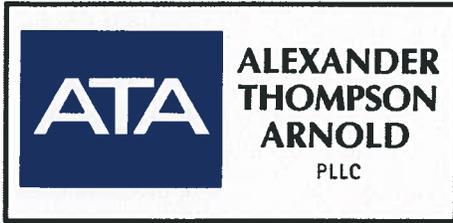
COUNSEL

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 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, 2010, 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, 2010, 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, 2011, 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.

Board of Education
Milan Special School District
Milan, Tennessee

Accounting principles generally accepted in the United States of America require that the management's discussion schedule of funding progress – employee retirement system, and schedule of funding progress – post employment healthcare plan on pages 4 through 11 and 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in a n appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statement that collectively comprise the System's financial statements as a whole. The introductory section, and the other supplementary section, are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The other supplementary information including the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Alexander Thompson Arnold PLLC

Certified Public Accountants
Jackson, Tennessee
February 28, 2011

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, 2010. 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, 2010 by \$5,076,079. Of this amount, \$971,976 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 \$2,145,687. Approximately 2% represents, local, state, and federal reserves.
- At the end of the current fiscal year, unreserved fund balance for the general purpose fund was \$1,920,326, or 12% percent of total general purpose fund expenditures.
- The District's total bonded debt decreased by \$550,000.

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).

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

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 other information.

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 \$5,076,079 at the close of the fiscal year ended June 30, 2010.

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, 2010</u>	<u>June 30, 2009</u>
Assets:		
Current and other	\$ 6,183,710	\$ 5,516,718
Capital assets - net of accumulated depreciation	<u>15,819,640</u>	<u>16,236,948</u>
Total assets	<u>22,003,350</u>	<u>21,753,666</u>
Liabilities:		
Long-term liabilities	12,987,657	13,298,893
Other liabilities	<u>3,939,614</u>	<u>3,681,535</u>
Total liabilities	<u>16,927,271</u>	<u>16,980,428</u>
Net Assets:		
Invested in capital assets, net of related debt	4,055,987	3,906,819
Restricted	48,116	299,296
Unrestricted	<u>971,976</u>	<u>567,123</u>
Total net assets	<u>\$ 5,076,079</u>	<u>\$ 4,773,238</u>

The above provides a summary of the District's net assets for 2010 and 2009.

An additional portion of the District's net assets, \$48,116, or 1%, 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*, \$971,976, 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 increased by \$302,841 during the year ended June 30, 2010. This increase was the result of a change in net assets of \$228,556 and a prior period adjustment of \$74,285.

The following summary shows the changes in net assets for fiscal years ended June 30, 2010 and 2009:

The District's Changes in Net Assets

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Revenues:		
Program revenues		
Charges for services	\$ 371,739	\$ 405,166
Operating grants and contributions	3,271,278	2,881,640
Capital grants and contributions	6,600	92,281
General revenues		
Property taxes	3,378,237	3,256,247
Sales taxes	995,457	1,037,028
Grants and contributions not restricted to certain programs	9,759,925	9,419,833
Interest	7,573	33,402
Other miscellaneous revenues	<u>19,833</u>	<u>25,441</u>
Total revenues	<u>17,810,642</u>	<u>17,151,038</u>

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Expenses:		
Instruction	\$ 9,625,822	\$ 9,823,501
Support services	5,186,865	4,993,512
Non-instructional services	<u>2,769,399</u>	<u>3,015,476</u>
Total expenses	<u>17,582,086</u>	<u>17,832,489</u>
Change in net assets	228,556	(681,451)
Net assets, beginning	4,773,238	5,454,689
Prior period adjustment	<u>74,285</u>	<u>-</u>
Net assets, ending	<u>5,076,079</u>	<u>4,773,238</u>

Governmental activities. Governmental activities increased the District's net assets by \$302,841 through change in net assets of \$228,556 and a prior period adjustment of \$74,285.

Total governmental activities' revenue for the fiscal year ended June 30, 2010 was \$17,810,642 and \$17,151,038 for the year ended June 30, 2009. 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, 2010</u>		<u>June 30, 2009</u>	
Revenues:				
Program revenues	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Charges for services	\$ 371,739	2%	\$ 405,166	2%
Operating grants and contributions	3,271,278	18%	2,881,640	17%
Capital grants and contributions	6,600	0%	64,281	0%
General revenues				
Property taxes	3,378,237	19%	3,256,247	19%
Sales taxes	995,457	6%	1,037,028	6%
Grants and contributions not restricted to certain programs	9,759,925	55%	9,447,833	55%
Interest	7,573	0%	33,402	0%
Other miscellaneous revenues	<u>19,833</u>	<u>0%</u>	<u>25,441</u>	<u>0%</u>
Total revenues	<u>\$ 17,810,642</u>	<u>100%</u>	<u>\$ 17,151,038</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 \$2,145,787. Of this amount \$2,097,571 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 \$1,920,326.

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 12% of the total general purpose fund expenditures, while total fund balances represents 12% of that same amount.

The District's general purpose fund balance increased by \$282,952 during the current fiscal year. A key factor in this increase was the District's receipt of bond proceeds and the ability to maintain expenditures under the budgeted amounts. The budgeted deficit was \$399,467.

General Purpose Fund Budgetary Highlights

Differences between the original budgets and the final amended budgets for the years ended June 30, 2010 and 2009 are briefly summarized as follows:

	June 30, 2010			June 30, 2009		
	Original	Final	Difference	Original	Final	Difference
General Purpose Fund Revenues						
Taxes	\$ 4,276,045	\$ 4,276,045	\$ -	\$ 4,276,045	\$ 4,276,045	\$ -
Intergovernmental	10,359,198	10,397,198	38,000	10,105,318	10,162,436	57,118
Miscellaneous	72,500	72,500	-	72,500	72,500	-
Total revenues	<u>14,707,743</u>	<u>14,745,743</u>	<u>38,000</u>	<u>14,453,863</u>	<u>14,510,981</u>	<u>57,118</u>
Expenditures						
Instruction	8,340,098	8,415,297	75,199	8,278,183	8,400,295	122,112
Support services	4,886,977	4,916,093	29,116	4,745,285	4,825,081	79,796
Non-instructional services	1,640,327	3,536,934	1,896,607	1,635,203	1,685,043	49,840
Total expenditures	<u>14,867,402</u>	<u>16,868,324</u>	<u>2,000,922</u>	<u>14,658,671</u>	<u>14,910,419</u>	<u>251,748</u>
Excess (deficiency) of revenues and other sources (uses) over (under) expenditures	(159,659)	(2,122,581)	(1,962,922)	(204,808)	(399,438)	(194,630)
Other financing sources (uses)	<u>10,000</u>	<u>1,778,114</u>	<u>1,768,114</u>	<u>10,000</u>	<u>10,000</u>	<u>-</u>
Net changes in fund balance	<u>\$ (149,659)</u>	<u>\$ (344,467)</u>	<u>\$ (194,808)</u>	<u>\$ (194,808)</u>	<u>\$ (389,438)</u>	<u>\$ (194,630)</u>

For the year ended June 30, 2010, the increase in the budgeted revenues was mainly due to an increase in State education funds as well as proceeds of debt. 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, increased capital outlay, and repayment of debt.

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.

Capital Asset and Debt Administration

Capital Assets. The District's investment in capital assets for its governmental funds as of June 30, 2010 and 2009, amounts to \$3,981,107 and \$4,055,987 (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, 2010			
	6/30/09	Additions	Reductions	
Capital assets not being depreciated:				
Land	\$ 854,415	\$ -	\$ -	\$ 854,415
Construction in process	-	-	-	-
	<u>854,415</u>	<u>-</u>	<u>-</u>	<u>854,415</u>
Capital assets being depreciated:				
Buildings and improvements	21,253,692	83,050	-	21,336,742
Other capital assets	1,672,607	110,428	146,895	1,636,140
	<u>22,926,299</u>	<u>193,478</u>	<u>146,895</u>	<u>22,972,882</u>
Accumulated depreciation:				
Buildings and improvements	6,193,684	586,603	-	6,780,287
Other capital assets	1,275,799	98,466	146,895	1,227,370
	<u>7,469,483</u>	<u>685,069</u>	<u>146,895</u>	<u>8,007,657</u>
Capital assets being depreciated, net	<u>15,456,816</u>	<u>(491,591)</u>	<u>-</u>	<u>14,965,225</u>
Capital assets, net of accumulated depreciation	<u>16,311,231</u>	<u>(491,591)</u>	<u>-</u>	<u>15,819,640</u>
Long-term debt related to capital assets	<u>(12,500,000)</u>	<u>(1,770,000)</u>	<u>(2,320,000)</u>	<u>(11,950,000)</u>
Capital assets net of accumulated depreciation and related debt	3,811,231	(2,261,591)	(2,320,000)	3,869,640
Bond premium	(14,316)	-	(954)	(13,362)
Bond issuance costs	<u>184,190</u>	<u>15,519</u>	<u>-</u>	<u>199,709</u>
Invested in capital assets, net of related debt	<u>\$ 3,981,105</u>	<u>\$ (2,246,072)</u>	<u>\$ (2,320,954)</u>	<u>\$ 4,055,987</u>

	June 30, 2009			
	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	1,305,886	-	21,253,692
Other capital assets	1,650,007	22,600	-	1,672,607
	<u>21,597,813</u>	<u>1,328,486</u>	<u>-</u>	<u>22,926,299</u>
Accumulated depreciation:				
Buildings and improvements	5,645,335	548,349	-	6,193,684
Other capital assets	1,167,486	108,313	-	1,275,799
	<u>6,812,821</u>	<u>656,662</u>	<u>-</u>	<u>7,469,483</u>
Capital assets being depreciated, net	<u>14,784,992</u>	<u>671,824</u>	<u>-</u>	<u>15,456,816</u>
Capital assets, net of accumulated depreciation	<u>15,611,407</u>	<u>761,824</u>	<u>62,000</u>	<u>16,311,231</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	<u>3,519,495</u>	<u>(998,176)</u>	<u>(1,289,912)</u>	<u>3,811,231</u>
Bond premium	(15,271)	-	(955)	(14,316)
Bond issuance costs	159,285	37,351	12,446	184,190
Invested in capital assets, net of related debt	<u>\$ 3,663,509</u>	<u>\$ (960,825)</u>	<u>\$ (1,278,421)</u>	<u>\$ 3,981,105</u>

Long-term debt. As of June 30, 2010, the District had total bonded debt outstanding of \$11,950,000. As of June 30, 2009, the District had total bonded debt outstanding of \$12,500,000. 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 and other post employment benefits.

