MILAN SPECIAL SCHOOL DISTRICT

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

MILAN SPECIAL SCHOOL DISTRICT
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INTRODUCTORY SECTION

MILAN SPECIAL SCHOOL DISTRICT
DIRECTORY
JUNE 30, 2011

ELECTED OFFICIALS

Jimmy Copous, Chairman
Kenny Carmichael, Vice Chairperson
Steve Brasher, Member
Marty Elliott, 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

ALEXANDER THOMPSON ARNOLD PLLC
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Members of

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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, 2011, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2011, 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 November 30, 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.

Dyersburg, TN
Henderson, TN
Jackson, TN
Martin, TN
McKenzie, TN
Milan, TN
Murray, KY
Paris, TN
Trenton, TN
Union City, TN

Board of Education
Milan Special School District
Milan, Tennessee

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis schedule of funding progress – employee retirement system, and schedule of funding progress – post employment healthcare plan on pages 4 through 12 and 50 through 51 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
November 30, 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, 2011. 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, 2011 by $5,088,860. Of this amount, $1,048,142 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 $2,295,994.

- At the end of the current fiscal year, unassigned fund balance for the general purpose fund was $1,942,962, or 14% percent of total general purpose fund expenditures.

- The District's total bonded debt decreased by $620,000.

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 statement 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 and the non-major funds, of which the general purpose fund is considered to be a major fund and the federal projects, the cafeteria, and the capital projects 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. Also, budgetary comparison statements have been provided for each non-major fund in the other supplementary section with the exception of the education capital projects fund. No annual budget is adopted for the education capital projects fund; therefore, no budgetary comparative statement has been provided.

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 $5,088,859 at the close of the fiscal year ended June 30, 2011.

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

	June 30, 2011	June 30, 2010
Assets:		
Current and other	$ 6,540,997	$ 6,183,710
Capital assets - net of accumulated depreciation	15,314,726	15,819,640
Total assets	21,855,723	22,003,350
Liabilities:		
Long-term liabilities	12,609,173	12,987,657
Other liabilities	4,157,690	3,939,614
Total liabilities	16,766,863	16,927,271
Net Assets:		
Invested in capital assets, net of related debt	3,972,319	3,856,278
Restricted	68,399	48,116
Unrestricted	1,048,142	1,171,685
Total net assets	$ 5,088,860	$ 5,076,079

The above provides a summary of the District's net assets for 2011 and 2010.

An additional portion of the District's net assets, $68,399, 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,* $1,048,142, 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 $12,781 during the year ended June 30, 2011.

The following summary shows the changes in net assets for fiscal years ended June 30, 2011 and 2010:

The District's Changes in Net Assets

	June 30, 2011	June 30, 2010
Revenues:		
Program revenues		
Charges for services	$ 336,544	$ 371,739
Operating grants and contributions	3,302,475	3,271,278
Capital grants and contributions	3,500	6,600
General revenues		
Property taxes	3,299,551	3,378,237
Sales taxes	1,027,371	995,457
Mixed drink tax	123	-
Grants and contributions not restricted to certain programs	10,172,300	9,759,925
Interest	3,749	7,573
Other miscellaneous revenues	6,374	19,833
Total revenues	18,151,987	17,810,642
Expenses:		
Instruction	$ 9,908,043	$ 9,625,822
Support services	5,344,642	5,186,865
Non-instructional services	2,886,521	2,769,399
Total expenses	18,139,206	17,582,086
Change in net assets	12,781	228,556
Net assets, beginning	5,076,079	4,773,238
Prior period adjustment	-	74,285
Net assets, ending	5,088,860	5,076,079

Governmental activities Governmental activities increased the District's net assets by $12,781.

Total governmental activities' revenue for the fiscal year ended June 30, 2011 was $18,151,987 and $17,810,642 for the year ended June 30, 2010. 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 14 and 15.

Revenue by Source – Governmental Funds

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

	June 30, 2011		June 30, 2010	
Revenues:				
Program revenues	Amount	Percent	Amount	Percent
Charges for services	$ 336,544	2%	$ 371,739	2%
Operating grants and contributions	3,302,475	18%	3,271,278	18%
Capital grants and contributions	3,500	0%	6,600	0%
General revenues		0%		0%
Property taxes	3,299,551	18%	3,378,237	19%
Sales taxes	1,027,371	6%	995,457	6%
Mixed drink tax	123	0%	-	0%
Grants and contributions not		0%		0%
restricted to certain programs	10,172,300	56%	9,759,925	55%
Interest	3,749	0%	7,573	0%
Other miscellaneous revenues	6,374	0%	19,833	0%
Total revenues	$ 18,151,987	100%	$ 17,810,642	100%

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 $2,295,994. Of this amount $1,942,962 constitutes *unassigned fund balance*, which is available for spending at the District's discretion. The remainder is *nonspendable*, *restricted or assigned* 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, unassigned fund balance was $1,942,962.

As a measure of the general purpose fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 13% of the total general purpose fund expenditures, while total fund balances represents 14% of that same amount.

The District's general purpose fund balance increased by $143,639 during the current fiscal year. A key factor in this increase was the District's ability to maintain expenditures under the budgeted amounts. Actual expenditures were under the budgeted amount by $169,542.

General Purpose Fund Budgetary Highlights

Differences between the original budgets and the final amended budgets for the years ended June 30, 2011 and 2010 are briefly summarized as follows:

	June 30, 2011			June 30, 2010		
General Purpose Fund						
Revenues	Original	Final	Difference	Original	Final	Difference
Taxes	$4,276,045	$4,276,045	$ -	$4,276,045	$4,276,045	$ -
Intergovernmental	10,891,548	10,928,664	37,116	10,359,198	10,397,198	38,000
Miscellaneous	72,500	72,500	-	72,500	72,500	-
Total revenues	15,240,093	15,277,209	37,116	14,707,743	14,745,743	38,000
Expenditures						
Instruction	8,510,160	8,523,993	13,833	8,340,098	8,415,297	75,199
Support services	5,007,043	5,135,507	128,464	4,886,977	4,916,093	29,116
Non-instructional services	1,768,890	1,717,709	(51,181)	1,640,327	3,536,934	1,896,607
Total expenditures	15,286,093	15,377,209	91,116	14,867,402	16,868,324	2,000,922
Excess (deficiency) of revenues and other sources (uses) over (under) expenditures	(46,000)	(100,000)	(54,000)	(159,659)	(2,122,581)	(1,962,922)
Other financing sources (uses)	10,000	10,000	-	10,000	1,778,114	1,768,114
Net changes in fund balance	$ (36,000)	$ (90,000)	$ (54,000)	$ (149,659)	$ (344,467)	$ (194,808)

For the year ended June 30, 2011, the increase in the budgeted revenues was mainly due to an increase in State education funds. During the year, revenues were more in the general purpose fund than budgetary estimates. The increases in budgeted expenditures were the result of increased payroll and related expenditures, increased utilities, increased capital outlay.

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.

Capital Asset and Debt Administration

Capital Assets The District's investment in capital assets for its governmental funds as of June 30, 2011 and 2010, amounts to $3,972,319 and $3,856,278 (net of accumulated depreciation and related debt), respectively. This investment in capital assets includes land, buildings and improvements, and other capital assets (including equipment).

	June 30, 2011			
	6/30/10	Additions	Reductions	6/30/11
Capital assets not being depreciated:				
Land	$ 854,415	$ -	$ -	$ 854,415
Capital assets being depreciated:				
Buildings and improvements	21,336,742	31,799	17,566	21,350,975
Other capital assets	1,636,140	154,513	14,900	1,775,753
	22,972,882	186,312	32,466	23,126,728
Accumulated depreciation:				
Buildings and improvements	6,780,287	584,997	6,675	7,358,609
Other capital assets	1,227,370	83,100	2,662	1,307,808
	8,007,657	668,097	9,337	8,666,417
Capital assets being depreciated, net	14,965,225	(481,785)	23,129	14,460,311
Capital assets, net of accumulated depreciation	15,819,640	(481,785)	23,129	15,314,726
Long-term debt related to capital assets	(11,950,000)	-	(620,000)	(11,330,000)
Capital assets net of accumulated depreciation and related debt	3,869,640	(481,785)	(596,871)	3,984,726
Bond premium	(13,362)	-	(955)	(12,407)
Invested in capital assets, net of related debt	$ 3,856,278	$ (481,785)	$ (597,826)	$ 3,972,319

	June 30, 2010			
	6/30/09	Additions	Reductions	6/30/10
Capital assets not being depreciated:				
Land	$ 854,415	$ -	$ -	$ 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
Capital assets being depreciated, net	15,456,816	(491,591)	-	14,965,225
Capital assets, net of accumulated depreciation	16,311,231	(491,591)	-	15,819,640
Long-term debt related to capital assets	(12,500,000)	(1,770,000)	(2,320,000)	(11,950,000)
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)
Invested in capital assets, net of related debt	$ 3,796,915	$ (2,261,591)	$ (2,320,954)	$ 3,856,278

Long-term debt. As of June 30, 2011, the District had total bonded debt outstanding of $11,330,000. As of June 30, 2010, the District had total bonded debt outstanding of $11,950,000. 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, 2011	June 30, 2010
Bonds	$ 11,330,000	$ 11,950,000
OPEB liability	1,198,543	968,367
Compensated absences	80,630	69,290
	$ 12,609,173	$ 12,987,657

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 41.

