MILAN SPECIAL SCHOOL DISTRICT

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

MILAN SPECIAL SCHOOL DISTRICT
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INTRODUCTORY SECTION

MILAN SPECIAL SCHOOL DISTRICT
DIRECTORY
June 30, 2012

ELECTED OFFICIALS

Jimmy Copous, Chairman
Kenny Carmichael, Vice Chairperson
Steve Brasher, Member
Marty Elliott, Member
Darren Riggs, Member
Gregory Horton, Member
David Nelson, 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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American Institute of Certified Public Accountants
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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, 2012, 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 previously 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, 2012, 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 15, 2012, 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 an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the 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 District's financial statements. The introductory section, and the other supplementary section, is presented for purposes of additional analysis and is 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 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information 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 15, 2012

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, 2012. 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, 2012 by $5,111,882. Of this amount, $841,556 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 fund balance of $2,587,361.

- At the end of the current fiscal year, unassigned fund balance for the general purpose fund was $2,076,206, or 14% percent of total general purpose fund expenditures.

- The District's total bonded debt decreased by $755,000.

Overview of the Financial Statements

This management 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 $5,111,882 at the close of the fiscal year ended June 30, 2012.

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, 2012	June 30, 2011
Assets:		
Current and other	$ 6,668,200	$ 6,540,997
Capital assets - net of accumulated depreciation	14,809,098	15,314,726
Total assets	21,477,298	21,855,723
Liabilities:		
Long-term liabilities	12,355,133	12,609,173
Other liabilities	4,010,283	4,157,690
Total liabilities	16,365,416	16,766,863
Net Assets:		
Invested in capital assets, net of related debt	4,222,645	3,972,319
Restricted	47,681	68,399
Unrestricted	841,556	1,048,142
Total net assets	$ 5,111,882	$ 5,088,860

The above provides a summary of the District's net assets for 2012 and 2011.

An additional portion of the District's net assets, $47,681, 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,* $841,556, 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 $23,022 during the year ended June 30, 2012.

The following summary shows the changes in net assets for fiscal years ended June 30, 2012 and 2011:

The District's Changes in Net Assets

	June 30, 2012	June 30, 2011
Revenues:		
Program revenues		
Charges for services	$ 317,483	$ 336,544
Operating grants and contributions	3,597,462	3,302,475
Capital grants and contributions	-	3,500
General revenues		
Property taxes	3,338,024	3,299,551
Sales taxes	1,040,523	1,027,371
Mixed drink tax	267	123
Grants and contributions not restricted to certain programs	10,285,820	10,172,300
Interest	1,928	3,749
Other miscellaneous revenues	71,413	6,374
Total revenues	18,652,920	18,151,987
Expenses:		
Instruction	$ 10,104,099	$ 9,908,043
Support services	5,614,070	5,344,642
Non-instructional services	2,911,729	2,886,521
Total expenses	18,629,898	18,139,206
Change in net assets	23,022	12,781
Net assets, beginning	5,088,860	5,076,079
Net assets, ending	5,111,882	5,088,860

Governmental activities Governmental activities increased the District's net assets by $23,022.

Total governmental activities' revenue for the fiscal year ended June 30, 2012 was $18,652,920 and $18,151,987 for the year ended June 30, 2011. 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, 2012		June 30, 2011	
Revenues:				
Program revenues	Amount	Percent	Amount	Percent
Charges for services	$ 317,483	2%	$ 336,544	2%
Operating grants and contributions	3,597,462	19%	3,302,475	18%
Capital grants and contributions	-	0%	3,500	0%
General revenues		0%		0%
Property taxes	3,338,024	18%	3,299,551	18%
Sales taxes	1,040,523	6%	1,027,371	6%
Mixed drink tax	267	0%	123	0%
Grants and contributions not		0%		0%
restricted to certain programs	10,285,820	55%	10,172,300	56%
Interest	1,928	0%	3,749	0%
Other miscellaneous revenues	71,413	0%	6,374	0%
Total revenues	$ 18,652,920	100%	$ 18,151,987	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, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of $2,587,361. Of this amount $2,076,206 constitutes *unassigned fund balance*, which is available for spending at the District's discretion. The remainder is *nonspendable, restricted, committed 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 $2,076,206.

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 14% of the total general purpose fund expenditures, while total fund balances represents 16% of that same amount.

The District's general purpose fund balance increased by $314,010 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 $158,966.

General Purpose Fund Budgetary Highlights

Differences between the original budgets and the final amended budgets for the years ended June 30, 2012 and 2011 are briefly summarized as follows:

	June 30, 2012			June 30, 2011		
General Purpose Fund						
Revenues	Original	Final	Difference	Original	Final	Difference
Taxes	$4,276,045	$4,276,045	$ -	$4,276,045	$4,276,045	$ -
Intergovernmental	11,055,583	11,071,306	15,723	10,891,548	10,928,664	37,116
Miscellaneous	72,500	72,500	-	72,500	72,500	-
Total revenues	15,404,128	15,419,851	15,723	15,240,093	15,277,209	37,116
Expenditures						
Instruction	8,600,009	8,559,889	(40,120)	8,510,160	8,523,993	13,833
Support services	5,096,779	5,103,052	6,273	5,007,043	5,135,507	128,464
Non-instructional services	1,717,340	1,766,910	49,570	1,768,890	1,717,709	(51,181)
Total expenditures	15,414,128	15,429,851	15,723	15,286,093	15,377,209	91,116
Excess (deficiency) of revenues and other sources (uses) over (under) expenditures	(10,000)	(10,000)	-	(46,000)	(100,000)	(54,000)
Other financing sources (uses)	10,000	10,000	-	10,000	10,000	-
Net changes in fund balance	$ -	$ -	$ -	$ (36,000)	$ (90,000)	$ (54,000)

For the year ended June 30, 2012 and 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.