	June 30, 2010	June 30, 2009
Bonds	\$ 11,950,000	\$ 12,500,000
OPEB liability	968,367	734,783
Compensated absences	69,290	64,110
	<u>\$ 12,987,657</u>	<u>\$ 13,298,893</u>

Additional information regarding the long-term debt of the District can be found in the Notes to the Financial Statements in Note 4F 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 12.3%. The State's average unemployment rate is currently 9.1%. The national average unemployment rate is currently 9.6%. All of the rates are from labor statistics released in October 2010.

All of these factors were considered in preparing the District's budget for the 2010-2011 fiscal year.

The District's unreserved fund balance in the general purpose fund was \$1,920,326, for the fiscal year ending June 30, 2010. There is \$2,289 of reserves for the general purpose fund. Of this amount, \$2,289 has been appropriated for spending in the 2010-2011 fiscal year. It is intended that this use of available fund balance and reserves will avoid the need to raise taxes during the 2010-2011 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, 2010**

Assets:

Cash and cash equivalents	\$ 2,290,534
Taxes receivable	3,224,916
Due from other governmental agencies - nongrant	209,770
Due from other governmental agencies - grants	212,954
Inventory	45,827
Bond issuance costs	199,709
Capital assets, not being depreciated:	
Land	854,415
Capital assets, net of accumulated depreciation:	
Buildings and improvements	14,556,455
Other capital assets	408,770
Total assets	<u>22,003,350</u>

Liabilities:

Accounts payable	251,586
Accrued payroll	1,141
Other accrued expenses	447,094
Bond premium	13,362
Unearned revenue - grants	1,515
Deferred revenue - taxes	3,224,916
Long-term liabilities:	
Due within one year:	620,000
Due in more than one year	12,367,657
Total liabilities	<u>16,927,271</u>

Net assets:

Invested in capital assets, net of related debt	4,055,987
Restricted for:	
Career Ladder - Extended Contract	2,289
Food service - inventory	45,827
Unrestricted	971,976
Total net assets	<u>\$ 5,076,079</u>

**MILAN SPECIAL SCHOOL DISTRICT
DISTRICT-WIDE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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	\$ 7,229,729	\$ -	\$ 601,414	\$ -	\$ (6,628,315)
Alternate education	138,101	-	17,933	-	(120,168)
Special education	1,635,684	-	618,693	-	(1,016,991)
Vocational education	618,948	-	50,088	-	(568,860)
Adult education	3,360	-	1,599	-	(1,761)
Support services:					
Attendance	158,137	-	-	-	(158,137)
Health services	147,015	-	75,003	-	(72,012)
Other student support	391,513	-	76,634	-	(314,879)
Regular education	935,804	-	298,468	-	(637,336)
Special education	128,773	-	91,000	-	(37,773)
Vocational education	9,407	-	10,935	-	1,528
Board of Education	327,110	-	49,375	-	(277,735)
Office of the Director	275,219	-	1,000	-	(274,219)
Office of the Principal	962,485	-	3,998	-	(958,487)
Fiscal services	224,004	-	-	-	(224,004)
Operation and maintenance of plant	1,252,023	-	-	-	(1,252,023)
Student transportation	375,375	-	-	-	(375,375)
Non-instructional services:					
Food service	1,230,786	371,739	893,812	6,600	41,365
Early Childhood Education	481,970	-	480,826	-	(1,144)
Education capital project	476,837	-	500	-	(476,337)
Capital outlay	156,560	-	-	-	(156,560)
Debt service	423,246	-	-	-	(423,246)
	<u>\$ 17,582,086</u>	<u>\$ 371,739</u>	<u>\$ 3,271,278</u>	<u>\$ 6,600</u>	<u>\$ (13,932,469)</u>

**MILAN SPECIAL SCHOOL DISTRICT
DISTRICT-WIDE STATEMENT OF ACTIVITIES (Cont.)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			Net (Expense) Revenue and Changes in Net Assets
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
General revenues:					
	Property taxes				\$ 3,378,237
	Sales taxes				995,457
	Grants and contributions not restricted to certain programs				
	Basic Education Program				9,142,200
	Basic Education Program - ARRA				374,800
	City appropriation				239,825
	Other				3,100
	Interest				7,573
	Other miscellaneous revenues				19,833
	Total general revenues				<u>14,161,025</u>
	Change in net assets before transfers				228,556
	Net assets, beginning				4,773,238
	Prior Period Adjustment				<u>74,285</u>
	Net assets, ending				<u>\$ 5,076,079</u>

FUND FINANCIAL STATEMENTS

**MILAN SPECIAL SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2010**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Cash and cash equivalents	\$ 2,092,310	\$ 198,224	\$ 2,290,534
Taxes receivable	3,224,916	-	3,224,916
Due from other			
governments - non grants	209,770	-	209,770
Due from other			
governments - grants	151,454	61,500	212,954
Due from other funds	70,673	-	70,673
Inventory	-	45,827	45,827
Total assets	<u>\$ 5,749,123</u>	<u>\$ 305,551</u>	<u>\$ 6,054,674</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	\$ 241,295	\$ 10,291	\$ 251,586
Accrued payroll	1,141	-	1,141
Accrued expenses	359,156	-	359,156
Due to other funds	-	70,673	70,673
Unearned revenue - grants	-	1,515	1,515
Deferred revenue - property taxes	<u>3,224,916</u>	<u>-</u>	<u>3,224,916</u>
Total liabilities	<u>3,826,508</u>	<u>82,479</u>	<u>3,908,987</u>
Fund balances:			
Reserved for:			
Career Ladder Program	2,289	-	2,289
Unreserved, designated for			
Food service - inventory	-	45,827	45,827
Unreserved, undesignated reported in:			
General purpose	1,920,326	-	1,920,326
Capital projects fund	-	39,020	39,020
Special revenue funds:			
Centralized cafeteria fund	-	138,225	138,225
Total fund balances	<u>1,922,615</u>	<u>223,072</u>	<u>2,145,687</u>
Total liabilities and fund balances	<u>\$ 5,749,123</u>	<u>\$ 305,551</u>	<u>\$ 6,054,674</u>

**MILAN SPECIAL SCHOOL DISTRICT
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2010**

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

Fund balance - total governmental funds (Page 15)	\$ 2,145,687
Capital assets used in governmental funds are not financial resources and therefore are not reported as assets in governmental funds.	15,819,640
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:	
Bond issuance costs	199,709
Some payables are not due and payable in the current period and, therefore, are not reported in the funds:	
Accrued interest	(87,938)
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	(11,950,000)
OPEB	(968,367)
Accrued leave	(69,290)
Bond premium	<u>(13,362)</u>
Net assets of governmental activities (Page 12)	<u>\$ 5,076,079</u>

**MILAN SPECIAL SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Taxes	\$ 4,373,695	\$ -	\$ 4,373,695
Intergovernmental	10,570,286	2,381,705	12,951,991
Meal sales	-	373,741	373,741
Interest earnings	4,644	8,832	13,476
Other local revenues	64,816	2,876	67,692
Miscellaneous	23,239	-	23,239
Total revenues	<u>15,036,680</u>	<u>2,767,154</u>	<u>17,803,834</u>
Expenditures:			
Instruction	8,261,272	1,028,365	9,289,637
Support services	4,684,243	450,539	5,134,782
Food service	-	1,212,905	1,212,905
Non-instructional services	3,583,136	26,973	3,610,109
Total expenditures	<u>16,528,651</u>	<u>2,718,782</u>	<u>19,247,433</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,491,971)</u>	<u>48,372</u>	<u>(1,443,599)</u>
Other financing sources (uses)			
Bond proceeds	1,768,114	1,886	1,770,000
Operating transfers in	6,809	-	6,809
Operating transfers out	-	(6,809)	(6,809)
	<u>1,774,923</u>	<u>(4,923)</u>	<u>1,770,000</u>
Net change in fund balance	282,952	43,449	326,401
Fund balance - beginning	1,639,663	190,866	1,830,529
Increase (decrease) in inventory	<u>-</u>	<u>(11,243)</u>	<u>(11,243)</u>
Fund balance - ending	<u>\$ 1,922,615</u>	<u>\$ 223,072</u>	<u>\$ 2,145,687</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, 2010**

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)	\$	326,401
<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		193,478
Depreciation		(685,069)
<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>		
		(5,180)
<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>		
		(233,584)
<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>		
		2,320,000
<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>		
		77,280
<p>In the governmental funds the principal of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of activities.</p>		
		(11,243)
<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>		
		16,473
<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>		
		<u>(1,770,000)</u>
Change in Net Assets of Governmental Activities (Page 14)	\$	<u>228,556</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, 2010**

	Original Budget	Final Budget	Actual	Variance- Over (Under)
Revenues:				
Taxes:				
Local option sales tax	\$ 975,000	\$ 975,000	\$ 994,498	\$ 19,498
Interstate telecommunications tax	2,000	2,000	959	(1,041)
	977,000	977,000	995,457	18,457
 City/Special School District:				
Current property tax	3,051,000	3,051,000	3,097,511	46,511
Prior year's property tax	125,000	125,000	161,072	36,072
Interest and penalty	25,000	25,000	18,909	(6,091)
Payment in lieu of taxes	98,045	98,045	100,746	2,701
	3,299,045	3,299,045	3,378,238	79,193
 Total taxes	4,276,045	4,276,045	4,373,695	97,650
 Intergovernmental:				
Licenses and Permits:				
Marriage licenses	900	900	893	(7)
 City General Fund:				
Budget and appropriations	241,095	241,095	239,825	(1,270)
 State revenues:				
State education funds:				
Basic Education Program	9,329,000	9,329,000	9,142,200	(186,800)
Basic Education Program - ARRA	-	-	374,800	374,800
Early Childhood Education	480,826	480,826	480,826	-
Energy Efficient School Initiative	-	38,000	38,000	-
Driver education	3,000	3,000	9,553	6,553
Other state education funds	23,000	23,000	6,531	(16,469)
Coordinated School Health - ARRA	-	75,000	75,003	3
Internet Connectivity - ARRA	-	-	6,049	6,049
Statewide Student Management System - ARRA	-	-	5,327	5,327
Career Ladder	130,000	130,000	102,130	(27,870)
Career Ladder - Extended Contract - ARRA	51,277	51,277	51,277	-
Safe Schools - ARRA	-	-	500	500
Other vocational	25,000	25,000	29,412	4,412
	10,042,103	10,155,103	10,321,608	166,505
 Other State revenues:				
Mixed drink tax	100	100	-	(100)
Other State Grants	75,000	-	-	-
	75,100	100	-	(100)
 Total State revenues	10,117,203	10,155,203	10,321,608	166,405