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 13.9%. The State's average unemployment rate is currently 9.8%. The national average unemployment rate is currently 9.1%. All of the rates are from labor statistics released in September 2011.

All of these factors were considered in preparing the District's budget for the 2011-2012 fiscal year.

The District's unassigned fund balance in the general purpose fund was $1,942,962, for the fiscal year ending June 30, 2011. There is $13,292 of restricted for the general purpose fund. Of this amount, $13,292 has been appropriated for spending in the 2011-2012 fiscal year. It is intended that this use of available fund balance and reserves will avoid the need to raise taxes during the 2011-2012 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, 2011

Assets:	
Cash and cash equivalents	$ 2,423,940
Accounts receivable	7,960
Taxes receivable	3,234,242
Due from other governmental agencies - nongrant	439,417
Due from other governmental agencies - grants	200,059
Inventory	55,107
Bond issuance costs	180,272
Capital assets, not being depreciated:	
Land	854,415
Capital assets, net of accumulated depreciation:	
Buildings and improvements	13,992,366
Other capital assets	467,945
Total assets	**21,855,723**
Liabilities:	
Accounts payable	420,430
Accrued payroll	18,042
Other accrued expenses	472,374
Bond premium	12,407
Unearned revenue - grants	195
Deferred revenue - taxes	3,234,242
Long-term liabilities:	
Due within one year:	810,765
Due in more than one year	11,798,408
Total liabilities	**16,766,863**
Net assets:	
Invested in capital assets, net of related debt	3,972,319
Restricted for:	
Career Ladder - Extended Contract	13,292
Food service - inventory	55,107
Unrestricted	1,048,142
Total net assets	**$ 5,088,860**

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

MILAN SPECIAL SCHOOL DISTRICT
DISTRICT-WIDE STATEMENT OF ACTIVITIES
For The Fiscal Year Then Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Governmental activities:					
Instruction:					
Regular education	$ 7,408,773	$ -	$ 568,443	$ -	$ (6,840,330)
Alternate education	123,351	-	1,211	-	(122,140)
Special education	1,748,465	-	723,311	-	(1,025,154)
Vocational education	623,654	-	43,198	-	(580,456)
Adult education	3,800	-	1,938	-	(1,862)
Support services:					
Attendance	167,853	-	-	-	(167,853)
Health services	152,528	-	75,000	-	(77,528)
Other student support	441,121	-	107,115	-	(334,006)
Regular education	970,139	-	296,461	-	(673,678)
Special education	73,153	-	32,443	-	(40,710)
Vocational education	17,347	-	9,493	-	(7,854)
Board of Education	345,075	-	20,027	-	(325,048)
Office of the Director	294,978	-	-	-	(294,978)
Office of the Principal	1,082,980	-	4,846	-	(1,078,134)
Fiscal services	148,584	-	-	-	(148,584)
Human services/personnel	97,880	-	-	-	(97,880)
Operation and maintenance of plant	1,205,235	-	-	-	(1,205,235)
Student transportation	347,769	-	-	-	(347,769)
Non-instructional services:					
Food service	1,346,198	334,784	892,603	-	(118,811)
Safe Schools	-	-	7,101	-	7,101
Community services	-	1,760	24,420	3,500	29,680
Early Childhood Education	490,347	-	490,358	-	11
Capital outlay	580,647	-	4,507	-	(576,140)
Debt service	469,329	-	-	-	(469,329)
	$ 18,139,206	$ 336,544	$ 3,302,475	$ 3,500	$ (14,496,687)

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

MILAN SPECIAL SCHOOL DISTRICT
DISTRICT-WIDE STATEMENT OF ACTIVITIES (Cont.)
For the Fiscal Year Then Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
	General revenues:				
	Property taxes				$ 3,299,551
	Sales taxes				1,027,371
	Mixed drink tax				123
	Grants and contributions not restricted to certain programs				
	Basic Education Program				9,010,024
	Basic Education Program - ARRA				923,976
	City appropriation				238,300
	Other				-
	Interest				3,749
	Other miscellaneous revenues				6,374
	Total general revenues				**14,509,468**
	Change in net assets				**12,781**
	Net assets, beginning				**5,076,079**
	Net assets, ending				**$ 5,088,860**

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

FUND FINANCIAL STATEMENTS

MILAN SPECIAL SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2011

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Cash and cash equivalents	$ 2,246,666	$ 177,274	$ 2,423,940
Accounts Receivable	7,960	-	7,960
Taxes receivable	3,234,242	-	3,234,242
Due from other governments - non grants	439,417	-	439,417
Due from other governments - grants	134,201	65,858	200,059
Due from other funds	50,269	-	50,269
Inventory	-	55,107	55,107
Total assets	**$ 6,112,755**	**$ 298,239**	**$ 6,410,994**
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	$ 405,966	$ 14,464	$ 420,430
Accrued payroll	18,042	-	18,042
Accrued expenses	380,691	-	380,691
Due to other funds	-	50,269	50,269
Unearned revenue - grants	-	195	195
Deferred revenue - grants	7,560	3,571	11,131
Deferred revenue - property taxes	3,234,242	-	3,234,242
Total liabilities	4,046,501	68,499	4,115,000
Fund balances:			
Nonspendable			
Inventory	-	55,107	55,107
Restricted			
Education	13,292	19,003	32,295
Other federal projects	-	-	-
Operation of non-instructional services	-	159,396	159,396
Assigned			
Instruction	-	-	-
Other purposes	110,000	-	110,000
Unassigned	1,942,962	(3,766)	1,939,196
Total fund balances	**2,066,254**	**229,740**	**2,295,994**
Total liabilities and fund balances	**$ 6,112,755**	**$ 298,239**	**$ 6,410,994**

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

MILAN SPECIAL SCHOOL DISTRICT
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
June 30, 2011

Amounts reported for the governmental activities in the statement of net assets (Page 13) are different because:

Fund balance - total governmental funds (Page 16)	**$ 2,295,994**
Capital assets used in governmental funds are not financial resources and, therefore, are not reported as assets in governmental funds.	15,314,726
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:	
Bond issuance costs	180,272
Receivables not available to pay for current expenditures and, therefore, are deferred in funds.	11,131
Some payables are not due and payable in the current period and, therefore, are not reported in the funds:	
Accrued interest	(91,683)
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	(11,330,000)
OPEB	(1,198,543)
Accrued leave	(80,630)
Bond premium	(12,407)
Net assets of governmental activities (Page 13)	**$ 5,088,860**

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

MILAN SPECIAL SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For The Fiscal Year Then Ended June 30, 2011

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	$ 4,326,920	$ -	$ 4,326,920
Intergovernmental	10,982,695	2,407,801	13,390,496
Meal sales	-	334,784	334,784
Interest earnings	3,620	8,291	11,911
Other local revenues	65,877	54	65,931
Miscellaneous	33,941	-	33,941
Total revenues	15,413,053	2,750,930	18,163,983
Expenditures:			
Instruction	8,490,752	1,097,706	9,588,458
Support services	4,998,981	417,596	5,416,577
Food service	-	1,206,291	1,206,291
Non-instructional services	1,783,343	28,287	1,811,630
Total expenditures	15,273,076	2,749,880	18,022,956
Excess (deficiency) of revenues over (under) expenditures	**139,977**	**1,050**	**141,027**
Other financing sources (uses)			
Operating transfers in	3,662	-	3,662
Operating transfers out	-	(3,662)	(3,662)
Sale of assets	-	-	-
	3,662	(3,662)	-
Net change in fund balance	**143,639**	**(2,612)**	**141,027**
Fund balance - beginning	1,922,615	223,072	2,145,687
Increase (decrease) in inventory	-	9,280	9,280
Fund balance - ending	$ 2,066,254	$ 229,740	$ 2,295,994

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 Then Ended June 30, 2011

Amounts reported for the governmental activities in the statement of activities (Pages 14 and 15) are different because:

Net change in fund balance - total governmental funds (Page 18)	**$**	**141,027**
Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:		
Capital outlays and disposal of assets		163,183
Depreciation		(668,097)
The change in accrued leave is an expenditure in the governmental funds, but the change reduces or increases the liability on the statement of activities.		(11,340)
The change in OPEB is an expenditure in the governmental funds, but the change reduces or increases the liability on the statement of activities.		(230,176)
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds; however, these repayments have no effect on net assets.		620,000
Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of activities.		(3,745)
The change in inventory is an expenditure in the governmental funds, but the change reduces or invreases the fund balance on the statement of activities.		9,280
Revenues in the statement of activities that do not provide current financial resources are not reported as current reveneus in the funds.		11,131
Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The amount is the net effect of these differences in the treatment.		(18,482)
Change in Net Assets of Governmental Activities (Page 15)	**$**	**12,781**