Capital Asset and Debt Administration

Capital Assets The District's investment in capital assets for its governmental funds as of June 30, 2012 and 2011, amounts to $4,222,645 and $3,972,319 (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, 2012			
	7/1/11	Additions	Reductions	6/30/12
Capital assets not being depreciated:				
Land	$ 854,415	$ -	$ -	$ 854,415
Capital assets being depreciated:				
Buildings and improvements	21,350,975	51,641	-	21,402,616
Other capital assets	1,775,753	109,447	-	1,885,200
	23,126,728	161,088	-	23,287,816
Accumulated depreciation:				
Buildings and improvements	7,358,609	585,430	-	7,944,039
Other capital assets	1,307,808	81,286	-	1,389,094
	8,666,417	666,716	-	9,333,133
Capital assets being depreciated, net	14,460,311	(505,628)	-	13,954,683
Capital assets, net of accumulated depreciation	15,314,726	(505,628)	-	14,809,098
Long-term debt related to capital assets	(11,330,000)	-	(755,000)	(10,575,000)
Capital assets net of accumulated depreciation and related debt	3,984,726	(505,628)	(755,000)	4,234,098
Bond premium	(12,407)	-	(954)	(11,453)
Invested in capital assets, net of related debt	$ 3,972,319	$ (505,628)	$ (755,954)	$ 4,222,645

	June 30, 2011			
	7/1/10	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

Long-term debt. As of June 30, 2012, the District had total bonded debt outstanding of $10,575,000. As of June 30, 2011, the District had total bonded debt outstanding of $11,330,000. 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, 2012	June 30, 2011
Bonds	$ 10,575,000	$ 11,330,000
OPEB liability	1,690,313	1,198,543
Compensated absences	89,820	80,630
	$ 12,355,133	$ 12,609,173

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 42.

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 11.9%. The State's average unemployment rate is currently 9.8%. The national average unemployment rate is currently 8.5%. All of the rates are from labor statistics released in August 2012.

All of these factors were considered in preparing the District's budget for the 2012-2013 fiscal year.

The District's unassigned fund balance in the general purpose fund was $2,076,206, for the fiscal year ending June 30, 2012. There is $7,058 of restricted for the general purpose fund. Of this amount, $7,058 has been appropriated for spending in the 2012-2013 fiscal year. It is intended that this use of available fund balance will avoid the need to raise taxes during the 2012-2013 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, 2012

Assets:	
Cash and cash equivalents	$ 2,681,953
Accounts receivable	2,575
Taxes receivable	3,235,824
Due from other governmental agencies - nongrant	244,978
Due from other governmental agencies - grants	300,478
Inventory	41,557
Bond issuance costs	160,835
Capital assets, not being depreciated:	
Land	854,415
Capital assets, net of accumulated depreciation:	
Buildings and improvements	13,458,577
Other capital assets	496,106
Total assets	**21,477,298**
Liabilities:	
Accounts payable	286,313
Accrued payroll	6,719
Other accrued expenses	434,732
Bond premium	11,453
Unearned revenue - grants	35,242
Deferred revenue - taxes	3,235,824
Long-term liabilities:	
Due within one year:	833,434
Due in more than one year	11,521,699
Total liabilities	**16,365,416**
Net assets:	
Invested in capital assets, net of related debt	4,222,645
Restricted for:	
Career Ladder - Extended Contract	6,124
Instruction	934
Other federal projects	146,515
Food service - inventory	41,557
Unrestricted	694,107
Total net assets	**$ 5,111,882**

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, 2012

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	$ 7,636,090	$ -	$ 672,154	$ -	$ (6,963,936)
Alternate education	147,375	-	15,283	-	(132,092)
Special education	1,753,038	-	655,168	-	(1,097,870)
Vocational education	564,796	-	44,136	-	(520,660)
Adult education	2,800	-	1,975	-	(825)
Support services:					
Attendance	179,150	-	40,182	-	(138,968)
Health services	169,399	-	53,136	-	(116,263)
Other student support	549,409	-	216,422	-	(332,987)
Regular education	1,008,498	-	383,614	-	(624,884)
Special education	56,985	-	14,482	-	(42,503)
Vocational education	15,160	-	9,959	-	(5,201)
Board of Education	365,671	-	-	-	(365,671)
Office of the Director	273,200	-	-	-	(273,200)
Office of the Principal	1,103,398	-	4,937	-	(1,098,461)
Fiscal services	135,897	-	-	-	(135,897)
Human services/personnel	99,269	-	-	-	(99,269)
Operation and maintenance of plant	1,235,632	-	-	-	(1,235,632)
Student transportation	422,402	-	-	-	(422,402)
Non-instructional services:					
Food service	1,313,597	317,483	958,950	-	(37,164)
Safe Schools	-	-	9,010	-	9,010
Community services	-	-	501,679	-	501,679
Early Childhood Education	504,945	-	10,747	-	(494,198)
Capital outlay	188,902	-	5,628	-	(183,274)
Debt service	904,285	-	-	-	(904,285)
	$ 18,629,898	$ 317,483	$ 3,597,462	$ -	$ (14,714,953)