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, 2010**

	<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:				
Education of the handicapped	\$ -	\$ -	\$ 7,960	\$ 7,960
Total intergovernmental	<u>10,359,198</u>	<u>10,397,198</u>	<u>10,570,286</u>	<u>173,088</u>
Miscellaneous:				
Charges for current services:				
Tuition - other	2,000	2,000	-	(2,000)
School based health services - FFS	-	-	1,200	1,200
	<u>2,000</u>	<u>2,000</u>	<u>1,200</u>	<u>(800)</u>
Other local revenues:				
Interest earned	60,000	60,000	4,644	(55,356)
Lease/rentals	500	500	832	332
Miscellaneous refunds	-	-	16,520	16,520
Contributions	5,000	5,000	3,100	(1,900)
Other local revenues	5,000	5,000	1,587	(3,413)
	<u>70,500</u>	<u>70,500</u>	<u>26,683</u>	<u>(43,817)</u>
Total miscellaneous	<u>72,500</u>	<u>72,500</u>	<u>27,883</u>	<u>(44,617)</u>
Total revenues	<u>14,707,743</u>	<u>14,745,743</u>	<u>14,971,864</u>	<u>226,121</u>
Expenditures:				
Instruction:				
Regular instruction program:				
Teachers	4,679,706	4,555,686	4,526,116	(29,570)
Career Ladder Program	75,100	75,100	70,080	(5,020)
Career Ladder - Extended Contract	39,632	45,798	45,797	(1)
Homebound teachers	9,000	15,390	15,386	(4)
Aides	90,450	90,450	89,931	(519)
Other Salaries and wages	5,000	85,760	85,692	(68)
Substitute teachers	28,000	28,000	18,393	(9,607)
Non-certified substitute teachers	58,000	71,700	71,613	(87)
Social Security	309,063	314,063	278,316	(35,747)
State retirement	320,030	325,730	303,076	(22,654)
Medical insurance	527,125	527,125	509,314	(17,811)
Medicare	72,281	73,581	66,846	(6,735)
Maintenance and repair - equipment	7,000	7,000	-	(7,000)

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, 2010**

Expenditures (Cont.):	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Over (Under)</u>
Instruction (Cont.):				
Regular instruction program (Cont.):				
Other contracted services	\$ 32,400	\$ 32,400	\$ 31,429	\$ (971)
Instructional supplies/materials	110,000	130,808	146,772	15,964
Textbooks	125,000	125,000	120,621	(4,379)
Fee waivers	22,000	22,000	-	(22,000)
Other charges	3,000	3,000	3,765	765
Equipment	<u>100,000</u>	<u>100,000</u>	<u>123,558</u>	<u>23,558</u>
	<u>6,612,787</u>	<u>6,628,591</u>	<u>6,506,705</u>	<u>(121,886)</u>
Alternate instruction program:				
Teachers	93,195	93,195	93,195	-
Career Ladder	2,000	2,000	2,000	-
Social Security	5,902	5,902	5,712	(190)
State retirement	6,112	6,112	6,111	(1)
Medical insurance	8,440	8,440	7,777	(663)
Medicare	1,380	1,380	1,336	(44)
Instructional supplies/materials	<u>1,000</u>	<u>6,000</u>	<u>6,035</u>	<u>35</u>
	<u>118,029</u>	<u>123,029</u>	<u>122,166</u>	<u>(863)</u>
Special education program:				
Teachers	640,270	640,270	632,636	(7,634)
Career Ladder	8,000	8,000	8,000	-
Homebound teachers	1,500	2,575	2,571	(4)
Aides	33,000	33,000	27,942	(5,058)
Speech pathologist	57,390	57,390	57,390	-
Substitute teachers	3,000	3,750	3,740	(10)
Non-certified substitute teachers	19,300	26,700	26,698	(2)
Social Security	47,273	47,273	43,189	(4,084)
State retirement	48,950	48,950	46,317	(2,633)
Medical insurance	75,000	89,300	88,503	(797)
Medicare	11,056	11,056	10,103	(953)
Contracts with other school systems	-	13,500	13,500	-
Maintenance and repair - equipment	300	300	-	(300)
Other contracted services	55,000	55,000	68,923	13,923
Instructional supplies/materials	10,000	3,770	3,164	(606)
Other supplies and materials	-	300	273	(27)
Fee waivers	5,000	5,000	-	(5,000)
Communication	500	500	-	(500)
Equipment	<u>2,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>1,017,539</u>	<u>1,046,634</u>	<u>1,032,949</u>	<u>(13,685)</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, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Over (Under)</u>
Expenditures (Cont.):				
Instruction (Cont.):				
Vocational education program: (Cont.):				
Teachers	\$ 354,500	\$ 354,500	\$ 354,154	\$ (346)
Career Ladder	4,000	4,000	4,000	-
Aides	18,855	18,855	18,419	(436)
Other salaries and wages	40,000	48,300	47,537	(763)
Substitute teachers	1,000	1,000	480	(520)
Non-certified substitute teachers	8,000	8,000	6,490	(1,510)
Social Security	26,434	26,434	24,151	(2,283)
State retirement	27,372	27,372	27,148	(224)
Medical insurance	38,000	55,000	55,661	661
Medicare	6,182	6,182	5,746	(436)
Maintenance and repair - equipment	3,000	3,000	1,937	(1,063)
Instructional supplies	25,400	25,400	23,473	(1,927)
Other charges	5,000	5,000	1,342	(3,658)
Equipment	<u>30,000</u>	<u>30,000</u>	<u>25,554</u>	<u>(4,446)</u>
	<u>587,743</u>	<u>613,043</u>	<u>596,092</u>	<u>(16,951)</u>
Adult education program:				
Other contracted services	<u>4,000</u>	<u>4,000</u>	<u>3,360</u>	<u>(640)</u>
Total instruction	<u>8,340,098</u>	<u>8,415,297</u>	<u>8,261,272</u>	<u>(154,025)</u>
Support Services:				
Attendance:				
Director	61,750	61,750	61,440	(310)
Career Ladder	1,600	1,600	1,600	-
Social workers	39,295	39,295	39,295	-
Other salaries and wages	23,683	23,683	23,163	(520)
Social Security	7,739	7,739	6,146	(1,593)
State retirement	8,013	8,013	6,611	(1,402)
Medical insurance	3,200	5,400	5,373	(27)
Medicare	1,810	1,810	1,782	(28)
Maintenance and repair - equipment	200	200	-	(200)
Travel	2,000	2,000	3,801	1,801
Other supplies and materials	500	2,200	6,091	3,891
In-service/staff development	1,500	1,500	422	(1,078)
Equipment	<u>3,000</u>	<u>3,000</u>	<u>2,413</u>	<u>(587)</u>
	<u>154,290</u>	<u>158,190</u>	<u>158,137</u>	<u>(53)</u>
Health Services:				
Supervisor/director	41,290	36,890	36,644	(246)
Medical personnel	51,215	51,215	50,835	(380)

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, 2010**

	Original Budget	Final Budget	Actual	Variance- Over (Under)
Expenditures (Cont.):				
Support Services (Cont.):				
Health services: (Cont.):				
Other salaries and wages	\$ 17,712	\$ 17,712	\$ 17,435	\$ (277)
Social Security	6,828	6,294	5,897	(397)
State retirement	7,685	7,109	6,159	(950)
Medical insurance	12,655	16,655	16,168	(487)
Medicare	1,598	1,598	1,379	(219)
Communication	500	500	-	(500)
Postage	350	350	35	(315)
Printing, stationery and forms	200	200	34	(166)
Travel	2,500	3,500	4,195	695
Other contracted services	250	250	150	(100)
Drugs and medical supplies	1,500	1,500	2,134	634
Other supplies/materials	2,335	3,445	4,299	854
In-service/staff development	800	800	786	(14)
Other charges	1,500	1,500	457	(1,043)
Health equipment	750	750	408	(342)
	<u>149,668</u>	<u>150,268</u>	<u>147,015</u>	<u>(3,253)</u>
Other student support:				
Career Ladder	4,500	5,000	5,000	-
Guidance personnel	237,498	237,498	225,913	(11,585)
Social Security	15,004	15,004	12,779	(2,225)
State retirement	15,536	15,536	14,825	(711)
Medical insurance	35,500	35,500	28,535	(6,965)
Medicare	3,509	3,509	2,989	(520)
Evaluation/testing	20,000	20,000	28,046	8,046
In-service/staff development	1,750	1,750	1,790	40
	<u>333,297</u>	<u>333,797</u>	<u>319,877</u>	<u>(13,920)</u>
Regular education program:				
Director	215,202	215,202	210,669	(4,533)
Career Ladder	6,500	6,500	6,500	-
Career Ladder - Extended Contract	5,320	5,320	5,320	-
Librarian(s)	172,580	172,580	169,192	(3,388)
Instructional computer personnel	34,626	34,926	34,847	(79)
Aides	30,420	30,420	27,799	(2,621)
Other salaries and wages	34,545	34,745	34,706	(39)
Social Security	30,950	30,950	27,313	(3,637)
State retirement	33,600	33,600	31,132	(2,468)