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
For The Fiscal Year Then Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Revenues:				
Taxes:				
Local option sales tax	$ 975,000	$ 975,000	$ 1,026,441	$ 51,441
Interstate telecommunications tax	2,000	2,000	930	(1,070)
	977,000	977,000	1,027,371	50,371
City/Special School District:				
Current property tax	3,057,000	3,057,000	3,023,500	(33,500)
Prior year's property tax	125,000	125,000	155,582	30,582
Interest and penalty	19,000	19,000	21,350	2,350
Payment in lieu of taxes	98,045	98,045	99,117	1,072
	3,299,045	3,299,045	3,299,549	504
Total taxes	**4,276,045**	**4,276,045**	**4,326,920**	**50,875**
Intergovernmental:				
Licenses and Permits:				
Marriage licenses	900	900	822	(78)
City General Fund:				
Budget and appropriations	241,095	241,095	238,300	(2,795)
State revenues:				
State education funds:				
Basic Education Program	9,890,000	9,897,000	9,010,024	(886,976)
Basic Education Program - ARRA	-	-	923,976	923,976
Early Childhood Education	480,826	492,530	490,358	(2,172)
Energy Efficient School Initative	-	-	8,250	8,250
Driver education	3,000	3,000	8,671	5,671
Other state education funds	5,000	5,000	6,511	1,511
Coordinated School Health - ARRA	75,000	75,000	75,000	-
Internet Connectivity - ARRA	6,050	6,050	6,328	278
Statewide Student Management System - ARRA	5,300	5,300	5,449	149
Career Ladder	108,000	108,000	106,729	(1,271)
Career Ladder - Extended Contract - ARRA	51,277	51,277	48,687	(2,590)
Safe Schools - ARRA	-	-	5,548	5,548
Other vocational	25,000	25,000	25,000	-
	10,649,453	10,668,157	10,720,531	52,374
Other State revenues:				
Mixed drink tax	100	100	123	23
Other State Grants	-	-	4,507	4,507
	100	100	4,630	4,530
Total State revenues	10,649,553	10,668,257	10,725,161	56,904

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 Then Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Revenues (Cont.):				
Federal revenues:				
Federal funds received through State:				
Other federal through state	$ -	$ 18,412	$ 18,412	$ -
Total intergovernmental	**10,891,548**	**10,928,664**	**10,982,695**	**54,031**
Miscellaneous:				
Charges for current services:				
Tuition - other	2,000	2,000	-	(2,000)
Other local revenues:				
Interest earned	60,000	60,000	3,620	(56,380)
Lease/rentals	500	500	1,760	1,260
Sale of equipment	-	-	24,160	24,160
Contributions	5,000	5,000	3,500	(1,500)
Other local revenues	5,000	5,000	4,521	(479)
	70,500	70,500	37,561	(32,939)
Total miscellaneous	**72,500**	**72,500**	**37,561**	**(34,939)**
Total revenues	**15,240,093**	**15,277,209**	**15,347,176**	**69,967**
Expenditures:				
Instruction:				
Regular instruction program:				
Teachers	4,637,538	3,884,776	3,821,427	(63,349)
SFSF expenses	-	923,976	923,976	-
Career Ladder Program	69,100	69,100	60,000	(9,100)
Career Ladder - Extended Contract	39,632	39,632	34,403	(5,229)
Homebound teachers	16,000	16,000	7,064	(8,936)
Aides	118,320	118,320	110,233	(8,087)
Other Salaries and wages	5,000	29,687	29,684	(3)
Substitute teachers	20,000	32,566	32,565	(1)
Non-certified substitute teachers	72,000	72,000	60,843	(11,157)
Social Security	292,478	230,775	236,458	5,683
State retirement	428,672	346,420	359,808	13,388
Medical insurance	538,386	457,210	448,081	(9,129)
Medicare	68,806	58,351	55,570	(2,781)

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 Then Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Expenditures (Cont.):				
Instruction (Cont.):				
Regular instruction program (Cont.):				
Other contracted services	$ 32,000	$ 32,000	$ 33,860	$ 1,860
Maintenance and repair - equipment	7,000	7,000	-	(7,000)
Instructional supplies/materials	120,000	138,412	200,045	61,633
Textbooks	125,000	170,000	204,226	34,226
Fee waivers	4,200	4,200	4,852	652
Equipment	100,000	100,000	99,779	(221)
	6,694,132	6,730,425	6,722,874	(7,551)
Alternate instruction program:				
Teachers	93,295	91,795	89,157	(2,638)
Career Ladder	2,000	2,000	1,000	(1,000)
Non-certified substitute teachers	-	5,000	5,000	-
Social Security	5,909	7,559	5,395	(2,164)
State retirement	8,624	8,624	8,159	(465)
Medical insurance	8,439	8,439	11,421	2,982
Medicare	1,382	1,382	1,262	(120)
Instructional supplies/materials	2,000	2,000	1,957	(43)
	121,649	126,799	123,351	(3,448)
Special education program:				
Teachers	650,025	643,525	643,201	(324)
Career Ladder	8,000	8,000	8,000	-
Homebound teachers	3,500	4,295	4,293	(2)
Aides	30,000	29,205	28,118	(1,087)
Speech pathologist	59,260	60,760	60,298	(462)
Other salaries and wages	-	7,500	7,288	(212)
Substitute teachers	4,000	4,000	2,488	(1,512)
Non-certified substitute teachers	23,500	12,500	12,138	(362)
Social Security	48,410	43,755	43,691	(64)
State retirement	67,613	67,613	66,623	(990)
Medical insurance	74,750	76,330	77,297	967
Medicare	11,325	11,500	10,221	(1,279)
Contracts with other school systems	13,500	13,500	14,478	978
Other contracted services	70,000	51,000	50,600	(400)
Instructional supplies/materials	3,500	2,908	530	(2,378)
Other supplies and materials	-	467	276	(191)
Other charges	-	125	123	(2)
Equipment	-	4,990	4,987	3
	1,067,383	1,041,973	1,034,650	(7,317)

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 Then Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Expenditures (Cont.):				
Instruction (Cont.):				
Vocational education program: (Cont.):				
Teachers	$ 355,000	$ 353,000	$ 352,292	$ (708)
Career Ladder	4,000	4,000	3,000	(1,000)
Aides	19,037	19,037	18,589	(448)
Other salaries and wages	48,000	44,000	43,192	(808)
Substitute teachers	1,000	1,000	180	(820)
Non-certified substitute teachers	8,000	14,800	13,118	(1,682)
Social Security	25,904	25,904	24,883	(1,021)
State retirement	37,595	37,595	36,913	(682)
Medical insurance	55,000	55,000	53,050	(1,950)
Medicare	6,060	6,060	5,820	(240)
Maintenance and repair - equipment	3,000	3,000	2,342	(658)
Instructional supplies	25,400	25,400	23,790	(1,610)
Other charges	5,000	2,000	1,208	(792)
Equipment	30,000	30,000	27,700	(2,300)
	622,996	620,796	606,077	(14,719)
Adult education program:				
Other contracted services	4,000	4,000	3,800	(200)
Total instruction	**8,510,160**	**8,523,993**	**8,490,752**	**(33,235)**
Support Services:				
Attendance:				
Director	61,588	62,373	62,372	(1)
Career Ladder	1,600	1,600	1,600	-
Social workers	40,780	41,495	41,438	(57)
Other salaries and wages	23,783	23,783	23,478	(305)
Social Security	6,411	6,411	5,985	(426)
State retirement	9,356	9,356	9,485	129
Medical insurance	12,860	12,860	11,374	(1,486)
Medicare	1,855	1,855	1,749	(106)
Maintenance and repair - equipment	200	200	-	(200)
Travel	2,500	2,500	2,660	160
Other supplies and materials	6,000	6,000	6,493	493
In-service/staff development	1,500	1,500	590	(910)
Equipment	3,000	3,000	629	(2,371)
	171,433	172,933	167,853	(5,080)

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 Then Ended June 30, 2011

Expenditures (Cont.):	Original Budget	Final Budget	Actual	Variance-Over (Under)
Support Services (Cont.):				
Health Services:				
Supervisor/director	$ 41,290	$ 41,445	$ 41,441	$ (4)
Medical personnel	51,370	52,370	51,709	(661)
Other salaries and wages	18,000	18,000	17,132	(868)
Social Security	6,839	6,839	6,252	(587)
State retirement	8,581	9,051	7,203	(1,848)
Medical insurance	12,671	8,716	15,460	6,744
Medicare	1,635	1,635	1,462	(173)
Communication	500	500	-	(500)
Postage	350	350	194	(156)
Printing, stationery and forms	200	200	-	(200)
Travel	2,500	2,500	3,709	1,209
Other contracted services	250	1,750	1,092	(658)
Drugs and medical supplies	1,500	1,500	552	(948)
Other supplies/materials	2,335	5,665	5,736	71
In-service/staff development	800	800	565	(235)
Other charges	1,500	1,500	21	(1,479)
Health equipment	750	750	-	(750)
	151,071	153,571	152,528	(1,043)
Other student support:				
Career Ladder	5,000	5,000	5,000	-
Guidance personnel	230,500	231,300	231,063	(237)
Social Security	14,535	14,535	12,827	(1,708)
State retirement	21,214	21,214	21,364	150
Medical insurance	30,815	30,815	29,327	(1,488)
Medicare	3,400	3,400	3,000	(400)
Evaluation/testing	28,000	28,000	31,668	3,668
Travel	-	102	101	(1)
In-service/staff development	1,750	5,650	5,627	(23)
Other charges	-	90	88	(2)
	335,214	340,106	340,065	(41)
Regular education program:				
Director	216,941	216,941	213,604	(3,337)
Career Ladder	6,500	6,500	5,500	(1,000)
Career Ladder - Extended Contract	5,320	5,320	5,320	-
Librarian(s)	174,600	174,600	164,627	(9,973)