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, 2012

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				$ 3,338,024
	Sales taxes				1,040,523
	Mixed drink tax				267
	Grants and contributions not restricted to certain programs				
	Basic Education Program				10,047,000
	City appropriation				238,820
	Interest				1,928
	Other miscellaneous revenues				71,413
	Total general revenues				**14,737,975**
	Change in net assets				**23,022**
	Net assets, beginning				**5,088,860**
	Net assets, ending				**$ 5,111,882**

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

FUND FINANCIAL STATEMENTS

MILAN SPECIAL SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2012

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Cash and cash equivalents	$ 2,523,965	$ 157,988	$ 2,681,953
Accounts Receivable	931	1,644	2,575
Taxes receivable	3,235,824	-	3,235,824
Due from other governments - non grants	244,978	-	244,978
Due from other governments - grants	100,888	199,590	300,478
Due from other funds	157,499	-	157,499
Inventory	-	41,557	41,557
Total assets	**$ 6,264,085**	**$ 400,779**	**$ 6,664,864**
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	$ 285,372	$ 941	$ 286,313
Accrued payroll	6,719	-	6,719
Accrued expenses	346,896	-	346,896
Due to other funds	-	157,499	157,499
Unearned revenue - grants	-	35,242	35,242
Deferred revenue - grants	9,010	-	9,010
Deferred revenue - property taxes	3,235,824	-	3,235,824
Total liabilities	3,883,821	193,682	4,077,503
Fund balances:			
Nonspendable			
Inventory	-	41,557	41,557
Restricted			
Education	6,124	-	6,124
Instruction	934	-	934
Operation of non-instructional services	-	146,515	146,515
Committed			
Education	-	19,025	19,025
Other purposes	297,000	-	297,000
Unassigned	2,076,206	-	2,076,206
Total fund balances	**2,380,264**	**207,097**	**2,587,361**
Total liabilities and fund balances	**$ 6,264,085**	**$ 400,779**	**$ 6,664,864**

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, 2012

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

Fund balance - total governmental funds (Page 16)	**$ 2,587,361**
Capital assets used in governmental funds are not financial resources and, therefore, are not reported as assets in governmental funds.	14,809,098
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:	
Bond issuance costs	160,835
Receivables not available to pay for current expenditures and, therefore, are deferred in funds.	9,010
Some payables are not due and payable in the current period and, therefore, are not reported in the funds:	
Accrued interest	(87,836)
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	(10,575,000)
OPEB	(1,690,313)
Accrued leave	(89,820)
Bond premium	(11,453)
Net assets of governmental activities (Page 13)	**$ 5,111,882**

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, 2012

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	$ 4,378,545	$ -	$ 4,378,545
Intergovernmental	11,096,228	2,700,715	13,796,943
Meal sales	-	317,482	317,482
Interest earnings	1,850	56	1,906
Other local revenues	89,569	22	89,591
Miscellaneous	70,574	-	70,574
Total revenues	15,636,766	3,018,275	18,655,041
Expenditures:			
Instruction	8,514,623	1,046,947	9,561,570
Support services	4,971,308	689,451	5,660,759
Food service	-	1,289,370	1,289,370
Non-instructional services	1,838,425	-	1,838,425
Total expenditures	15,324,356	3,025,768	18,350,124
Excess (deficiency) of revenues over (under) expenditures	**312,410**	**(7,493)**	**304,917**
Other financing sources (uses)			
Operating transfers in	1,600	-	1,600
Operating transfers out	-	(1,600)	(1,600)
	1,600	(1,600)	-
Net change in fund balance	**314,010**	**(9,093)**	**304,917**
Fund balance - beginning	2,066,254	229,740	2,295,994
Increase (decrease) in inventory	-	(13,550)	(13,550)
Fund balance - ending	$ 2,380,264	$ 207,097	$ 2,587,361

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, 2012

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)	**$**	**304,917**
Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:		
Capital outlays and disposal of assets		161,088
Depreciation		(666,716)
The change in accrued leave is an expenditure in the governmental funds, but the change reduces or increases the liability on the statement of activities.		(9,190)
The change in OPEB is an expenditure in the governmental funds, but the change reduces or increases the liability on the statement of activities.		(491,770)
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds; however, these repayments have no effect on net assets.		755,000
Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of activities.		3,847
The change in inventory is an expenditure in the governmental funds, but the change reduces or invreases the fund balance on the statement of activities.		(13,550)
Revenues in the statement of activities that do not provide current financial resources are not reported as current reveneus in the funds.		(2,122)
Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The amount is the net effect of these differences in the treatment.		(18,482)
Change in Net Assets of Governmental Activities (Page 15)	**$**	**23,022**