**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, 2010**

Expenditures (Cont.):	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Over (Under)</u>
Support Services (Cont.):				
Regular education program: (Cont.):				
Medical insurance	\$ 47,500	\$ 47,500	\$ 42,266	\$ (5,234)
Medicare	7,238	7,238	6,677	(561)
Travel	4,000	4,000	1,795	(2,205)
Library books	18,200	18,200	18,200	-
In-service/staff development	30,500	30,500	32,753	2,253
	<u>671,181</u>	<u>671,681</u>	<u>649,169</u>	<u>(22,512)</u>
Special education program:				
Director	29,134	29,584	29,340	(244)
Social Security	1,806	1,821	1,819	(2)
State retirement	1,870	1,885	1,884	(1)
Medicare	423	428	425	(3)
Travel	1,500	1,500	1,287	(213)
In-service/staff development	7,500	2,230	2,701	471
Other supplies/materials	500	500	429	(71)
	<u>42,733</u>	<u>37,948</u>	<u>37,885</u>	<u>(63)</u>
Vocational education program:				
Director	3,000	3,000	3,000	-
Social security	186	186	172	(14)
State retirement	193	193	193	-
Medical insurance	-	200	136	(64)
Medicare	44	44	40	(4)
Travel	3,500	3,500	3,689	189
Other supplies/materials	200	200	128	(72)
In-service/staff development	2,000	2,000	666	(1,334)
Other charges	500	500	-	(500)
	<u>9,623</u>	<u>9,823</u>	<u>8,024</u>	<u>(1,799)</u>
Board of Education services:				
Secretary to Board	1,363	1,363	1,363	-
Social Security	85	85	83	(2)
State retirement	112	112	112	-
Unemployment compensation	32,500	32,500	23,184	(9,316)
Medicare	20	20	19	(1)
Other fringe benefits	55,000	55,000	48,071	(6,929)
Audit services	28,000	28,000	29,195	1,195
Dues and memberships	6,500	6,500	7,124	624
Legal services	12,000	12,000	8,548	(3,452)
Other contracted services	6,000	6,000	-	(6,000)

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, 2010**

Expenditures (Cont.):	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Over (Under)</u>
Support Services (Cont.):				
Board of Education services:				
Liability insurance	\$ 14,371	\$ 14,371	\$ 15,218	\$ 847
Premium on surety bond	1,105	1,105	1,796	691
Trustee commissions	90,000	90,000	74,045	(15,955)
Workmen's compensation insurance	80,000	80,000	84,954	4,954
In-service/staff development	4,000	4,000	6,892	2,892
Other charges	<u>22,785</u>	<u>22,785</u>	<u>26,506</u>	<u>3,721</u>
	<u>353,841</u>	<u>353,841</u>	<u>327,110</u>	<u>(26,731)</u>
Office of the Director of Schools:				
County official/administrative officer	118,864	118,864	118,525	(339)
Career Ladder	1,000	1,000	1,000	-
Secretary(ies)	34,799	34,799	33,370	(1,429)
Clerical personnel	30,145	30,145	30,101	(44)
Other salaries and wages	3,088	3,088	1,690	(1,398)
Social Security	11,600	11,600	10,572	(1,028)
State retirement	13,100	13,100	12,993	(107)
Medical insurance	9,000	9,000	8,401	(599)
Medicare	2,900	2,900	2,578	(322)
Communication	10,000	10,000	6,049	(3,951)
Dues and memberships	2,000	2,000	1,703	(297)
Postal charges	3,000	3,000	2,745	(255)
Travel	6,500	6,500	6,794	294
Other contracted services	3,000	3,000	5,161	2,161
Office supplies	7,500	7,500	8,824	1,324
In-service/staff development	12,000	12,000	12,983	983
Other charges	5,000	5,000	5,496	496
Equipment	<u>6,500</u>	<u>6,500</u>	<u>6,234</u>	<u>(266)</u>
	<u>279,996</u>	<u>279,996</u>	<u>275,219</u>	<u>(4,777)</u>
Office of the Principal:				
Principals	219,500	219,500	218,193	(1,307)
Career Ladder	7,000	7,000	4,000	(3,000)
Assistant(s)	295,180	294,186	292,743	(1,443)
Secretary(ies)	218,718	218,718	216,657	(2,061)
Other salaries and wages	6,000	6,760	6,760	-
Social Security	46,277	46,277	42,456	(3,821)
State retirement	54,114	54,114	50,979	(3,135)
Medical insurance	48,417	76,417	76,106	(311)
Medicare	9,696	9,930	9,929	(1)
Communication	25,000	25,000	12,812	(12,188)

**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, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Over (Under)</u>
Expenditures (Cont.):				
Support Services (Cont.):				
Office of the Principal: (Cont.):				
Dues and memberships	\$ 3,000	\$ 3,000	\$ 978	\$ (2,022)
Postal charges	5,000	5,000	5,000	-
Travel	6,000	6,000	5,504	(496)
Other contracted services	2,500	2,500	1,770	(730)
Office supplies	2,000	2,000	2,000	-
In-service/staff development	6,000	6,000	7,500	1,500
	<u>954,402</u>	<u>982,402</u>	<u>953,387</u>	<u>(29,015)</u>
Fiscal services:				
Director	34,626	34,626	34,547	(79)
Accountants/bookkeepers	41,000	41,000	40,850	(150)
Other salaries & wages	16,627	16,827	16,798	(29)
Social Security	5,720	5,720	4,887	(833)
State retirement	8,000	8,000	6,951	(1,049)
Medical insurance	19,000	19,000	15,498	(3,502)
Medicare	1,338	1,338	1,143	(195)
Other contracted services	7,200	7,200	7,169	(31)
Office supplies	2,000	2,000	1,326	(674)
In-service/staff development	1,000	1,000	1,115	115
Equipment	3,500	3,500	735	(2,765)
	<u>140,011</u>	<u>140,211</u>	<u>131,019</u>	<u>(9,192)</u>
Human services/personnel:				
Supervisor/director	36,686	36,961	36,956	(5)
Clerical personnel	31,863	31,863	31,797	(66)
Social security	4,250	4,250	3,911	(339)
State retirement	4,798	4,984	4,983	(1)
Medical insurance	10,500	10,039	6,903	(3,136)
Medicare	994	994	915	(79)
Dues and memberships	500	500	590	90
Postal charges	300	300	-	(300)
Travel	2,500	2,500	1,484	(1,016)
Office supplies	500	500	522	22
In-service/staff development	750	750	721	(29)
Other charges	1,900	1,900	1,733	(167)
Equipment	2,000	2,000	2,470	470
	<u>97,541</u>	<u>97,541</u>	<u>92,985</u>	<u>(4,556)</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, 2010**

	Original Budget	Final Budget	Actual	Variance- Over (Under)
Expenditures (Cont.):				
Support Services (Cont.):				
Operation and maintenance of plant:				
Operation of plant:				
Custodial personnel	\$ 249,465	\$ 249,465	\$ 242,028	\$ (7,437)
Other salaries & wages	6,000	6,000	743	(5,257)
Social Security	15,839	15,839	13,782	(2,057)
State retirement	20,974	20,974	17,532	(3,442)
Medical insurance	37,000	37,000	29,968	(7,032)
Medicare	3,704	3,704	3,223	(481)
Other contracted services	28,000	28,000	58,102	30,102
Custodial supplies	58,000	58,000	64,232	6,232
Electricity	390,000	390,000	355,673	(34,327)
Natural gas	110,000	110,000	85,843	(24,157)
Water and sewer	33,000	33,000	34,111	1,111
Boiler insurance	3,538	3,538	3,538	-
Building and contents insurance	67,000	67,000	65,659	(1,341)
	<u>1,022,520</u>	<u>1,022,520</u>	<u>974,434</u>	<u>(48,086)</u>
Maintenance of plant:				
Director	41,691	41,776	41,776	-
Maintenance personnel	68,783	68,783	63,886	(4,897)
Other salaries and wages	10,000	10,000	8,367	(1,633)
Social Security	7,469	7,384	6,412	(972)
State retirement	9,400	9,400	9,285	(115)
Medical insurance	16,205	16,205	15,340	(865)
Medicare	1,747	1,747	1,500	(247)
Communication	2,000	2,000	1,111	(889)
Maintenance and repair - buildings	42,000	42,000	54,484	12,484
Maintenance and repair - equipment	25,000	25,000	7,423	(17,577)
Other contracted services	30,000	30,000	24,930	(5,070)
Gasoline	4,000	4,000	-	(4,000)
Other supplies and materials	32,000	32,000	39,393	7,393
In-service/staff development	500	500	15	(485)
	<u>290,795</u>	<u>290,795</u>	<u>273,922</u>	<u>(16,873)</u>
Total operation and maintenance of plant	<u>1,313,315</u>	<u>1,313,315</u>	<u>1,248,356</u>	<u>(64,959)</u>
Student transportation:				
Director	37,000	37,000	36,656	(344)
Bus drivers	103,011	103,011	91,303	(11,708)
Clerical personnel	4,000	4,001	4,000	(1)
Other salaries and wages	55,800	55,800	43,824	(11,976)
Social Security	12,388	12,388	10,784	(1,604)

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, 2010**

	<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.):				
Student transportation (Cont.):				
State retirement	\$ 16,404	\$ 16,404	\$ 10,570	\$ (5,834)
Medical insurance	5,700	5,700	959	(4,741)
Medicare	2,676	2,676	2,510	(166)
Communication	500	500	1,799	1,299
Contracts with public carriers	4,500	4,500	8,082	3,582
Travel	500	500	297	(203)
Other contracted services	50,000	50,000	60,841	10,841
Diesel fuel	64,000	64,000	33,656	(30,344)
Gasoline	4,000	4,000	5,099	1,099
Other supplies and materials	200	200	297	97
Vehicle and equipment insurance	19,900	19,900	19,900	-
In-service/staff development	2,000	2,000	1,447	(553)
Other charges	3,000	3,000	4,036	1,036
	<u>385,579</u>	<u>385,580</u>	<u>336,060</u>	<u>(49,520)</u>
Central and Other:				
Other supplies and materials	<u>1,500</u>	<u>1,500</u>	<u>-</u>	<u>(1,500)</u>
Total support services	<u>4,886,977</u>	<u>4,916,093</u>	<u>4,684,243</u>	<u>(231,850)</u>
Early Childhood Education				
Supervisor/director	10,163	10,163	10,130	(33)
Teachers	186,525	186,525	182,901	(3,624)
Clerical personnel	11,757	11,757	11,589	(168)
Educational assistants	150,805	150,805	143,550	(7,255)
Substitute teachers	500	500	-	(500)
Non-certified substitute teachers	250	250	55	(195)
Social Security	22,134	22,134	20,852	(1,282)
State retirement	24,990	26,133	25,126	(1,007)
Medical insurance	22,700	22,700	15,330	(7,370)
Medicare	5,176	5,176	4,877	(299)
Travel	4,000	4,000	568	(3,432)
Other contracted services	10,000	10,000	7,014	(2,986)
Instructional supplies and materials	27,227	27,227	57,506	30,279
In-service/staff development	4,000	4,000	414	(3,586)
Other charges	600	600	2,058	1,458
	<u>480,827</u>	<u>481,970</u>	<u>481,970</u>	<u>-</u>
Capital outlay:				
Other capital outlay	<u>72,000</u>	<u>199,350</u>	<u>199,350</u>	<u>-</u>
	<u>72,000</u>	<u>199,350</u>	<u>199,350</u>	<u>-</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, 2010**