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 Then Ended June 30, 2011

Expenditures (Cont.):	Original Budget	Final Budget	Actual	Variance-Over (Under)
Support Services (Cont.):				
Regular education program (Cont.):				
Instructional computer personnel	$ 36,160	$ 36,935	$ 35,385	$ (1,550)
Aides	30,470	30,470	28,467	(2,003)
Other salaries and wages	36,452	36,452	34,114	(2,338)
Certified substitute teachers	-	200	180	(20)
Non-certified substitute teachers	-	500	495	(5)
Social Security	31,500	31,500	26,809	(4,691)
State retirement	44,700	44,700	41,556	(3,144)
Medical insurance	44,470	44,470	47,307	2,837
Medicare	7,700	7,700	6,559	(1,141)
Travel	4,000	4,000	3,163	(837)
Library books	18,200	18,200	18,200	-
In-service/staff development	30,500	30,500	55,576	25,076
	687,513	688,988	686,862	(2,126)
Special education program:				
Director	31,000	31,000	30,475	(525)
Social Security	1,984	1,984	1,804	(180)
State retirement	2,900	2,900	2,844	(56)
Medical insurance	-	3,300	3,285	(15)
Medicare	465	465	422	(43)
Travel	1,500	1,500	199	(1,301)
In-service/staff development	3,000	3,000	1,131	(1,869)
Other supplies/materials	500	500	552	52
	41,349	44,649	40,712	(3,937)
Vocational education program:				
Director	15,000	15,000	9,996	(5,004)
Social security	620	620	571	(49)
State retirement	905	905	870	(35)
Medicare	145	145	134	(11)
Travel	3,500	3,500	320	(3,180)
Other supplies/materials	200	200	21	(179)
In-service/staff development	2,000	2,000	4,137	2,137
Other charges	500	500	476	(24)
Other equipment	-	20,000	-	(20,000)
	22,870	42,870	16,525	(26,345)

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 Then Ended June 30, 2011

Expenditures (Cont.):	Original Budget	Final Budget	Actual	Variance-Over (Under)
Support Services (Cont.):				
Board of Education services:				
Secretary to Board	$ 1,363	$ 1,378	$ 1,373	$ (5)
Social Security	85	85	84	(1)
State retirement	112	112	109	(3)
Unemployment compensation	35,000	35,000	45,543	10,543
Medicare	20	20	20	-
Other fringe benefits	50,000	50,000	47,844	(2,156)
Audit services	30,455	30,455	30,455	-
Dues and memberships	7,900	7,900	7,035	(865)
Legal services	12,000	12,000	18,728	6,728
Other contracted services	1,000	1,000	-	(1,000)
Liability insurance	15,780	15,780	15,178	(602)
Premium on surety bond	1,850	1,850	1,894	44
Trustee commissions	90,000	90,000	73,873	(16,127)
Workmen's compensation insurance	88,000	88,000	78,467	(9,533)
In-service/staff development	4,000	4,000	2,073	(1,927)
Other charges	25,700	25,700	22,399	(3,301)
	363,265	363,280	345,075	(18,205)
Office of the Director of Schools:				
County official/administrative officer	119,700	119,700	118,818	(882)
Career Ladder	1,000	1,000	1,000	-
Secretary(ies)	33,600	34,520	33,807	(713)
Clerical personnel	30,500	30,870	30,614	(256)
Other salaries and wages	4,000	5,240	5,023	(217)
Social Security	11,500	11,500	10,769	(731)
State retirement	16,005	16,005	16,241	236
Medical insurance	9,000	9,000	7,010	(1,990)
Medicare	2,900	2,900	2,649	(251)
Communication	7,000	7,000	13,405	6,405
Dues and memberships	2,000	2,000	888	(1,112)
Postal charges	3,000	3,000	2,545	(455)
Travel	6,500	6,500	9,004	2,504
Other contracted services	5,000	5,000	3,818	(1,182)
Office supplies	9,000	9,000	7,318	(1,682)
In-service/staff development	12,000	12,000	4,742	(7,258)
Other charges	5,000	13,500	21,365	7,865

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 Then Ended June 30, 2011

Expenditures (Cont.):	Original Budget	Final Budget	Actual	Variance-Over (Under)
Support Services (Cont.):				
Office of the Director of Schools (Cont.):				
Equipment	$ 6,500	$ 6,500	$ 5,962	$ (538)
	284,205	295,235	294,978	(257)
Office of the Principal:				
Principals	221,580	229,534	229,534	-
Career Ladder	4,000	4,000	4,000	-
Assistant(s)	366,648	358,948	356,695	(2,253)
Secretary(ies)	218,975	224,175	221,149	(3,026)
Other salaries and wages	9,000	9,000	8,236	(764)
Social Security	52,850	52,850	46,907	(5,943)
State retirement	72,500	72,500	70,480	(2,020)
Medical insurance	81,138	81,138	88,905	7,767
Medicare	11,964	11,964	10,970	(994)
Communication	16,000	16,000	10,490	(5,510)
Dues and memberships	3,000	3,000	474	(2,526)
Postal charges	5,000	5,000	5,050	50
Travel	6,000	10,863	11,235	372
Other contracted services	1,800	1,800	1,800	-
Office supplies	2,000	2,000	2,020	20
In-service/staff development	6,000	6,000	6,001	1
	1,078,455	1,088,772	1,073,946	(14,826)
Fiscal services:				
Director	36,160	36,160	34,991	(1,169)
Accountants/bookkeepers	41,124	41,524	41,499	(25)
Other salaries & wages	17,200	17,220	16,980	(240)
Social Security	5,800	5,800	4,911	(889)
State retirement	7,820	7,820	7,810	(10)
Medical insurance	19,000	19,000	15,770	(3,230)
Medicare	1,500	1,500	1,148	(352)
Other contracted services	7,415	7,415	7,415	-
Office supplies	2,000	2,000	2,565	565
In-service/staff development	1,500	1,500	1,427	(73)
Equipment	3,500	14,500	14,068	(432)
	143,019	154,439	148,584	(5,855)

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 Then Ended June 30, 2011

Expenditures (Cont.):	Original Budget	Final Budget	Actual	Variance-Over (Under)
Support Services (Cont.):				
Human services/personnel:				
Supervisor/director	$ 37,200	$ 37,650	$ 37,645	$ (5)
Clerical personnel	32,122	32,547	32,394	(153)
Social security	4,392	4,392	4,002	(390)
State retirement	5,933	5,933	5,979	46
Medical insurance	10,000	9,650	7,286	(2,364)
Medicare	1,020	1,020	936	(84)
Dues and memberships	600	600	310	(290)
Postal charges	100	100	38	(62)
Travel	2,500	2,500	352	(2,148)
Office supplies	500	500	869	369
In-service/staff development	1,500	1,500	1,623	123
Other charges	2,000	2,000	4,957	2,957
Equipment	2,000	2,000	1,489	(511)
	99,867	100,392	97,880	(2,512)
Operation and maintenance of plant:				
Operation of plant:				
Other contracted services	370,100	370,100	362,615	(7,485)
Custodial supplies	-	500	96	(404)
Electricity	390,000	389,500	393,358	3,858
Natural gas	95,000	64,155	57,347	(6,808)
Water and sewer	35,000	35,000	36,315	1,315
Boiler insurance	3,540	3,540	3,615	75
Building and contents insurance	69,500	69,500	65,862	(3,638)
	963,140	932,295	919,208	(13,087)
Maintenance of plant:				
Director	41,900	42,400	41,533	(867)
Maintenance personnel	70,000	69,500	65,519	(3,981)
Other salaries and wages	10,000	10,000	7,448	(2,552)
Social Security	7,265	7,265	6,481	(784)
State retirement	9,393	9,393	9,137	(256)
Medical insurance	15,935	15,935	15,417	(518)
Medicare	1,700	1,700	1,516	(184)
Communication	1,500	1,500	1,243	(257)
Maintenance and repair - buildings	50,000	50,000	39,464	(10,536)