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, 2012

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Revenues:				
Taxes:				
Local option sales tax	$ 975,000	$ 975,000	$ 1,039,862	$ 64,862
Interstate telecommunications tax	2,000	2,000	660	(1,340)
	977,000	977,000	1,040,522	63,522
City/Special School District:				
Current property tax	3,057,000	3,057,000	3,059,404	2,404
Prior year's property tax	125,000	125,000	168,889	43,889
Interest and penalty	19,000	19,000	15,930	(3,070)
Payment in lieu of taxes	98,045	98,045	93,800	(4,245)
	3,299,045	3,299,045	3,338,023	38,978
Total taxes	**4,276,045**	**4,276,045**	**4,378,545**	**102,500**
Intergovernmental:				
Licenses and Permits:				
Marriage licenses	900	900	838	(62)
City General Fund:				
Budget and appropriations	238,300	238,300	238,820	520
State revenues:				
State education funds:				
Basic Education Program	10,043,000	10,047,423	10,047,000	(423)
Early Childhood Education	501,679	501,679	501,679	-
Driver education	3,000	3,000	9,400	6,400
Other state education funds	5,000	16,300	96,427	80,127
Internet Connectivity - ARRA	5,350	5,350	-	(5,350)
Statewide Student Management System - ARRA	3,977	3,977	5,618	1,641
Career Ladder	103,000	103,000	94,593	(8,407)
Career Ladder - Extended Contract	51,277	51,277	51,300	23
Special education	-	-	6,008	6,008
Safe Schools - ARRA	-	-	12,300	12,300
Other vocational	25,000	25,000	25,000	-
	10,741,283	10,757,006	10,849,325	92,319
Other State revenues:				
Mixed drink tax	100	100	267	167
Other State Grants	75,000	75,000	6,978	(68,022)
	75,100	75,100	7,245	(67,855)
Total State revenues	10,816,383	10,832,106	10,856,570	24,464

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, 2012

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Total intergovernmental	**$ 11,055,583**	**$ 11,071,306**	**$ 11,096,228**	**$ 24,922**
Miscellaneous:				
Charges for current services:				
Tuition - other	2,000	2,000	-	(2,000)
Other local revenues:				
Interest earned	60,000	60,000	1,850	(58,150)
Lease/rentals	500	500	9,300	8,800
Insurance recoveries	-	-	46,129	46,129
Contributions	5,000	5,000	-	(5,000)
Other local revenues	5,000	5,000	15,145	10,145
	70,500	70,500	72,424	1,924
Total miscellaneous	**72,500**	**72,500**	**72,424**	**(76)**
Total revenues	**15,404,128**	**15,419,851**	**15,547,197**	**127,346**
Expenditures:				
Instruction:				
Regular instruction program:				
Teachers	4,659,763	4,605,186	4,590,236	(14,950)
Career Ladder Program	60,000	60,000	51,225	(8,775)
Career Ladder - Extended Contract	39,632	39,632	35,353	(4,279)
Homebound teachers	3,048	6,813	6,810	(3)
Aides	135,332	122,850	122,849	(1)
Other Salaries and wages	17,272	29,012	28,727	(285)
Substitute teachers	32,000	25,895	24,850	(1,045)
Non-certified substitute teachers	62,000	67,600	65,082	(2,518)
Social Security	295,000	287,000	284,801	(2,199)
State retirement	435,000	435,000	430,202	(4,798)
Medical insurance	545,000	545,000	531,054	(13,946)
Medicare	69,000	69,000	67,018	(1,982)
Other contracted services	34,500	34,500	33,772	(728)
Maintenance and repair - equipment	1,000	1,000	-	(1,000)
Instructional supplies/materials	135,000	132,482	159,048	26,566

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, 2012

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Textbooks	$ 125,000	$ 125,000	$ 145,709	$ 20,709
Other charges	2,500	2,500	1,655	(845)
Equipment	100,000	100,000	92,111	(7,889)
	6,751,047	6,688,470	6,670,502	(17,968)
Alternate instruction program:				
Teachers	92,984	95,384	94,396	(988)
Career Ladder	1,000	1,000	1,000	-
Non-certified substitute teachers	10,800	9,000	8,300	(700)
Social Security	6,500	6,500	5,875	(625)
State retirement	8,505	8,745	8,633	(112)
Medical insurance	13,000	12,800	11,978	(822)
Medicare	2,000	2,000	1,374	(626)
Instructional supplies/materials	2,000	2,000	1,771	(229)
	136,789	137,429	133,327	(4,102)
Special education program:				
Teachers	656,778	645,278	645,274	(4)
Career Ladder	8,000	8,000	8,000	-
Homebound teachers	3,556	3,556	2,162	(1,394)
Aides	30,480	42,480	42,364	(116)
Speech pathologist	60,208	62,302	62,301	(1)
Other salaries and wages	23,368	26,568	26,212	(356)
Substitute teachers	4,000	2,911	2,490	(421)
Non-certified substitute teachers	15,000	18,800	18,715	(85)
Social Security	48,410	48,410	46,135	(2,275)
State retirement	67,613	69,413	69,399	(14)
Medical insurance	74,750	83,545	83,545	-
Medicare	11,325	11,325	10,790	(535)
Contracts with other school systems	15,000	15,000	15,804	804
Other contracted services	52,000	74,000	74,973	973
Instructional supplies/materials	3,500	420	1,151	731
Other supplies and materials	600	224	224	-
Other charges	125	-	-	-
	1,074,713	1,112,232	1,109,539	(2,693)