	Original Budget	Final Budget	Actual	Variance- Over (Under)
Expenditures (Cont.):				
Non-Instructional Services (Cont.):				
Debt service:				
Principal on bonds	\$ 580,000	\$ 2,348,157	\$ 2,320,000	\$ (28,157)
Interest on bonds	505,000	470,000	452,851	(17,149)
Underwriter's discount	-	13,275	13,275	-
Other debt issuance charges	-	21,682	21,682	-
Other debt service	2,500	2,500	29,192	26,692
	<u>1,087,500</u>	<u>2,855,614</u>	<u>2,837,000</u>	<u>(18,614)</u>
Total non-instructional services	<u>1,640,327</u>	<u>3,536,934</u>	<u>3,518,320</u>	<u>(18,614)</u>
Total expenditures	<u>14,867,402</u>	<u>16,868,324</u>	<u>16,463,835</u>	<u>(404,489)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(159,659)</u>	<u>(2,122,581)</u>	<u>(1,491,971)</u>	<u>630,610</u>
Other financing sources (uses)				
Bond proceeds	-	1,768,114	1,768,114	-
Operating transfers in	10,000	10,000	6,809	(3,191)
Total other financing sources (uses)	<u>10,000</u>	<u>1,778,114</u>	<u>1,774,923</u>	<u>(3,191)</u>
Net changes in fund balance	<u>\$ (149,659)</u>	<u>\$ (344,467)</u>	<u>282,952</u>	<u>\$ 627,419</u>
Fund balance - beginning			<u>1,639,663</u>	
Fund balance - ending			<u>\$ 1,922,615</u>	
Explanation of differences between budgetary inflows and outflows and GAAP revenues and expenditures				
Inflows/revenues:				
Actual amounts (budgetary basis)			\$ 14,971,864	\$ 226,121
Differences - budget to GAAP:				
Fringe benefits - noncash			64,816	64,816
Total Revenues as Reported on Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds			<u>15,036,680</u>	<u>290,937</u>
Outflows/expenditures:				
Actual amounts (budgetary basis)			16,463,835	(404,489)
Differences - budget to GAAP:				
Fringe benefits - noncash			64,816	64,816
Total Expenditures as Reported on Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds			<u>16,528,651</u>	<u>(339,673)</u>
Other financing sources (uses)			<u>1,774,923</u>	<u>(3,191)</u>
Net changes in fund balance			<u>\$ 282,952</u>	<u>\$ 627,419</u>

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

**MILAN SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

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, 2010

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 fund:

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.

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, 2010**

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, 2010 but were not available to finance expenditures for the year ended June 30, 2010. Deferred revenues primarily include unearned or unavailable revenues.

**MILAN SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2010**

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 (\$11,950,000) are as follows:

MILAN SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont.)
 JUNE 30, 2010

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 2009	\$ (1,735,000)
School bonds payable, Series 2005	(9,065,000)
School bonds payable, Series 2005 (portion of 2001 not refinanced)	(150,000)
School bonds payable, Series 2008	<u>(1,000,000)</u>
	<u>\$ (11,950,000)</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 \$15,819,640 are as follows:

Land	\$ 854,415
Buildings and improvements	21,336,742
Other fixed assets	<u>1,636,140</u>
	23,827,297
Less accumulated depreciation	<u>(8,007,657)</u>
Total capital assets, net of accumulated depreciation	<u>\$ 15,819,640</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 \$2,320,000 are as follows:

Principal repayments:

School bonds payable, Series 1997	\$ 1,705,000
School bonds payable, Series 2005	50,000
School bonds payable, Series 2001	150,000
School bonds payable, Series 2009	35,000
School bonds payable, Series 2008	<u>380,000</u>
	<u>\$ 2,320,000</u>

MILAN SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont.)
 JUNE 30, 2010

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 (\$1,770,000) are as follows:

Series 2009 issuance	<u>\$ (1,770,000)</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 \$193,478 and (\$685,069) are as follows:

Capital outlays	<u>\$ 193,478</u>
Depreciation expense	<u>\$ (685,069)</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 (\$5,180) are as follows:

Accrued leave as of June 30, 2009	\$ 64,110
Accrued leave as of June 30, 2010	<u>(69,290)</u>
	<u>\$ (5,180)</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 (\$233,584) are as follows:

OPEB Liability as of June 30, 2009	\$ 734,783
OPEB Liability as of June 30, 2010	<u>(968,367)</u>
	<u>\$ (233,584)</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 \$77,280 are as follows:

Accrued interest as of June 30, 2009	\$ 165,218
Accrued interest as of June 30, 2010	<u>(87,938)</u>
	<u>\$ 77,280</u>

**MILAN SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2010**

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 \$16,473 are as follows:

Amortization of bond premium	\$ 954
Amortization of bond issuance costs	<u>15,519</u>
	<u>\$ 16,473</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 except for on-behalf and commodity noncash revenues and expenses. 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 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, 2010, all bank deposits were fully collateralized or insured.

**MILAN SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2010**

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

A. Deposits and Investments (Cont.)

Custodial Credit Risk (Cont.)

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, 2010.

The following is a summary of cash and cash equivalents as of June 30, 2010

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	\$ 3,224,916	\$ -	\$ 3,224,916
Grants	151,454	61,500	212,954
Intergovernmental	209,770	-	209,770
Total receivables	\$ 3,586,140	\$ 61,500	\$ 3,647,640

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.

Cash in bank	\$ 2,260,255
Local Government Investment Pool	30,279
Total cash and cash equivalents	\$ 2,290,534

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, 2010, is as follows:

Receivable Fund	Payable Fund	Amount
General Purpose	Centralized Cafeteria	\$ 33,020
General Purpose	Federal Projects	37,653
		70,673
Elimination for district-wide statements		(70,673)
		\$ -

**MILAN SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2010**

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, 2010 was as follows:

Transferred From	Transferred To	Amount
Federal Projects	General Fund	\$ 6,809

D. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	6/30/09	Additions	Reductions	6/30/10
Capital assets not being depreciated:				
Land	\$ 854,415	\$ -	\$ -	\$ 854,415
Construction in process	-	-	-	-
	826,415	-	-	854,415
Capital assets being depreciated:				
Buildings and improvements	21,253,692	83,050	-	21,336,742
Other capital assets	1,672,607	110,428	146,895	1,636,140
	22,926,299	193,478	146,895	22,972,882
Accumulated depreciation:				
Buildings and improvements	(6,193,684)	(586,603)	-	(6,780,287)
Other capital assets	(1,275,799)	(98,466)	(146,895)	(1,227,370)
	(7,469,483)	(685,069)	(146,895)	(8,007,657)
Total capital assets being depreciated, net	15,456,816	(491,591)	-	14,965,225
Capital assets net of accumulated				
Total capital assets, net	\$ 16,283,231	\$ (491,591)	\$ -	\$ 15,819,640

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

MILAN SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont.)
 JUNE 30, 2010

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

D. Capital Assets (Cont.)

Instruction:	
Regular education	\$ 10,938
Vocational education	6,178
Support services:	
Office of the Principal	9,098
Operation and maintenance of plant	9,785
Student transportation	41,825
Non-instructional services:	
Capital outlay	596,612
Food service	10,633
	<u>\$ 685,069</u>

E. Leases

Operating Leases

The District has entered into a two lease agreements as lessee for a copier on both agreements. These lease agreements qualify as operating leases for accounting purposes. The first lease is for a forty-eight month period with monthly payments of \$238. The second lease is for a sixty month period with monthly payments of \$177. The future minimum lease payments as of June 30, 2010, were as follows:

Year Ended June 30,	
2011	\$4,983
2012	4,030
2013	2,124
2014	2,124
2015	<u>531</u>
	<u>\$13,792</u>

The lease expense for the year ended June 30, 2010 was \$4,452.

F. Long-term Debt

The annual requirements to amortize all long-term debt and obligations outstanding, excluding compensated absences and OPEB, as of June 30, 2010 are as follows:

Years Ending June 30,	Bonds		Total
	Principal	Interest	
2011	620,000	445,462	1,065,462
2012	755,000	429,313	1,184,313
2013	795,000	407,137	1,202,137
2014	830,000	381,513	1,211,513
2015	700,000	353,362	1,053,362
2016-2020	4,160,000	1,336,653	5,496,653
2021-2024	4,090,000	427,550	4,517,550
	<u>\$ 11,950,000</u>	<u>\$ 3,780,990</u>	<u>\$ 15,730,990</u>

**MILAN SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2010**

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, 2010:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Bonds Payable:					
School Bonds, Series 1997, 4.45% to 4.85% interest, payable serially through 2014	\$ 1,705,000	\$ -	\$ 1,705,000	\$ -	\$ -
School Bonds, Series 2001 3.50% to 5.00% interest, payable serially through 2024, remaining portion not refunded	300,000	-	150,000	150,000	150,000
School Bonds, Series 2005 3.50% to 4.10% interest, payable serially through 2024	9,115,000	-	50,000	9,065,000	50,000
School Bonds, Series 2008 3.00% to 4.375% interest, payable serially through 2024	1,380,000	-	380,000	1,000,000	-
School Bonds, Series 2009 1.50% to 3.30% interest, payable serially through 2014	-	1,770,000	35,000	1,735,000	420,000
Total bonds payable	12,500,000	1,770,000	2,320,000	11,950,000	620,000
Other post employment benefits	734,783	233,584	-	968,367	-
Compensated absences	64,110	5,180	-	69,290	-
Total long-term liabilities	13,298,893	2,008,764	2,320,000	12,987,657	620,000
Other deferred costs:					
Bond premium	14,316	-	954	13,362	-
Bond issuance costs	(184,190)	34,957	19,438	(199,709)	-
Net long-term liabilities including associated deferred items	<u>\$ 13,129,019</u>	<u>\$ 2,043,721</u>	<u>\$ 2,340,392</u>	<u>\$ 12,801,310</u>	<u>\$ 620,000</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, 2010, defeased bonds of \$9,065,000 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, 2010**

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

G. Long-term Debt (Cont.)

During the year ended June 30, 2010, the District issued \$1,770,000 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, 2011, April 1, 2012, and April 1, 2014, 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. At June 30, 2010, defeased bonds of \$1,735,000 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, 2010 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, 2010**

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 \$147,653 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, 2009, which established contribution rates effective July 1, 2010.