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 Then Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Expenditures (Cont.):				
Support Services (Cont.):				
Operation and maintenance of plant (Cont.):				
Maintenance of plant (Cont):				
Maintenance and repair - equipment	$ 25,000	$ 25,000	$ 10,781	$ (14,219)
Other contracted services	35,000	35,000	26,500	(8,500)
Gasoline	1,000	1,000	-	(1,000)
Other supplies and materials	30,000	30,000	53,577	23,577
In-service/staff development	1,000	1,000	-	(1,000)
	299,693	299,693	278,616	(21,077)
Total operation and maintenance of plant	1,262,833	1,231,988	1,197,824	(34,164)
Student transportation:				
Director	37,011	37,171	37,171	-
Bus drivers	99,650	102,900	98,811	(4,089)
Clerical personnel	4,000	4,050	4,040	(10)
Other salaries and wages	48,000	44,700	37,085	(7,615)
Social Security	11,388	11,388	10,694	(694)
State retirement	15,000	15,000	12,495	(2,505)
Medical insurance	-	2,175	2,271	96
Medicare	3,000	3,000	2,519	(481)
Communication	1,500	1,500	448	(1,052)
Contracts with public carriers	8,500	8,500	6,008	(2,492)
Travel	500	500	825	325
Other contracted services	55,000	55,000	54,813	(187)
Diesel fuel	50,000	50,000	42,552	(7,448)
Gasoline	5,100	5,100	7,179	2,079
Other supplies and materials	300	300	3,963	3,663
Vehicle and equipment insurance	20,500	20,500	20,335	(165)
In-service/staff development	2,000	2,000	1,393	(607)
Other charges	3,500	3,500	3,547	47
Transportation equipment	-	90,000	90,000	-
	364,949	457,284	436,149	(21,135)
Central and Other:				
Other supplies and materials	1,000	1,000	-	(1,000)
Total support services	**5,007,043**	**5,135,507**	**4,998,981**	**(136,526)**

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 Then Ended June 30, 2011

Expenditures (Cont.):	Original Budget	Final Budget	Actual	Variance-Over (Under)
Non-Instructional Services:				
Early Childhood Education				
Supervisor/director	$ 10,404	$ 10,470	$ 10,469	$ (1)
Teachers	187,515	189,465	189,464	(1)
Clerical personnel	11,750	11,880	11,837	(43)
Educational assistants	149,100	142,924	142,924	-
Substitute teachers	500	-	-	-
Non-certified substitute teachers	250	55	55	-
Social Security	22,309	21,029	21,026	(3)
State retirement	30,780	29,296	29,289	(7)
Medical insurance	16,195	25,379	25,379	-
Medicare	5,226	4,918	4,917	(1)
Travel	1,000	353	353	-
Other contracted services	10,000	8,885	8,885	-
Instructional supplies and materials	27,500	35,499	26,244	(9,255)
In-service/staff development	40,000	2,867	2,867	-
Other charges	600	7,338	16,638	9,300
	513,129	490,358	490,347	(11)
Capital outlay:				
Other capital outlay	149,748	160,248	160,017	231
Debt service:				
Principal on bonds	660,550	620,000	620,000	-
Interest on bonds	445,463	445,463	445,463	-
Other debt service	-	1,640	1,639	(1)
	1,106,013	1,067,103	1,067,102	(1)
Total non-instructional services	**1,768,890**	**1,717,709**	**1,717,466**	**219**
Total expenditures	**15,286,093**	**15,377,209**	**15,207,199**	**(169,542)**
Excess (deficiency) of revenues over (under) expenditures	**(46,000)**	**(100,000)**	**139,977**	**239,509**

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 Then Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Other financing sources (uses)				
Operating transfers in	$ 10,000	$ 10,000	$ 3,662	$ (6,338)
Net changes in fund balance	**$ (36,000)**	**$ (90,000)**	**143,639**	**$ 233,171**
Fund balance - beginning			1,922,615	
Fund balance - ending			**$ 2,066,254**	

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

Inflows/revenues:		
Actual amounts (budgetary basis)	$ 15,347,176	$ 69,967
Differences - budget to GAAP:		
Fringe benefits - noncash	65,877	65,877
Total Revenues as Reported on Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	15,413,053	135,844
Outflows/expenditures:		
Actual amounts (budgetary basis)	15,207,199	(169,542)
Differences - budget to GAAP:		
Fringe benefits - noncash	65,877	65,877
Total Expenditures as Reported on Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	15,273,076	(103,665)
Other financing sources (uses)	3,662	(6,338)
Net changes in fund balance	**$ 143,639**	**$ 233,171**

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

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.

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.

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, 2011 but were not available to finance expenditures for the year ended June 30, 2011. Deferred revenues primarily include unearned or unavailable revenues.

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
Effective July 1, 2010, the District adopted the provisions of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. The objective of the statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying governmental fund type definitions. The District has evaluated the use of its Capital Projects and Debt Service Funds under the criteria set forth in GASB Statement 54 and has determined that there is no change needed.

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance for governmental funds can consist of the following:

Nonspendable fund balance
This classification includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.

Restricted fund balance
This classification includes amounts that are restricted for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted with the consent of resource providers.

Committed fund balance
This classification includes amounts that can only be used for the specific purposes determined by a formal action of the District's highest level of decision-making authority, the Board of Education of the Milan Special School District. Commitments may be changed or lifted only by the District taking the same formal action that imposed the constraint originally (for example: resolution).

Assigned fund balance
This classification includes amounts intended to be used by the District for specific purposes that are neither restricted nor committed. The Board and its designees (of which there are none) have the authority to assign amounts to be used for specific purposes. Assigned amounts also include all residual amounts in governmental funds (except negative amounts) that are not classified as nonspendable, restricted, or committed.

Unassigned fund balance
This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.
In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned, and unassigned.

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 ($11,330,000) are as follows:

School bonds payable, Series 2009	$ (1,315,000)
School bonds payable, Series 2005	(9,015,000)
School bonds payable, Series 2008	(1,000,000)
	$(11,330,000)

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 $15,314,726 are as follows:

Land	$ 854,415
Buildings and improvements	21,350,975
Other fixed assets	1,775,753
	23,981,143
Less accumulated depreciation	(8,666,417)
Total capital assets, net of accumulated depreciation	$15,314,726

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 $620,000 are as follows:

Principal repayments:	
School bonds payable, Series 2005	$ 50,000
School bonds payable, Series 2001	150,000
School bonds payable, Series 2009	420,000
	$ 620,000

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 $163,183 and ($668,097) are as follows:

Capital outlays	$ 186,312
Disposal of assets	(23,129)
	$ 163,183
Depreciation expense	$ (668,097)

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 ($11,340) are as follows:

Accrued leave as of June 30, 2010	$ 69,290
Accrued leave as of June 30, 2011	(80,630)
	$ (11,340)

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 ($230,176) are as follows:

OPEB Liability as of June 30, 2010	$ 968,367
OPEB Liability as of June 30, 2011	(1,198,543)
	$ (230,176)

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 ($3,745) are as follows:

Accrued interest as of June 30, 2010	$ 87,938
Accrued interest as of June 30, 2011	(91,683)
	$ (3,745)

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 ($18,482) are as follows:

Amortization of bond premium	$ 955
Amortization of bond issuance costs	(19,437)
	$ (18,482)

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. 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, 2011, all bank deposits were fully collateralized or insured.

GASB 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, requires investments with a remaining maturity of one year or more to be reported at fair value. The District had no investments as of June 30, 2011.

The following is a summary of cash and cash equivalents as of June 30, 2011

Cash in bank	$2,020,796
Local Government Investment Pool	403,144
Total cash and cash equivalents	$2,423,940

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:			
Accounts	$ 7,960	$ -	$ 7,960
Taxes	3,234,242	-	3,234,242
Grants	134,201	65,858	200,059
Intergovernmental	439,417	-	439,417
Total receivables	$ 3,815,820	$ 65,858	$ 3,881,678

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.

Management determined that all receivables were collectable and no allowance was considered necessary.

The following grant revenues are deferred based on the district not receiving the funds within 60 days of year end. The following revenues are unearned because they were not spent as of year end.