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, 2012

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Vocational education program:				
Teachers	$ 362,712	$ 340,774	$ 337,187	$ (3,587)
Career Ladder	3,000	3,000	2,000	(1,000)
Aides	19,812	21,050	21,044	(6)
Other salaries and wages	46,736	46,736	24,783	(21,953)
Substitute teachers	1,000	6,700	5,855	(845)
Non-certified substitute teachers	8,000	8,000	7,285	(715)
Social Security	27,000	27,000	22,903	(4,097)
State retirement	40,500	40,500	34,197	(6,303)
Medical insurance	55,000	55,000	42,747	(12,253)
Medicare	6,300	6,300	5,356	(944)
Maintenance and repair - equipment	3,000	3,000	2,299	(701)
Instructional supplies	25,400	25,400	24,996	(404)
Other charges	5,000	5,000	1,259	(3,741)
Equipment	30,000	30,000	66,544	36,544
	633,460	618,460	598,455	(20,005)
Adult education program:				
Other contracted services	4,000	3,298	2,800	(498)
Total instruction	**8,600,009**	**8,559,889**	**8,514,623**	**(45,266)**
Support Services:				
Attendance:				
Director	69,088	69,088	68,373	(715)
Career Ladder	1,600	1,600	1,600	-
Social workers	42,672	15,672	12,754	(2,918)
Other salaries and wages	24,164	24,164	23,508	(656)
Social Security	7,000	7,000	4,786	(2,214)
State retirement	10,100	8,500	7,432	(1,068)
Medical insurance	11,400	8,400	6,744	(1,656)
Medicare	1,975	1,975	1,469	(506)
Maintenance and repair - equipment	200	200	-	(200)
Travel	2,500	2,500	1,696	(804)
Other supplies and materials	7,000	7,000	6,789	(211)
In-service/staff development	1,500	1,500	1,567	67
Equipment	2,000	2,000	3,600	1,600
	181,199	149,599	140,318	(9,281)

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, 2012

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Health Services:				
Supervisor/director	$ 42,570	$ 42,570	$ 42,487	$ (83)
Medical personnel	25,274	25,274	24,406	(868)
Other salaries and wages	18,288	18,288	17,425	(863)
Social Security	3,000	5,142	4,925	(217)
State retirement	8,900	4,688	4,557	(131)
Medical insurance	15,700	15,700	8,127	(7,573)
Medicare	1,700	2,500	1,152	(1,348)
Communication	200	200	211	11
Postage	250	250	-	(250)
Printing, stationery and forms	500	500	90	(410)
Travel	4,000	4,000	4,368	368
Other contracted services	2,500	4,000	1,836	(2,164)
Drugs and medical supplies	1,500	1,500	1,703	203
Other supplies/materials	3,492	3,492	3,015	(477)
In-service/staff development	800	800	1,173	373
Other charges	1,000	1,000	263	(737)
Health equipment	750	750	525	(225)
	130,424	130,654	116,263	(14,391)
Other student support:				
Career Ladder	5,000	5,000	3,620	(1,380)
Guidance personnel	239,776	239,776	239,453	(323)
Social Security	16,000	14,000	12,456	(1,544)
State retirement	24,000	22,000	20,494	(1,506)
Medical insurance	31,500	23,500	21,275	(2,225)
Medicare	3,800	3,800	3,221	(579)
Evaluation/testing	35,500	24,000	27,638	3,638
Travel	150	150	76	(74)
Instructional supplies/materials	-	2,500	5,455	2,955
In-service/staff development	2,000	4,200	2,876	(1,324)
Other charges	3,700	3,700	890	(2,810)
	361,426	342,626	337,454	(5,172)
Regular education program:				
Director	221,488	166,488	164,706	(1,782)
Career Ladder	6,500	6,500	5,200	(1,300)
Career Ladder - Extended Contract	5,320	5,320	5,320	-

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, 2012

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Librarian(s)	$ 170,688	$ 170,688	$ 167,720	$ (2,968)
Instructional computer personnel	36,739	36,789	36,787	(2)
Aides	31,496	31,496	30,573	(923)
Other salaries and wages	36,576	38,576	37,352	(1,224)
Certified substitute teachers	200	200	-	(200)
Non-certified substitute teachers	500	450	-	(450)
Social Security	33,000	27,000	25,794	(1,206)
State retirement	45,000	38,000	37,045	(955)
Medical insurance	49,900	46,707	46,707	-
Medicare	7,270	7,270	6,035	(1,235)
Communication	1,200	1,200	-	(1,200)
Travel	2,500	1,693	1,030	(663)
Library books	18,200	18,200	16,200	(2,000)
In-service/staff development	30,500	41,000	38,152	(2,848)
Other charges	-	14,901	19,389	4,488
	697,077	652,478	638,010	(14,468)
Special education program:				
Director	31,496	31,496	31,025	(471)
Social Security	1,984	1,984	1,724	(260)
State retirement	2,900	2,900	2,808	(92)
Medical insurance	3,300	3,600	3,597	(3)
Medicare	500	500	403	(97)
Travel	1,500	1,000	624	(376)
In-service/staff development	2,500	1,381	1,379	(2)
Other supplies/materials	500	400	944	544
	44,680	43,261	42,504	(757)
Vocational education program:				
Director	12,500	12,500	9,996	(2,504)
Social security	620	620	571	(49)
State retirement	905	905	847	(58)
Medicare	220	220	133	(87)
Travel	3,500	3,500	1,256	(2,244)
Other supplies/materials	200	200	-	(200)
In-service/staff development	2,000	2,000	1,798	(202)
Other charges	500	500	-	(500)
Other equipment	-	12,000	12,000	-
	20,445	32,445	26,601	(5,844)