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2010	\$ 147,653	100.00%	\$ -
6/30/2009	147,352	100.00%	-
6/30/2008	137,070	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 (SETHEPP), 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, 2010**

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, 2010 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, 2010, 2009, 2008, and 2007 were \$513,478, \$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, 2010**

NOTE 5 – OTHER INFORMATION (Cont.)

B. Postemployment Healthcare Plan (Cont.)

Funding Policy (Cont.)

ARC		\$	363,000
Interest on NPO			33,065
Adjustment to the ARC			<u>(32,182)</u>
Annual OPEB cost			363,883
Amount of contribution			<u>(130,299)</u>
Increase/decrease in NPO			233,584
Net OPEB obligation - beginning of year			<u>734,783</u>
Net OPEB obligation - end of year		\$	<u>968,367</u>

<u>Year End*</u>	<u>Plan</u>	<u>Annual OPEB Cost</u>	<u>% of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation at Year End</u>
6/30/2010	Teacher Group	\$ 363,883	36%	\$ 968,367
6/30/2009	Teacher Group	\$ 837,000	12%	\$ 734,783

*Data not available for preceeding years.

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2010, was as follows:

	<u>Teacher Group Plan</u>
Actuarial valuation date	7/1/2009
Actuarial accrued liability (AAL)	\$ 3,168,000
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 3,168,000</u>
Actuarial Value of Assets as a % of the AAL	-
Covered payroll (active plan members)	\$ 9,831,183
UAAL as a percentage of covered payroll	32.22%

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, 2010

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 July 1, 2009, actuarial valuation for the Local Education plan, 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 4 percent for fiscal year 2010. The trend will rise to 10% in fiscal year 2011 and then will be reduced by decrements to an ultimate rate of 5 percent by fiscal year 2021. The annual healthcare cost trend rate for the Local Government plan was 3 percent for fiscal year 2010. The trend will rise to 10% in fiscal year 2011 and then will be reduced by decrements to an ultimate rate of 5 percent by fiscal year 2021. The annual healthcare cost trend rate for the Medicare Supplement plan was 1 percent for fiscal year 2010. The trend will rise to 10% in fiscal year 2011 and then will be reduced by decrements to an ultimate rate of 5 percent by fiscal year 2021. 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 2010 the State made contributions of \$73,594.

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, 2010**

(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)
7/1/2009	\$ 3,141	\$ 3,638	\$ 497	86.33%	\$ 1,816	27.38%
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, 2010**

	Capital Projects Fund	Special Revenue Funds		Total
		Federal Projects Fund	Centralized Cafeteria Fund	
Assets:				
Cash	\$ 39,020	\$ -	\$ 159,204	\$ 198,224
Due from other governments - grants	-	42,569	18,931	61,500
Inventory	-	-	45,827	45,827
Total assets	\$ 39,020	\$ 42,569	\$ 223,962	\$ 305,551
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ -	\$ 3,401	\$ 6,890	\$ 10,291
Due to other funds	-	37,653	33,020	70,673
Deferred revenue	-	1,515	-	1,515
Total liabilities	-	42,569	39,910	82,479
Fund balances:				
Unreserved fund balance:				
Designated - inventory	-	-	45,827	45,827
Undesignated	39,020	-	138,225	177,245
Total fund balances	39,020	-	184,052	223,072
Total liabilities and fund balances	\$ 39,020	\$ 42,569	\$ 223,962	\$ 305,551

**MILAN SPECIAL SCHOOL DISTRICT
OTHER GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	Capital Projects Fund	Special Revenue Funds		Total
		Federal Projects Fund	Centralized Cafeteria Fund	
Revenues:				
Charges for current services	\$ -	\$ -	\$ 373,741	\$ 373,741
Interest earned	2,876	-	-	2,876
Other local revenues	-	6,359	2,473	8,832
State revenue	-	-	13,214	13,214
Federal revenue	-	1,485,713	882,778	2,368,491
Total revenues	<u>2,876</u>	<u>1,492,072</u>	<u>1,272,206</u>	<u>2,767,154</u>
Expenditures:				
Instruction	-	1,028,365	-	1,028,365
Support services	-	450,539	-	450,539
Non-instructional services	18,195	6,359	2,419	26,973
Food service	-	-	1,212,905	1,212,905
Total expenditures	<u>18,195</u>	<u>1,485,263</u>	<u>1,215,324</u>	<u>2,718,782</u>
Excess (deficiency) of revenues over (under) expenditures	(15,319)	6,809	56,882	48,372
Other financing sources (uses)				
Bond proceeds	1,886	-	-	1,886
Operating transfers out	-	(6,809)	-	(6,809)
Total other financing sources (uses)	<u>1,886</u>	<u>(6,809)</u>	<u>-</u>	<u>(4,923)</u>
Net changes in fund balance	(13,433)	-	56,882	43,449
Fund balance - beginning	52,453	-	138,413	190,866
Increase (decrease) in inventory	-	-	(11,243)	(11,243)
Fund balance - ending	<u>\$ 39,020</u>	<u>\$ -</u>	<u>\$ 184,052</u>	<u>\$ 223,072</u>

**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, 2010**

	Original Budget	Final Budget	Actual	Variance- Over (Under)
Revenues:				
Federal through State:				
Vocational education -				
Basic grants to states	\$ 31,061	\$ 31,061	\$ 30,962	\$ (99)
Title I	456,248	456,248	445,486	(10,762)
Title I - ARRA	227,123	227,123	118,460	(108,663)
Education of the Handicapped - IDEA	524,212	524,214	461,716	(62,498)
Education of the Handicapped - IDEA - ARRA	473,979	473,982	223,738	(250,244)
Education of the Handicapped - Preschool	24,920	24,920	20,026	(4,894)
Education of the Handicapped - Preschool - ARRA	10,680	10,680	7,239	(3,441)
English language acquisition grants	4,524	4,524	4,017	(507)
Safe and drug free schools	8,298	8,298	7,771	(527)
Rural Education	54,814	54,814	31,883	(22,931)
Eisenhower	117,004	117,004	113,766	(3,238)
Other federal through state	3,078	3,078	3,078	-
Other federal through state - ARRA	17,571	17,571	17,571	-
Total federal through state	<u>1,953,512</u>	<u>1,953,517</u>	<u>1,485,713</u>	<u>(467,804)</u>
Total revenues	<u>1,953,512</u>	<u>1,953,517</u>	<u>1,485,713</u>	<u>(467,804)</u>
Expenditures:				
Instruction:				
Regular instruction program:				
Teachers	132,908	143,270	141,615	1,655
Aides	116,000	112,109	111,641	468
Substitute teachers	2,500	1,260	1,260	-
Non-certified substitute teachers	5,000	6,793	6,793	-
Social Security	15,737	15,861	15,359	502
State retirement	19,645	15,714	15,711	3
Medical insurance	19,500	22,799	21,015	1,784
Medicare	5,019	3,948	3,592	356
Other contracted services	7,500	7,273	7,273	-
Instructional supplies	32,551	37,405	31,396	6,009
Other supplies and materials	55,000	55,000	-	55,000
Equipment	41,402	37,361	37,361	-
	<u>452,762</u>	<u>458,793</u>	<u>393,016</u>	<u>65,777</u>
Alternate instruction program:				
Educational assistants	14,000	14,000	13,480	520
Social Security	1,000	1,000	802	198
State retirement	1,200	1,200	464	736
Medical insurance	4,000	-	-	-
Employer medicare	250	250	188	62
Other charges	24,000	24,000	-	24,000
Other equipment	1,000	1,000	1,000	-
	<u>45,450</u>	<u>41,450</u>	<u>15,934</u>	<u>25,516</u>

**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, 2010**

Expenditures (Cont.)	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Over (Under)</u>
Instruction (Cont.):				
Special education program:				
Teachers	\$ 78,000	\$ 77,748	\$ 77,022	\$ (726)
Aides	299,893	300,379	262,292	(38,087)
Substitute teachers	500	1,200	300	(900)
Non-certified substitute teachers	500	1,000	965	(35)
Social Security	25,387	25,400	19,012	(6,388)
State retirement	30,999	31,147	22,303	(8,844)
Medical Insurance	56,778	59,000	50,148	(8,852)
Medicare	5,910	5,895	4,446	(1,449)
Other contracted services	84,088	83,802	82,907	(895)
Instructional supplies	62,753	64,519	40,444	(24,075)
Other charges	81,000	81,000	-	(81,000)
Special education equipment	<u>80,000</u>	<u>80,000</u>	<u>42,898</u>	<u>(37,102)</u>
	<u>805,808</u>	<u>811,090</u>	<u>602,737</u>	<u>(208,353)</u>
Vocational education program:				
Other contracted services	1,000	1,000	1,000	-
Instructional supplies and materials	8,000	9,292	9,193	(99)
Other supplies and materials	3,608	962	962	-
Equipment	<u>3,000</u>	<u>5,523</u>	<u>5,523</u>	<u>-</u>
	<u>15,608</u>	<u>16,777</u>	<u>16,678</u>	<u>(99)</u>
Total instruction	<u>1,319,628</u>	<u>1,328,110</u>	<u>1,028,365</u>	<u>(117,159)</u>
Support Services:				
Other student support:				
Other salaries and wages	72,043	68,794	51,325	(17,469)
Social security	4,615	4,264	2,556	(1,708)
State retirement	4,834	4,471	2,973	(1,498)
Medicare	1,089	1,089	680	(409)
Travel	6,400	6,400	6,400	-
Other contracted services	6,150	5,150	6,120	970
In-service/staff development	48	50	50	-
Other charges	<u>3,997</u>	<u>1,929</u>	<u>1,533</u>	<u>(396)</u>
	<u>99,176</u>	<u>92,147</u>	<u>71,637</u>	<u>(20,510)</u>
Regular instruction program:				
Supervisor/director	28,500	28,500	28,364	(136)
Secretary(s)	11,000	11,000	10,140	(860)
Other salaries and wages	141,941	141,941	136,723	(5,218)
Substitute teachers	1,800	1,800	101	(1,699)
Non-certified substitute teachers	1,650	1,650	905	(745)
Social Security	11,728	11,728	9,898	(1,830)
State retirement	11,548	11,707	11,479	(228)
Medical insurance	20,561	21,424	21,033	(391)
Medicare	2,876	2,876	2,316	(560)
Communication	500	500	158	(342)
Travel	<u>33,750</u>	<u>32,013</u>	<u>17,331</u>	<u>(14,682)</u>