	Deferred/ Unavailable	Unearned	Total
General Fund			
Additional Special Education Funds	$ 6,007	$ -	$ 6,007
ARRA - SFSF Safe Schools	1,553	-	1,553
Federal Projects Fund			
ARRA - IDEA, Part B	-	195	195
Title II, Part D	3,571	-	3,571
Total receivables	$ 11,131	$ 195	$ 11,326

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, 2011, is as follows:

Receivable Fund	Payable Fund	Amount
General Purpose	Centralized Cafeteria	$ 2,018
General Purpose	Federal Projects	48,251
		50,269
Elimination for district-wide statements		(50,269)
		$ -

Transfer activity for indirect costs relating to the grant administration in the federal projects fund for the year ended June 30, 2011 was as follows:

Transferred From	Transferred To	Amount
Federal Projects	General Fund	$ 3,662

D. Capital Assets

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

	6/30/10	Additions	Reductions	6/30/11
Capital assets not being depreciated:				
Land	$ 854,415	$ -	$ -	$ 854,415
Construction in process	-	-	-	-
	854,415	-	-	854,415
Capital assets being depreciated:				
Buildings and improvements	21,336,742	31,799	17,566	21,350,975
Other capital assets	1,636,140	154,513	14,900	1,775,753
	22,972,882	186,312	32,466	23,126,728
Accumulated depreciation:				
Buildings and improvements	(6,780,287)	(584,997)	(6,675)	(7,358,609)
Other capital assets	(1,227,370)	(83,100)	(2,662)	(1,307,808)
	(8,007,657)	(668,097)	(9,337)	(8,666,417)
Total capital assets being depreciated, net	14,965,225	(481,785)	23,129	14,460,311
Capital assets net of accumulated				
Total capital assets, net	$ 15,819,640	$(481,785)	$ 23,129	$ 15,314,726

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

Instruction:	
Regular education	$ 3,527
Vocational education	3,013
Support services:	
Office of the Principal	9,034
Operation and maintenance of plant	7,411
Non-instructional services:	
Capital outlay	498,491
Food service	146,621
	$668,097

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, 2011, were as follows:

Year Ended June 30,	
2012	$ 4,030
2013	2,124
2014	2,124
2015	531
	$13,792

The lease expense for the year ended June 30, 2011 was $4,030.

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, 2011 are as follows:

Years Ending	Bonds		
June 30,	Principal	Interest	Total
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	745,000	327,213	1,072,213
2017-2021	4,375,000	1,176,220	5,551,220
2022-2024	3,130,000	260,770	3,390,770
	$ 11,330,000	$ 3,335,528	$ 14,665,528

The following is a summary of long-term debt transactions for the year ended June 30, 2011:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Bonds Payable:					
School Bonds, Series 2001 3.50% to 5.00% interest, payable serially through 2024, remaining portion not refunded	$ 150,000	$ -	$ 150,000	$ -	$ -
School Bonds, Series 2005 3.50% to 4.10% interest, payable serially through 2024	9,065,000	-	50,000	9,015,000	330,000
School Bonds, Series 2008 3.00% to 4.375% interest, payable serially through 2024	1,000,000	-	-	1,000,000	-
School Bonds, Series 2009 1.50% to 3.30% interest, payable serially through 2014	1,735,000	-	420,000	1,315,000	425,000
Total bonds payable	11,950,000	-	620,000	11,330,000	755,000
Other post employment benefits	968,367	230,176	-	1,198,543	-
Compensated absences	69,290	11,340	-	80,630	-
Total long-term liabilities	12,987,657	241,516	620,000	12,609,173	755,000
Other deferred costs:					
Bond premium	13,362	-	955	12,407	-
Bond issuance costs	(199,709)	-	19,437	(180,272)	-
Net long-term liabilities including associated deferred items	$ 12,801,310	$241,516	$ 640,392	$ 12,441,308	$ 755,000

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 were 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, 2010, additional school bonds were issued to refund a portion of the School Bonds, Series 2005. The principal not refunded totaled $745,451.

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, 2011, defeased bonds of $1,315,000 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, 2011 was 7.94% 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.

Annual Pension Cost

For the year ending June 30, 2011, Milan Special School District's annual pension cost of $131,819 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, 2009 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 3.0 percent annual rate of inflation (c) 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), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 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 ten-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, 2009 was 7 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
6/30/2011	$ 131,819	100.00%	$ -
6/30/2010	147,653	100.00%	-
6/30/2009	147,352	100.00%	-

Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the plan was 86.33% percent funded. The actuarial accrued liability for benefits was $3.6 million, and the actuarial value of assets was $3.1 million, resulting in an unfunded actuarial was $1.8 million, and the ratio of the UAAL to the covered payroll was 27.38% percent.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

The annual required contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify of separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

(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%

State Employees, Teachers, and Higher Education Employees Pension Plan

Plan Description

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

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the SETHEEPP. 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, 2011 was 9.05% 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, 2011, 2010, and 2009 were $724,493 $515,702, and $507,319, 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.

ARC	$ 364,000
Interest on NPO	43,577
Adjustment to the ARC	(42,413)
Annual OPEB cost	365,164
Amount of contribution	(134,988)
Increase/decrease in NPO	230,176
Net OPEB obligation - beginning of year	968,367
Net OPEB obligation - end of year	$ 1,198,543

Year End*	Plan	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End
6/30/2011	Teacher Group	$ 365,164	37%	$ 1,198,543
6/30/2010	Teacher Group	$ 363,883	36%	$ 968,367
6/30/2009	Teacher Group	$ 837,000	12%	$ 734,783

Funded Status and Funding Progress
The funded status of the plan as of June 30, 2011, was as follows:

	Teacher Group Plan
Actuarial valuation date	7/1/2010
Actuarial accrued liability (AAL)	$3,164,000
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$3,164,000
Actuarial Value of Assets as a % of the AAL	-
Covered payroll (active plan members)	$9,665,627
UAAL as a percentage of covered payroll	32.73%

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.

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 2011 the State made contributions of $74,093.

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 Then Ended June 30, 2011

(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%

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the Entry Age actuarial cost method went into affect during the year of the 2007 actuarial valuation.

See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS - POST EMPLOYMENT HEALTHCARE PLAN
For The Fiscal Year Then Ended June 30, 2011

Schedule of Funding Progress

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2009	Teacher Group	$ -	$ 3,164,000	$ 3,164,000	0.00%	$ 9,665,627	32.73%

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

See independent auditor's report.

OTHER SUPPLEMENTARY INFORMATION

MILAN SPECIAL SCHOOL DISTRICT
OTHER GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2011

		Special Revenue Funds		
	Capital Projects Fund	Federal Projects Fund	Centralized Cafeteria Fund	Total
Assets:				
Cash	$ 19,003	$ -	$ 158,271	$ 177,274
Due from other governments - grants	-	59,046	6,812	65,858
Inventory	-	-	55,107	55,107
Total assets	**$ 19,003**	**$ 59,046**	**$ 220,190**	**$ 298,239**
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	$ -	$ 10,795	$ 3,669	$ 14,464
Due to other funds	-	48,251	2,018	50,269
Unearned revenue	-	195	-	195
Deferred revenue	-	3,571	-	3,571
Total liabilities	-	62,812	5,687	68,499
Fund balances:				
Nonspendable				
Inventory	-	-	55,107	55,107
Restricted				
Education	19,003	-	-	19,003
Other local reserves	-	-	-	-
Operation of non-instructional services	-	-	159,396	159,396
Unassigned	-	(3,766)	-	(3,766)
Total fund balances	19,003	(3,766)	214,503	229,740
Total liabilities and fund balances	**$ 19,003**	**$ 59,046**	**$ 220,190**	**$ 298,239**

See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
OTHER GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For The Fiscal Year Then Ended June 30, 2011

		Special Revenue Funds		
	Capital Projects Fund	Federal Projects Fund	Centralized Cafeteria Fund	Total
Revenues:				
Charges for current services	$ -	$ -	$ 334,784	$ 334,784
Interest earned	54	-	-	54
Other local revenues	-	5,650	2,641	8,291
State revenue	-	-	13,092	13,092
Federal revenue	-	1,515,198	879,511	2,394,709
Total revenues	**54**	**1,520,848**	**1,230,028**	**2,750,930**
Expenditures:				
Instruction	-	1,097,706	-	1,097,706
Support services	-	417,596	-	417,596
Non-instructional services	20,071	5,650	2,566	28,287
Food service	-	-	1,206,291	1,206,291
Total expenditures	**20,071**	**1,520,952**	**1,208,857**	**2,749,880**
Excess (deficiency) of revenues over (under) expenditures	**(20,017)**	**(104)**	**21,171**	**1,050**
Other financing sources (uses)				
Operating transfers out	-	(3,662)	-	(3,662)
Total other financing sources (uses)	-	(3,662)	-	(3,662)
Net changes in fund balance	**(20,017)**	**(3,766)**	**21,171**	**(2,612)**
Fund balance - beginning	**39,020**	**-**	**184,052**	**223,072**
Increase (decrease) in inventory	-	-	9,280	9,280
Fund balance - ending	**$ 19,003**	**$ (3,766)**	**$ 214,503**	**$ 229,740**