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, 2012

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Board of Education services:				
Secretary to Board	$ 1,422	$ 1,422	$ 1,391	$ (31)
Social Security	100	100	85	(15)
State retirement	125	125	110	(15)
Unemployment compensation	50,000	50,110	50,109	(1)
Medicare	50	50	20	(30)
Other fringe benefits	52,000	52,000	43,459	(8,541)
Audit services	30,880	30,880	30,880	-
Dues and memberships	8,000	8,000	7,160	(840)
Legal services	17,000	17,000	16,975	(25)
Other contracted services	1,000	1,000	-	(1,000)
Liability insurance	15,780	15,780	15,915	135
Premium on surety bond	1,986	1,986	1,950	(36)
Trustee commissions	90,000	89,890	74,635	(15,255)
Workmen's compensation insurance	85,481	85,481	85,481	-
In-service/staff development	4,000	4,000	9,827	5,827
Other charges	25,700	25,700	27,674	1,974
	383,524	383,524	365,671	(17,853)
Office of the Director of Schools:				
County official/administrative officer	122,000	122,000	119,529	(2,471)
Career Ladder	1,000	1,000	-	(1,000)
Secretary(ies)	36,170	36,170	34,299	(1,871)
Clerical personnel	31,293	31,293	31,211	(82)
Other salaries and wages	4,064	9,364	8,337	(1,027)
Social Security	12,000	12,000	10,808	(1,192)
State retirement	17,752	17,752	16,331	(1,421)
Medical insurance	6,100	6,100	5,959	(141)
Medicare	2,900	3,300	2,735	(565)
Communication	5,000	5,600	2,949	(2,651)
Dues and memberships	3,000	2,400	1,008	(1,392)
Postal charges	3,000	3,000	1,972	(1,028)
Travel	6,500	6,500	1,988	(4,512)
Other contracted services	5,000	5,000	13,981	8,981
Office supplies	9,000	9,000	6,257	(2,743)
In-service/staff development	10,000	10,000	10,364	364
Other charges	4,000	4,000	3,491	(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
For The Fiscal Year Then Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Equipment	$ 6,500	$ 6,500	$ 1,981	$ (4,519)
	285,279	290,979	273,200	(17,779)
Office of the Principal:				
Principals	236,728	247,828	247,758	(70)
Career Ladder	4,000	4,000	4,000	-
Assistant(s)	370,840	370,840	368,947	(1,893)
Secretary(ies)	224,028	222,028	221,197	(831)
Other salaries and wages	9,144	9,144	7,000	(2,144)
Social Security	50,000	49,500	48,754	(746)
State retirement	72,500	71,900	71,328	(572)
Medical insurance	92,000	84,000	83,092	(908)
Medicare	12,000	12,000	11,402	(598)
Communication	12,000	12,000	10,400	(1,600)
Dues and memberships	3,000	3,000	1,887	(1,113)
Postal charges	5,000	5,000	5,000	-
Travel	6,000	6,000	2,462	(3,538)
Other contracted services	1,875	1,875	1,875	-
Office supplies	2,000	2,000	2,000	-
In-service/staff development	6,000	6,000	7,262	1,262
	1,107,115	1,107,115	1,094,364	(12,751)
Fiscal services:				
Director	36,576	36,576	36,264	(312)
Accountants/bookkeepers	43,180	43,180	42,872	(308)
Other salaries & wages	17,780	17,780	17,529	(251)
Social Security	6,000	6,000	5,052	(948)
State retirement	8,100	8,100	8,078	(22)
Medical insurance	16,500	16,500	15,811	(689)
Medicare	1,500	1,500	1,181	(319)
Other contracted services	8,705	8,705	7,705	(1,000)
Office supplies	2,000	2,000	1,229	(771)
In-service/staff development	1,500	1,500	176	(1,324)
Equipment	3,500	3,500	-	(3,500)
	145,341	145,341	135,897	(9,444)

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, 2012

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Human services/personnel:				
Supervisor/director	$ 38,100	$ 38,100	$ 37,944	$ (156)
Clerical personnel	33,020	33,020	32,903	(117)
Social security	4,400	4,400	4,074	(326)
State retirement	5,975	6,075	6,064	(11)
Medical insurance	8,305	8,305	7,457	(848)
Medicare	1,020	1,020	953	(67)
Dues and memberships	600	600	450	(150)
Postal charges	100	100	-	(100)
Travel	1,200	1,200	1,606	406
Other contracted services	-	2,000	1,300	(700)
Office supplies	600	600	604	4
In-service/staff development	1,800	1,800	2,527	727
Other charges	5,000	3,000	3,387	387
Equipment	2,000	2,000	-	(2,000)
	102,120	102,220	99,269	(2,951)
Operation and maintenance of plant:				
Operation of plant:				
Other contracted services	370,100	365,100	373,382	8,282
Custodial supplies	500	500	-	(500)
Electricity	400,000	383,000	380,563	(2,437)
Natural gas	70,000	57,859	40,609	(17,250)
Water and sewer	38,000	38,000	40,518	2,518
Boiler insurance	3,796	3,796	3,796	-
Building and contents insurance	69,150	69,150	69,148	(2)
	951,546	917,405	908,016	(9,389)
Maintenance of plant:				
Director	60,960	54,960	53,811	(1,149)
Maintenance personnel	67,564	67,564	67,395	(169)
Other salaries and wages	10,160	10,160	9,465	(695)
Social Security	8,500	8,500	7,706	(794)
State retirement	10,700	10,700	8,837	(1,863)
Medical insurance	15,700	15,700	11,918	(3,782)
Medicare	2,000	2,000	1,802	(198)
Communication	1,500	1,500	1,088	(412)
Maintenance and repair - buildings	50,000	50,702	57,160	6,458