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, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Over (Under)</u>
Expenditures (Cont.)				
Support Services (Cont.):				
Regular instruction program (Cont.):				
Other contracted services	\$ 4,000	\$ 700	\$ 700	\$ -
Other supplies and materials	5,613	6,533	5,098	(1,435)
In-service-staff development	38,464	41,559	42,386	827
Other charges	<u>40,500</u>	<u>40,500</u>	<u>-</u>	<u>(40,500)</u>
	<u>354,431</u>	<u>354,431</u>	<u>286,632</u>	<u>(67,799)</u>
Special education program:				
Supervisor/director	55,000	55,000	49,997	(5,003)
Secretary(s)	8,018	8,018	7,443	(575)
Social Security	4,138	4,137	3,183	(954)
State retirement	4,195	4,195	3,821	(374)
Medical Insurance	9,607	6,485	6,361	(124)
Medicare	1,159	1,142	745	(397)
Travel	6,269	6,244	5,270	(974)
Other supplies and materials	2,500	2,500	1,243	(1,257)
In-service-staff development	13,127	15,015	12,770	(2,245)
	<u>75,000</u>	<u>75,000</u>	<u>55</u>	<u>(74,945)</u>
	<u>179,013</u>	<u>177,736</u>	<u>90,888</u>	<u>(86,848)</u>
Vocational education program:				
Travel	<u>1,553</u>	<u>1,382</u>	<u>1,382</u>	<u>-</u>
Total support services	<u>634,173</u>	<u>625,696</u>	<u>450,539</u>	<u>(175,157)</u>
Total expenditures	<u>1,953,801</u>	<u>1,953,806</u>	<u>1,478,904</u>	<u>(292,316)</u>
Excess (deficiency) of revenues over (under) expenditures	(289)	(289)	6,809	7,098
Other financing sources (uses)				
Operating transfers out	<u>(8,293)</u>	<u>(8,293)</u>	<u>(6,809)</u>	<u>1,484</u>
Net changes in fund balance	<u>\$ (8,582)</u>	<u>\$ (8,582)</u>	-	<u>\$ 8,582</u>
Fund balance - beginning			<u>-</u>	
Fund balance - ending			<u>\$ -</u>	

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, 2010**

Explanation of differences between budgetary inflows and outflows and GAAP revenues and Expenditures

Inflows/revenues:

Actual amounts (budgetary basis)	\$ 1,485,713	\$ (467,804)
Differences - budget to GAAP:		
Fringe benefits - noncash	<u>6,359</u>	<u>6,359</u>
Total Revenues as Reported on Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	<u>1,492,072</u>	<u>(461,445)</u>

Outflows/expenditures:

Actual amounts (budgetary basis)	1,478,904	(292,316)
Differences - budget to GAAP:		
Fringe benefits - noncash	<u>6,359</u>	<u>6,359</u>
Total Expenditures as Reported on Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	<u>1,485,263</u>	<u>(285,957)</u>

Other financing sources (uses)	<u>(6,809)</u>	<u>1,484</u>
Net changes in fund balance	<u>\$ -</u>	<u>\$ (174,004)</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, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Over (Under)</u>
Revenues:				
Charges for current services:				
Lunch payments - children	\$ 330,000	\$ 330,000	\$ 239,822	\$ (90,178)
Lunch payments - adults	48,000	48,000	36,698	(11,302)
A La Carte sales	98,000	98,000	84,034	(13,966)
Other charges for services	<u>13,000</u>	<u>13,000</u>	<u>13,187</u>	<u>187</u>
	<u>489,000</u>	<u>489,000</u>	<u>373,741</u>	<u>(115,259)</u>
Other revenues:				
Interest earned	<u>200</u>	<u>200</u>	<u>54</u>	<u>(146)</u>
State education funds:				
School food service	<u>13,200</u>	<u>13,200</u>	<u>13,214</u>	<u>14</u>
Federal through State:				
USDA - lunch	526,000	526,000	528,299	2,299
USDA - breakfast	226,200	226,200	255,241	29,041
USDA - other	30,000	30,000	16,172	(13,828)
USDA - food service equipment grant - ARRA	<u>6,900</u>	<u>6,900</u>	<u>6,600</u>	<u>(300)</u>
	<u>789,100</u>	<u>789,100</u>	<u>806,312</u>	<u>17,212</u>
Total revenues	<u>1,291,500</u>	<u>1,291,500</u>	<u>1,193,321</u>	<u>(98,179)</u>
Expenditures:				
Food service:				
Director	35,500	35,500	32,593	(2,907)
Clerical personnel	18,000	19,000	16,597	(2,403)
Cafeteria personnel	340,000	340,000	289,661	(50,339)
Other salaries & wages	2,800	2,800	1,728	(1,072)
Non-certified substitute teachers	2,000	2,650	1,911	(739)
Social Security	25,000	25,000	18,420	(6,580)
State retirement	25,500	25,500	22,394	(3,106)
Medical insurance	65,000	68,000	64,355	(3,645)
Medicare liability	5,900	5,900	4,308	(1,592)
Communication	2,600	2,600	524	(2,076)
Maintenance & repair - equipment	10,000	18,300	9,807	(8,493)
Travel	3,300	6,300	2,419	(3,881)
Food supplies	640,000	611,850	574,692	(37,158)

**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, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Over (Under)</u>
Expenditures (Cont.)				
Food service (Cont.):				
Other supplies & materials	\$ 90,000	\$ 90,000	\$ 72,206	\$ (17,794)
In service/staff development	1,000	1,000	551	(449)
Fringe benefits (non-cash)	-	-	-	-
Other charges	6,000	7,200	2,475	(4,725)
Equipment	<u>18,900</u>	<u>29,900</u>	<u>21,798</u>	<u>(8,102)</u>
Total expenditures	<u>1,291,500</u>	<u>1,291,500</u>	<u>1,136,439</u>	<u>(155,061)</u>
Net changes in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>56,882</u>	<u>\$ 56,882</u>
Fund balance - beginning			138,413	
Increase (decrease) in inventory			<u>(11,243)</u>	
Fund balance - ending			<u>\$ 184,052</u>	
Explanation of differences between budgetary inflows and outflows and GAAP revenues and expenditures				
Inflows/revenues:				
Actual amounts (budgetary basis)			\$ 1,193,321	\$ (98,179)
Differences - budget to GAAP:				
Commodities benefits - noncash			76,466	76,466
Fringe benefits - noncash			<u>2,419</u>	<u>2,419</u>
Total Revenues as Reported on Statement of Revenues,			<u>1,272,206</u>	<u>(19,294)</u>
Expenditures and Changes in Fund Balances - Governmental Funds				
Outflows/expenditures:				
Actual amounts (budgetary basis)			1,136,439	(155,061)
Differences - budget to GAAP:				
Commodities expense - noncash			76,466	76,466
Fringe expense - noncash			<u>2,419</u>	<u>2,419</u>
Total Expenditures as Reported on Statement of Revenues,			<u>1,215,324</u>	<u>(76,176)</u>
Expenditures and Changes in Fund Balances - Governmental Funds				
Net changes in fund balance			<u>\$ 56,882</u>	<u>\$ 56,882</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, 2010**

Revenues:

Other local revenues:

Interest earned	\$ 2,876
-----------------	----------

Expenditures:

Non-instructional Services:

Capital Outlay:

Building construction	9,599
-----------------------	-------

Design expense	8,596
----------------	-------

Total expenditures	<u>18,195</u>
---------------------------	----------------------

Excess (deficiency) of revenues over (under) expenditures	<u>(15,319)</u>
--	------------------------

Other financing sources (uses)

Bond proceeds	<u>1,886</u>
---------------	--------------

Net changes in fund balance	(13,433)
------------------------------------	-----------------

Fund balance - beginning	<u>52,453</u>
---------------------------------	---------------

Fund balance - ending	<u>\$ 39,020</u>
------------------------------	-------------------------

**MILAN SPECIAL SCHOOL DISTRICT
 SCHEDULE OF PROPERTY TAX RATES AND ASSESSMENTS - PAST YEARS
 JUNE 30, 2010**

<u>Year Ended June, 30</u>	<u>Tax Rates</u>	<u>Assessments</u>	<u>Tax Levy</u>
2010	\$ 1.84	\$ 155,854,061	\$ 2,867,715
2009	2.00	159,464,081	3,189,282
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

The following is the tax levied January 1, 2010:

2011	\$ 1.84	\$ 175,267,174	\$ 3,224,916
------	---------	----------------	--------------

**MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF LONG-TERM DEBT
JUNE 30, 2010**

Bonds											
Year Ended June 30,	Series 2009		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
2011	420,000	47,075	50,000	351,837	150,000	6,000	-	40,550	620,000	445,462	1,065,462
2012	425,000	38,675	330,000	350,088	-	-	-	40,550	755,000	429,313	1,184,313
2013	440,000	28,050	355,000	338,537	-	-	-	40,550	795,000	407,137	1,202,137
2014	450,000	14,850	380,000	326,113	-	-	-	40,550	830,000	381,513	1,211,513
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>\$ 1,735,000</u>	<u>\$ 128,650</u>	<u>\$ 9,065,000</u>	<u>\$ 3,254,315</u>	<u>\$ 150,000</u>	<u>\$ 6,000</u>	<u>\$ 1,000,000</u>	<u>\$ 392,025</u>	<u>\$ 11,950,000</u>	<u>\$ 3,780,990</u>	<u>\$ 15,730,990</u>

**MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF INTERFUND TRANSFERS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Operating Transfers					
Transfer In	Budget	Actual	Transfer Out	Budget	Actual
General Purpose	\$ 10,000	\$ 6,809	Federal Projects	\$ 8,293	\$ 6,809

**MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF SALARIES AND BONDS
JUNE 30, 2010**

	<u>Salary</u>	<u>Bond</u>	
Director of Schools	<u>\$ 118,525</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, 2010