See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
FEDERAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For The Fiscal Year Then Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Revenues:				
Federal through State:				
Vocational education -				
Basic grants to states	$ 28,152	$ 28,152	$ 28,152	$ -
Title I	405,955	405,955	390,752	(15,203)
Title I - ARRA	108,663	108,663	102,777	(5,886)
Education of the Handicapped - IDEA	513,229	513,229	465,455	(47,774)
Education of the Handicapped - IDEA - ARRA	250,245	250,440	247,914	(2,526)
Education of the Handicapped - Preschool - Competitive	7,600	7,600	7,600	-
Education of the Handicapped - Preschool - Discretionary	6,000	6,000	5,791	(209)
Education of the Handicapped - Preschool	20,381	20,381	19,521	(860)
Education of the Handicapped - Preschool - ARRA	3,441	3,441	3,441	-
English language acquisition grants	26,115	26,115	22,931	(3,184)
Safe and drug free schools	528	528	528	-
Rural Education	22,931	22,931	22,077	(854)
Eisenhower	105,103	105,103	101,279	(3,824)
Race to the Top - ARRA	89,200	89,200	89,200	-
Race to the Top - ARRA - Formula	6,000	6,000	-	(6,000)
Other federal through state	10,000	10,000	6,429	(3,571)
Other federal through state - ARRA	1,351	1,351	1,351	-
Total federal through state	1,604,894	1,605,089	1,515,198	(89,891)
Total revenues	**1,604,894**	**1,605,089**	**1,515,198**	**(89,891)**
Expenditures:				
Instruction:				
Regular instruction program:				
Teachers	135,250	120,321	120,321	-
Aides	116,990	106,907	106,907	-
Substitute teachers	600	1,260	1,260	-
Non-certified substitute teachers	1,750	6,510	6,510	-
Social Security	15,833	12,754	12,754	-
State retirement	21,549	17,403	17,403	-
Medical insurance	28,700	33,770	33,770	-
Medicare	3,710	3,064	3,064	-
Instructional supplies	46,341	43,044	33,963	(9,081)
Equipment	15,454	31,702	33,375	1,673
	386,177	376,735	369,327	(7,408)
Special education program:				
Teachers	77,600	76,139	75,577	(562)
Aides	284,020	272,946	256,405	(16,541)
Substitute teachers	1,000	203	203	-
Non-certified substitute teachers	4,200	4,063	4,063	-
Social Security	23,044	21,585	19,413	(2,172)
State retirement	29,400	28,080	25,417	(2,663)

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 Then Ended June 30, 2011

Expenditures (Cont.)	Original Budget	Final Budget	Actual	Variance-Over (Under)
Instruction (Cont.):				
Special education program: (cont.)				
Medical Insurance	$ 62,300	$ 56,926	$ 32,260	$ (24,666)
Medicare	6,123	5,021	4,540	(481)
Maintenance and repair	800	800	62	(738)
Other contracted services	89,300	92,000	92,240	240
Instructional supplies	126,961	126,277	132,863	6,586
Other charges	3,000	1,532	1,532	-
Special education equipment	57,000	79,372	69,240	(10,132)
	764,748	764,944	713,815	(51,129)
Vocational education program:				
Other contracted services	1,400	-	-	-
Other supplies and materials	3,802	-	-	-
Equipment	10,200	14,565	14,564	(1)
	15,402	14,565	14,564	(1)
Total instruction	**1,166,327**	**1,156,244**	**1,097,706**	**(58,538)**
Support Services:				
Other student support:				
Other salaries and wages	57,105	55,373	54,766	(607)
Social security	3,409	3,037	2,831	(206)
State retirement	4,566	4,393	4,363	(30)
Medical insurance	8,800	8,800	4,095	(4,705)
Medicare	873	844	755	(89)
Contracts with other school systems	20,518	20,518	17,625	(2,893)
Evaluation and testing	4,435	4,430	4,430	-
Other contracted services	7,000	6,200	6,200	-
Other supplies and materials	5,000	1,776	1,776	-
In-service/staff development	1,000	1,000	79	(921)
Other charges	3,000	4,178	4,136	(42)
	115,706	110,549	101,056	(9,493)
Regular instruction program:				
Supervisor/director	29,100	29,313	29,313	-
Secretary(s)	10,500	10,500	10,357	(143)
Other salaries and wages	99,310	95,897	97,032	1,135

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 Then Ended June 30, 2011

Expenditures (Cont.)	Original Budget	Final Budget	Actual	Variance-Over (Under)
Support Services (Cont.):				
Regular instruction program (Cont.):				
Substitute teachers	$ 2,040	$ 90	$ 90	$ -
In-service training	49,250	21,539	21,539	-
Non-certified substitute teachers	5,770	1,293	1,293	-
Social Security	14,327	11,184	8,020	(3,164)
State retirement	17,453	13,066	12,831	(235)
Medical insurance	16,250	19,085	17,715	(1,370)
Medicare	2,847	2,329	2,096	(233)
Travel	914	914	42	(872)
Other contracted services	1,500	1,500	1,489	(11)
Other supplies and materials	3,025	3,320	2,765	(555)
In-service-staff development	27,605	84,538	71,945	(12,593)
Other equipment	6,000	6,762	6,750	(12)
	285,891	301,330	283,277	(18,053)
Special education program:				
Secretary(s)	7,520	7,633	7,632	(1)
Social Security	470	470	467	(3)
State retirement	600	607	606	(1)
Medicare	110	110	109	(1)
Travel	8,750	6,169	5,539	(630)
Other supplies and materials	500	500	491	(9)
In-service-staff development	13,000	15,851	16,487	636
Other charges	1,500	1,110	1,110	-
	32,450	32,450	32,441	(9)
Vocational education program:				
Travel	822	822	822	-
Total support services	**434,869**	**445,151**	**417,596**	**(27,555)**
Total expenditures	**1,601,196**	**1,601,395**	**1,515,302**	**(86,093)**
Excess (deficiency) of revenues over (under) expenditures	**3,698**	**3,694**	**(104)**	**(3,798)**

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 Then Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Other financing sources (uses)				
Operating transfers out	(3,697)	(3,697)	(3,662)	35
Net changes in fund balance	**$ 1**	**$ (3)**	**(3,766)**	**$ (3,763)**
Fund balance - beginning			-	
Fund balance - ending			**$ (3,766)**	

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

Inflows/revenues:		
Actual amounts (budgetary basis)	$ 1,515,198	$ (89,891)
Fringe benefits - noncash	5,650	5,650
Total Revenues as Reported on Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	1,520,848	(84,241)
Outflows/expenditures:		
Actual amounts (budgetary basis)	1,515,302	(86,093)
Differences - budget to GAAP:		
Fringe benefits - noncash	5,650	5,650
Total Expenditures as Reported on Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	1,520,952	(80,443)
Other financing sources (uses)	(3,662)	35
Net changes in fund balance	**$ (3,766)**	**$ (3,763)**

See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
CENTRALIZED CAFETERIA FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For The Fiscal Year Then Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Revenues:				
Charges for current services:				
Lunch payments - children	$ 330,000	$ 330,000	$ 215,113	$ (114,887)
Lunch payments - adults	48,000	48,000	33,721	(14,279)
A La Carte sales	100,000	100,000	74,018	(25,982)
Other charges for services	11,000	11,000	11,932	932
	489,000	489,000	334,784	(154,216)
Other revenues:				
Interest earned	200	200	75	(125)
State education funds:				
School food service	13,200	13,200	13,092	(108)
Federal through State:				
USDA - lunch	556,000	556,000	517,573	(38,427)
USDA - breakfast	245,000	245,000	264,552	19,552
USDA - other	20,900	20,900	15,971	(4,929)
	821,900	821,900	798,096	(23,804)
Total revenues	**1,324,300**	**1,324,300**	**1,146,047**	**(178,253)**
Expenditures:				
Food service:				
Director	35,500	35,500	33,225	(2,275)
Clerical personnel	18,000	18,000	16,740	(1,260)
Cafeteria personnel	340,000	340,000	292,572	(47,428)
Other salaries & wages	2,900	2,900	1,746	(1,154)
Non-certified substitute teachers	2,000	6,822	6,198	(624)
Social Security	25,000	25,000	19,244	(5,756)
State retirement	30,000	30,000	24,072	(5,928)
Medical insurance	74,000	69,178	59,001	(10,177)
Medicare liability	5,900	5,900	4,501	(1,399)
Communication	700	700	557	(143)
Maintenance & repair - equipment	15,000	15,000	8,112	(6,888)
Travel	3,300	3,300	1,781	(1,519)
Food supplies	650,000	650,000	570,110	(79,890)

See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
CENTRALIZED CAFETERIA FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (Cont.)
For The Fiscal Year Then Ended June 30, 2011

Expenditures (Cont.)	Original Budget	Final Budget	Actual	Variance-Over (Under)
Food service (Cont.):				
Other supplies & materials	$ 95,000	$ 89,567	$ 60,612	$ (28,955)
In service/staff development	1,000	1,000	530	(470)
Other charges	6,000	6,000	3,375	(2,625)
Equipment	20,000	25,433	22,500	(2,933)
Total expenditures	**1,324,300**	**1,324,300**	**1,124,876**	**(199,424)**
Net changes in fund balance	**$ -**	**$ -**	**21,171**	**$ 21,171**
Fund balance - beginning			**184,052**	
Increase (decrease) in inventory			9,280	
Fund balance - ending			**$ 214,503**	

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

Inflows/revenues:		
Actual amounts (budgetary basis)	$ 1,146,047	$ (178,253)
Differences - budget to GAAP:		
Commodities benefits - noncash	81,415	(3,585)
Fringe benefits - noncash	2,566	2,566
Total Revenues as Reported on Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	1,230,028	(179,272)
Outflows/expenditures:		
Actual amounts (budgetary basis)	1,124,876	(199,424)
Differences - budget to GAAP:		
Commodities expense - noncash	81,415	(3,585)
Fringe expense - noncash	2,566	2,566
Total Expenditures as Reported on Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	1,208,857	(200,443)
Net changes in fund balance	**$ 21,171**	**$ 21,171**