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, 2012

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Operation and maintenance of plant (Cont.):				
Maintenance of plant (Cont):				
Maintenance and repair - equipment	$ 25,000	$ 25,000	$ 36,300	$ 11,300
Other contracted services	36,000	36,000	30,721	(5,279)
Gasoline	1,000	1,000	-	(1,000)
Other supplies and materials	37,200	42,300	34,552	(7,748)
In-service/staff development	1,000	1,000	349	(651)
	327,284	327,086	321,104	(5,982)
Total operation and maintenance of plant	1,278,830	1,244,491	1,229,120	(15,371)
Student transportation:				
Director	38,303	38,303	37,944	(359)
Bus drivers	101,803	103,145	103,145	-
Clerical personnel	4,115	5,515	3,931	(1,584)
Other salaries and wages	37,084	40,684	39,596	(1,088)
Social Security	11,400	11,400	11,323	(77)
State retirement	14,500	14,500	12,752	(1,748)
Medical insurance	2,300	3,300	3,084	(216)
Medicare	2,700	2,700	2,648	(52)
Communication	500	500	1,127	627
Contracts with public carriers	7,000	7,000	9,010	2,010
Travel	500	500	439	(61)
Other contracted services	55,000	55,000	56,613	1,613
Diesel fuel	50,000	55,000	54,031	(969)
Gasoline	5,100	5,100	4,714	(386)
Other supplies and materials	2,165	2,165	857	(1,308)
Vehicle and equipment insurance	21,349	21,349	21,349	-
In-service/staff development	2,000	2,000	1,811	(189)
Other charges	3,500	3,500	2,293	(1,207)
Transportation equipment	-	106,658	105,970	(688)
	359,319	478,319	472,637	(5,682)
Total support services	**5,096,779**	**5,103,052**	**4,971,308**	**(131,744)**

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, 2012

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Non-Instructional Services:				
Early Childhood Education				
Supervisor/director	$ 11,176	$ 10,800	$ 10,679	$ (121)
Teachers	189,992	202,000	187,123	(14,877)
Clerical personnel	12,192	13,000	12,125	(875)
Educational assistants	155,448	157,320	157,319	(1)
Substitute teachers	500	300	-	(300)
Non-certified substitute teachers	1,000	1,300	1,293	(7)
Social Security	24,000	26,000	21,913	(4,087)
State retirement	32,000	34,000	29,908	(4,092)
Medical insurance	25,000	28,000	16,198	(11,802)
Medicare	5,400	5,500	5,127	(373)
Travel	3,000	1,500	1,123	(377)
Other contracted services	9,500	6,000	14,290	8,290
Instructional supplies and materials	18,672	10,430	31,735	21,305
In-service/staff development	4,000	2,500	2,297	(203)
Other charges	10,800	6,300	13,815	7,515
	502,680	504,950	504,945	(5)
Capital outlay:				
Other capital outlay	30,347	76,547	58,498	18,049
Debt service:				
Principal on bonds	755,000	755,000	755,000	-
Interest on bonds	429,313	429,313	429,313	-
Other debt service	-	1,100	1,100	-
	1,184,313	1,185,413	1,185,413	-
Total non-instructional services	**1,717,340**	**1,766,910**	**1,748,856**	**18,044**
Total expenditures	**15,414,128**	**15,429,851**	**15,234,787**	**(158,966)**
Excess (deficiency) of revenues over (under) expenditures	**(10,000)**	**(10,000)**	**312,410**	**286,312**

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, 2012

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Other financing sources (uses)				
Operating transfers in	$ 10,000	$ 10,000	$ 1,600	$ (8,400)
Net changes in fund balance	**$ -**	**$ -**	**314,010**	**$ 277,912**
Fund balance - beginning			2,066,254	
Fund balance - ending			**$ 2,380,264**	

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

Inflows/revenues:		
Actual amounts (budgetary basis)	$ 15,547,197	$ 127,346
Differences - budget to GAAP:		
Fringe benefits - noncash	89,569	89,569
Total Revenues as Reported on Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	15,636,766	216,915
Outflows/expenditures:		
Actual amounts (budgetary basis)	15,234,787	(158,966)
Differences - budget to GAAP:		
Fringe benefits - noncash	89,569	89,569
Total Expenditures as Reported on Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	15,324,356	(69,397)
Other financing sources (uses)	1,600	(8,400)
Net changes in fund balance	**$ 314,010**	**$ 277,912**

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
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.