	Federal CFDA Number	Agency or Pass-through Number	Balance 7/1/09	Cash Receipts	Expenditures/ Amount Earned/ Amount Issued	Balance Unearned (Receivable) 6/30/10	(Receivable) 6/30/10	Unearned 6/30/10	Balance Unearned (Receivable) 6/30/10
U.S. Department of Agriculture									
Pass-through the Tennessee Department of Education									
School Breakfast Program									
	10.553*	N/A	\$ (3,197)	\$ 253,552	\$ 255,241	(4,886)	\$ (4,886)	\$ -	\$ (4,886)
National School Lunch Program - Snack									
	10.555*	N/A	(1,242)	16,689	16,172	(725)	(725)	-	(725)
National School Lunch Program									
	10.555*	N/A	(9,188)	524,167	528,299	(13,320)	(13,320)	-	(13,320)
Food-Distribution - Commodities									
	10.555*	N/A	-	76,466	76,466	-	-	-	-
			<u>(10,430)</u>	<u>617,322</u>	<u>620,937</u>	<u>(14,045)</u>	<u>(14,045)</u>	<u>-</u>	<u>(14,045)</u>
Child Nutrition Discretionary Grant									
	10.579	N/A	-	6,600	6,600	-	-	-	-
Total U.S. Department of Agriculture									
			<u>(13,627)</u>	<u>877,474</u>	<u>882,778</u>	<u>(18,931)</u>	<u>(18,931)</u>	<u>-</u>	<u>(18,931)</u>
U.S. Department of Labor									
Pass-through Tennessee Employment Training Administration									
WIA Youth Activities									
	17.259	N/A	-	24,536	29,412	(4,876)	(4,876)	-	(4,876)
U.S. Department of Education									
Pass-through the Tennessee Department of Education									
Special Education - Grants to States									
IDEA, Part B									
	84.027*	N/A	(9,647)	410,285	413,595	(12,957)	(12,957)	-	(12,957)
ARRA - IDEA, Part B									
	84.391*	N/A	-	223,670	223,738	(68)	(68)	-	(68)
Additional Special Education Funds									
	84.027*	N/A	(9,255)	9,255	7,960	(7,960)	(7,960)	-	(7,960)
			<u>(18,902)</u>	<u>643,210</u>	<u>645,293</u>	<u>(20,985)</u>	<u>(20,985)</u>	<u>-</u>	<u>(20,985)</u>
Special Education - Preschool Grants:									
IDEA Preschool									
	84.173*	N/A	959	13,813	13,257	1,515	-	1,515	1,515
ARRA - Preschool Program									
	84.173*	N/A	-	7,239	7,239	-	-	-	-
Preschool Program - Competitive									
	84.173*	N/A	-	5,163	6,769	(1,606)	(1,606)	-	(1,606)
Preschool Program - Discretionary									
	84.173*	N/A	-	45,722	48,121	(2,399)	(2,399)	-	(2,399)
			<u>959</u>	<u>71,937</u>	<u>75,386</u>	<u>(2,490)</u>	<u>(4,005)</u>	<u>1,515</u>	<u>(2,490)</u>
Total special education grants									
			<u>(17,943)</u>	<u>715,147</u>	<u>720,679</u>	<u>(23,475)</u>	<u>(24,990)</u>	<u>1,515</u>	<u>(23,475)</u>
State Fiscal Stabilization Fund									
ARRA - SFSF Internet Connectivity									
	84.397*	N/A	-	6,049	6,049	-	-	-	-
ARRA - SFSF Statewide Student Mgmt System									
	84.397*	N/A	-	5,327	5,327	-	-	-	-
ARRA - SFSF Coordinated School Health									
	84.397*	N/A	-	50,965	75,003	(24,038)	(24,038)	-	(24,038)
ARRA - SFSF BEP									
	84.394*	N/A	-	374,800	374,800	-	-	-	-
ARRA - SFSF Safe Schools									
	84.397*	N/A	-	-	500	(500)	(500)	-	(500)
ARRA - SFSF Extended Contracts									
	84.397*	N/A	-	-	51,277	(51,277)	(51,277)	-	(51,277)
			<u>-</u>	<u>437,141</u>	<u>512,956</u>	<u>(75,815)</u>	<u>(75,815)</u>	<u>-</u>	<u>(75,815)</u>

MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Cont.)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Federal CFDA Number	Agency or Pass-through Number	Balance 7/1/09	Cash Receipts	Expenditures/ Amount Earned/ Amount Issued	Balance Unearned (Receivable) 6/30/10	(Receivable) 6/30/10	Unearned 6/30/10	Balance Unearned (Receivable) 6/30/10
U.S. Department of Education (Cont.)									
Pass-through the Tennessee Department of Education (Cont.)									
Title I, Grants to Local Education Agencies									
ARRA - Part A	84.389*	N/A	-	117,826	118,460	(634)	(634)	-	(634)
Part A	84.010*	N/A	(16,540)	459,262	444,869	(2,147)	(2,147)	-	(2,147)
			<u>(16,540)</u>	<u>577,088</u>	<u>563,329</u>	<u>(2,781)</u>	<u>(2,781)</u>	<u>-</u>	<u>(2,781)</u>
Career and Technical Education - Basic Grants to States									
Carl D. Perkins	84.048	N/A	(5,903)	26,878	30,962	(9,987)	(9,987)	-	(9,987)
Safe and Drug Free Schools and Communities - State Grants									
Title IV, Part A	84.186	N/A	(534)	5,533	7,771	(2,772)	(2,772)	-	(2,772)
Twenty-First Century Community Learning Centers									
Title IV, Part B	84.287	N/A	(25,897)	25,897	-	-	-	-	-
English Language Acquisition Grants									
Title III, Part A	84.365	N/A	(254)	4,271	4,017	-	-	-	-
Education Technology State Grants									
Title II, Part D	84.318	N/A	5,492	111,352	116,844	-	-	-	-
ARRA - Title II, Part D	84.386	N/A	-	-	10,000	(10,000)	(10,000)	-	(10,000)
ARRA - Title II, Part D	84.386	N/A	-	7,571	7,571	-	-	-	-
			<u>5,492</u>	<u>118,923</u>	<u>134,415</u>	<u>(10,000)</u>	<u>(10,000)</u>	<u>-</u>	<u>(10,000)</u>
Rural and Low-Income School Program									
Title VI, Part B, Subpart 2	84.358	N/A	-	31,883	31,883	-	-	-	-
Total US Department of Education			<u>(61,579)</u>	<u>1,942,761</u>	<u>2,006,012</u>	<u>(124,830)</u>	<u>(126,345)</u>	<u>1,515</u>	<u>(124,830)</u>
Total cash federal awards			<u>(75,206)</u>	<u>2,844,771</u>	<u>2,918,202</u>	<u>(148,637)</u>	<u>(150,152)</u>	<u>1,515</u>	<u>(148,637)</u>
Total federal awards			<u>\$ (75,206)</u>	<u>\$ 2,844,771</u>	<u>\$ 2,918,202</u>	<u>\$ (148,637)</u>	<u>\$ (150,152)</u>	<u>\$ 1,515</u>	<u>\$ (148,637)</u>

*Major federal financial assistance program.

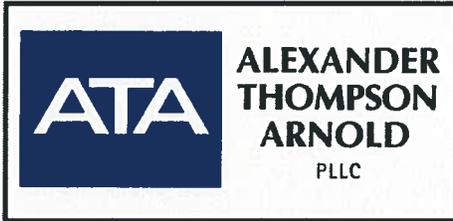
All expenditures reported are under the modified accrual basis of accounting whereby revenues are recorded when measurable and available and expenditures are recorded when the liability is incurred.

19 See independent auditor's report.

**MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF STATE FINANCIAL ASSISTANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Contract Number	Balance 7/1/09	Cash Receipts	Expenditures/ Amount Earned/ Amount Issued	Balance Unearned (Receivable) 6/30/10	(Receivable) 6/30/10	Unearned 6/30/10	Balance Unearned (Receivable) 6/30/10
Special Programs - Early Childhood	\$ (34,457)	\$ 452,481	\$ 480,826	\$ (62,802)	\$ (62,802)	\$ -	\$ (62,802)
Energy Efficient Schools	-	38,000	38,000	-	-	-	-
Coordinated School Health	(18,367)	18,367	-	-	-	-	-
Total State Awards	\$ (52,824)	\$ 508,848	\$ 518,826	\$ (62,802)	(62,802)	-	(62,802)
Total per Schedule of Expenditures of Federal Awards				(148,637)	(150,152)	1,515	(148,637)
Total grants				\$ (211,439)	\$ (212,954)	\$ 1,515	\$ (211,439)

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 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, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

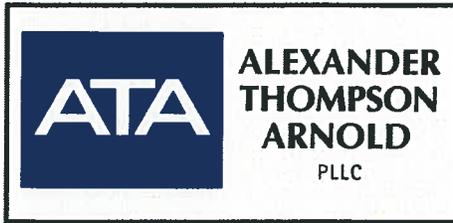
Members of the Board of Education
Milan Special School District
Milan, Tennessee

We noted certain matters that we reported to management of the District in a separate letter dated February 28, 2011.

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.

Alexander Thompson Arnold PLLC

Certified Public Accountants
Jackson, Tennessee
February 28, 2011



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 *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2010. 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of 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 was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, 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 Thompson Arnold PLLC

Certified Public Accountants
Jackson, Tennessee
February 28, 2011

**MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2010**

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:		Unqualified
Internal control over financial reporting:		
Material weakness(es) identified?	_____ yes	X no
Significant deficiencies identified	_____ yes	X none reported
Noncompliance material to financial statements noted	_____ yes	X no

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	_____ yes	X no
Significant deficiencies identified	_____ 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 Section 510(a) of Circular A-133?	_____ yes	X no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster:</u>
	USDA Cluster:
10.553	School Breakfast Program
10.555	National School Lunch Program
	Title I Cluster:
84.010	Title I, Part A, Improving Basic Programs Operated by Local Education Agencies
84.389	ARRA - Title I, Part A, Improving Basic Programs Operated by Local Education Agencies
	IDEA Cluster:
84.027	IDEA, Part B, Special Education Grants to States
84.391	ARRA - IDEA, Part B, Special Education Grants to States
84.173	IDEA, Special Education Preschool Grants
84.173	ARRA - IDEA, Special Education Preschool Grants
	State Fiscal Stabilization Fund Cluster:
84.394	ARRA - SFSF Education State Grants
84.397	ARRA - SFSF Government Services

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

		\$ <u>300,000</u>
Auditee qualified as low-risk auditee?	X yes	_____ no

**MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Cont.)
JUNE 30, 2010**

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.