See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
EDUCATION CAPITAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - ACTUAL
For The Fiscal Year Then Ended June 30, 2011

Revenues:	
Other local revenues:	
Interest earned	$ 54
Expenditures:	
Non-instructional Services:	
Capital Outlay:	
Building construction	17,567
Design expense	2,504
Total expenditures	**20,071**
Excess (deficiency) of revenues over (under) expenditures	**(20,017)**
Fund balance - beginning	**39,020**
Fund balance - ending	**$ 19,003**

See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF PROPERTY TAX RATES AND ASSESSMENTS - PAST TEN YEARS
June 30, 2011

Year Ended June, 30	Tax Rates	Assessments	Tax Levy
2011	$ 1.84	$ 175,267,174	$ 3,224,916
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

The following is the tax levied January 1, 2011:

2012	$ 1.84	$ 175,774,003	$ 3,234,242

See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF LONG-TERM DEBT
June 30, 2011

Year Ended	Bonds								
	Series 2009		Series 2005		Series 2008		Total Requirements		
June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
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
	$ 1,315,000	$ 81,575	$ 9,015,000	$ 2,902,478	$ 1,000,000	$ 351,475	$ 11,330,000	$ 3,335,528	$ 14,665,528

See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF INTERFUND TRANSFERS
For The Fiscal Year Then Ended June 30, 2011

Operating Transfers					
Transfer In	Budget	Actual	Transfer Out	Budget	Actual
General Purpose	$ 10,000	$ 3,662	Federal Projects	$ 3,697	$ 3,662

See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF SALARIES AND BONDS
June 30, 2011

	Salary	Bond	
Director of Schools	$ 118,818	$ 373,000	*

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

See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Fiscal Year Then Ended June 30, 2011

	Federal CFDA Number	Agency or Pass-through Number	Balance 7/1/10	Cash Receipts	Expenditures/ Amount Earned/ Amount Issued	Balance Unearned (Receivable) 6/30/11
U.S. Department of Agriculture						
Pass-through the Tennessee Department of Education						
School Breakfast Program	10.553*	N/A	$ (4,886)	$ 267,879	$ 264,552	(1,559)
National School Lunch Program - Snack	10.555*	N/A	(725)	16,696	15,971	-
National School Lunch Program	10.555*	N/A	(13,320)	525,641	517,573	(5,252)
Food-Distribution - Commodities	10.555*	N/A	-	81,415	81,415	-
			(14,045)	623,752	614,959	(5,252)
Total U.S. Department of Agriculture			**(18,931)**	**891,631**	**879,511**	**(6,811)**
U.S. Department of Labor						
Pass-through Tennessee Employment Training Administration						
WIA Youth Activities	17.259	N/A	(4,876)	26,967	25,000	(2,909)
U.S. Department of Education						
Pass-through the Tennessee Department of Education						
Special Education - Grants to States						
IDEA, Part B	84.027*	N/A	(12,957)	468,713	465,455	(9,699)
ARRA - IDEA, Part B	84.391*	N/A	(68)	213,782	247,914	(34,200)
Additional Special Education Funds	84.027*	N/A	(7,960)	7,960	6,008	(6,008)
			(20,985)	690,455	719,377	(49,907)
Special Education - Preschool Grants:						
IDEA Preschool	84.173*	N/A	1,515	16,976	19,521	(1,030)
ARRA - Preschool Program	84.173*	N/A	-	3,441	3,441	-
Preschool Program - Competitive	84.173*	N/A	(1,606)	9,206	7,600	-
Preschool Program - Discretionary	84.173*	N/A	(2,399)	8,190	5,791	-
			(2,490)	37,813	36,353	(1,030)
Total special education grants			(23,475)	728,268	755,730	(50,937)

See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Cont.)
For The Fiscal Year Then Ended June 30, 2011

	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
U.S. Department of Education (Cont.)						
Pass-through the Tennessee Department of Education (Cont.)						
State Fiscal Stabilization Fund						
ARRA - SFSF Race to the Top	84.395	N/A	-	4,507	4,507	-
ARRA - SFSF Race to the Top	84.395	N/A	-	88,491	89,200	(709)
			-	92,998	93,707	(709)
State Fiscal Stabilization Fund						
ARRA - SFSF Internet Connectivity	84.397*	N/A	-	6,328	6,328	-
ARRA - SFSF Statewide Student Mgmt System	84.397*	N/A	-	5,449	5,449	-
ARRA - SFSF Coordinated School Health	84.397*	N/A	(24,038)	73,824	74,923	(25,137)
ARRA - SFSF BEP	84.394*	N/A	-	923,976	923,976	-
ARRA - SFSF Safe Schools	84.397*	N/A	(500)	6,048	7,101	(1,553)
ARRA - SFSF Extended Contracts	84.397*	N/A	(51,277)	52,441	48,687	(47,523)
			(75,815)	1,068,066	1,066,464	(74,213)
Title I, Grants to Local Education Agencies						
ARRA - Part A	84.389*	N/A	(634)	103,344	102,777	(67)
Part A	84.010*	N/A	(2,147)	392,772	390,752	(127)
			(2,781)	496,116	493,529	(194)
Career and Technical Education - Basic Grants to States						
Carl D. Perkins	84.048	N/A	(9,987)	33,337	28,152	(4,802)
Safe and Drug Free Schools and Communities - State Grants						
Title IV, Part A	84.186	N/A	(2,772)	3,300	528	-

See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Cont.)
For The Fiscal Year Then Ended June 30, 2011

	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
U.S. Department of Education (Cont.)						
Pass-through the Tennessee Department of Education (Cont.)						
English Language Acquisition Grants						
Title III, Part A	84.365	N/A	-	22,931	22,931	-
Education Technology State Grants						
Title II, Part D	84.318	N/A	-	101,279	101,279	-
Title II, Part D	84.318	N/A	-	1,351	1,351	-
ARRA - Title II, Part D	84.386	N/A	(10,000)	16,429	10,000	(3,571)
			(10,000)	119,059	112,630	(3,571)
Rural and Low-Income School Program						
Title VI, Part B, Subpart 2	84.358	N/A	-	17,237	22,077	(4,840)
Total US Department of Education			**(124,830)**	**2,581,312**	**2,595,748**	**(139,266)**
U.S. Department of Human Services						
Pass-through the Tennessee Department of Human Services						
ARRA - Emergency Contingency	93.714	N/A	-	18,412	18,412	-
Total federal awards			**$ (148,637)**	**$ 3,518,322**	**$ 3,518,671**	**$ (148,986)**

*Major federal financial assistance program.

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

See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF STATE FINANCIAL ASSISTANCE
For The Fiscal Year Then Ended June 30, 2011

	Contract Number	Balance 7/1/10	Cash Receipts	Expenditures/ Amount Earned/ Amount Issued	Balance Unearned (Receivable) 6/30/11	(Receivable) 6/30/11	Unearned 6/30/11	Balance Unearned (Receivable) 6/30/11
Special Programs - Early Childhood		$ (62,802)	$ 502,087	$ 490,358	$ (51,073)	$ (51,073)	$ -	$ (51,073)
Energy Efficient Schools	GU8/AAX	-	8,250	8,250	-	-	-	-
Safe Schools 2008/2009		-	5,350	5,350	-	-	-	-
Internet ConnectTN		-	1,161	1,161	-	-	-	-
Total State Awards		**$ (62,802)**	**$ 516,848**	**$ 505,119**	**$ (51,073)**	(51,073)	-	(51,073)
	Total per Schedule of Expenditures of Federal Awards				(148,986)	(148,986)	195	-
	Total grants				$ (200,059)	$ (200,059)	$ 195	$ (51,073)

See independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE SECTION

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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, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 30, 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.

Dyersburg, TN
Henderson, TN
Jackson, TN
Martin, TN
McKenzie, TN
Milan, TN
Murray, KY
Paris, TN
Trenton, TN
Union City, TN

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

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards.*

We noted certain matters that we reported to management of the District in a separate letter dated November 30, 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
November 30, 2011

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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 Milan Special School District (District) compliance 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, 2011. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination 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, 2011.

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

Dyersburg, TN
Henderson, TN
Jackson, TN
Martin, TN
McKenzie, TN
Milan, TN
Murray, KY
Paris, TN
Trenton, TN
Union City, TN

control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

This report is intended solely for the information and use of management, 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
November 30, 2011

MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2011

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 deficiency(ies) identified?	_____	yes	X	none reported
Noncompliance material to financial statements noted?	_____	yes	X	no

Federal Awards

Internal control over major programs:				
Material weakness(es) identified?	_____	yes	X	no
Significant deficiency(ies) identified?	_____	yes	X	none reported
Type of 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:

CFDA Number	Name of Federal Program or Cluster:
	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 Stabalization 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:			$300,000	
Auditee qualified as low-risk auditee?	X	yes	_____	no

MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2011

SECTION II – FINANCIAL STATEMENT FINDINGS

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.