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, 2012 but were not available to finance expenditures for the year ended June 30, 2012. 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 day of vacation for each twenty days of employment. The maximum that any employee could accumulate would be 24 days. Therefore, in the event that an employee leaves employment, they will be paid only for a maximum of the 24 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
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	$ (890,000)
School bonds payable, Series 2005	(8,685,000)
School bonds payable, Series 2008	(1,000,000)
	$(10,575,000)

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 $14,809,098 are as follows:

Land	$ 854,415
Buildings and improvements	21,402,616
Other capital assets	1,885,200
	24,142,231
Less accumulated depreciation	(9,333,133)
Total capital assets, net of accumulated depreciation	$ 14,809,098

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 $755,000 are as follows:

Principal repayments:	
School bonds payable, Series 2005	$ 330,000
School bonds payable, Series 2009	425,000
	$ 755,000

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 $161,088 and ($666,716) are as follows:

Capital outlays	$ 161,088
Depreciation expense	$ (666,716)

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 ($9,190) are as follows:

Accrued leave as of June 30, 2011	$ 80,630
Accrued leave as of June 30, 2012	(89,820)
	$ (9,190)

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 ($491,770) are as follows:

OPEB Liability as of June 30, 2011	$ 1,198,543
OPEB Liability as of June 30, 2012	(1,690,313)
	$ (491,770)

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 ($3,847) are as follows:

Accrued interest as of June 30, 2011	$ 91,683
Accrued interest as of June 30, 2012	(87,836)
	$ 3,847

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	$ 19,436
Amortization of bond issuance costs	(954)
	$ 18,482

Another element of that reconciliation states that "revenues in the statement of activities that do not provide current financial resources are not reported as current revenues in the funds." The details of this ($2,122) are as follows:

Deferred grant revenue as of June 30, 2011	$ (11,132)
Deferred grant revenue as of June 30, 2012	9,010
	$ (2,122)

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 revenues and expenses included in the general purpose fund. 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, 2012, 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, 2012.

The following is a summary of cash and cash equivalents as of June 30, 2012.

Cash in bank	$2,295,652
Local Government Investment Pool	386,301
Total cash and cash equivalents	$2,681,953

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	$ 931	$ 1,644	$ 2,575
Taxes	3,235,824	-	3,235,824
Grants	100,888	199,590	300,478
Intergovernmental	244,978	-	244,978
Total receivables	$3,582,621	$ 201,234	$3,783,855

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.

Property tax is deferred due to the 2012 tax levy not being due and payable until October 2012. Therefore, the funds are unavailable to the District as of June 30, 2012.

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.

	Unavailable	Unearned	Total
General Fund			
IDEA - High Cost Student	$ 9,010	$ -	$ 9,010
Federal Projects Fund			
Education Jobs Program	-	35,242	35,242
Total receivables	$ 9,010	$ 35,242	$ 44,252

C. Interfund Receivables, Payables, and Transfers

The interfund payable from the centralized cafeteria fund to the general purpose fund was for reimbursements for normal expenditures paid from the general purpose fund for the food service 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, 2012, is as follows:

Receivable Fund	Payable Fund	Amount
General Purpose	Centralized Cafeteria	$ 5,348
General Purpose	Federal Projects	152,151
		157,499
Elimination for district-wide statements		(157,499)
		$ -

Transfer activity for indirect costs relating to the grant administration in the federal projects fund for the year ended June 30, 2012 was as follows:

Transferred From	Transferred To	Amount
Federal Projects	General Fund	$ 1,600

D. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	7/1/11	Additions	Reductions	6/30/12
Capital assets not being depreciated:				
Land	$ 854,415	$ -	$ -	$ 854,415
Capital assets being depreciated:				
Buildings and improvements	21,350,975	51,641	-	21,402,616
Other capital assets	1,775,753	109,447	-	1,885,200
	23,126,728	161,088	-	23,287,816
Accumulated depreciation:				
Buildings and improvements	(7,358,609)	(585,430)	-	(7,944,039)
Other capital assets	(1,307,808)	(81,286)	-	(1,389,094)
	(8,666,417)	(666,716)	-	(9,333,133)
Total capital assets being depreciated, net	14,460,311	(505,628)	-	13,954,683
Capital assets net of accumulated				
Total capital assets, net	$ 15,314,726	$(505,628)	$ -	$ 14,809,098

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

Instruction:	
Regular education	$ 2,327
Vocational education	1,314
Support services:	
Office of the Principal	9,034
Operation and maintenance of plant	6,512
Student transportation	37,738
Non-instructional services:	
Capital outlay	598,574
Food service	10,677
	$666,176

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 $240. The second lease is for a sixty month period with monthly payments of $2,225.

The future minimum lease payments as of June 30, 2011, were as follows:

Year Ended June 30,	
2013	$ 29,580
2014	29,580
2015	29,580
2016	26,700
2017	11,125
	$ 13,792

The lease expense for the year ended June 30, 2011 was $18,455.

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, 2012 are as follows:

Years Ending	Bonds		
June 30,	Principal	Interest	Total
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	790,000	299,375	1,089,375
2018-2022	4,585,000	1,004,975	5,589,975
2023-2024	2,130,000	132,640	2,262,640
	$ 10,575,000	$ 2,906,215	$ 13,481,215

The following is a summary of long-term debt transactions for the year ended June 30, 2012:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Bonds Payable:					
School Bonds, Series 2005 3.50% to 4.10% interest, payable serially through 2024	$ 9,015,000	$ -	$ 330,000	$ 8,685,000	$ 355,000
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	1,315,000	-	425,000	890,000	440,000
Total bonds payable	11,330,000	-	755,000	10,575,000	795,000
Other post employment benefits	1,198,543	491,770	-	1,690,313	-
Compensated absences	80,630	9,190	-	89,820	38,434
Total long-term liabilities	12,609,173	500,960	755,000	12,355,133	833,434
Other deferred costs:					
Bond premium	12,407	-	954	11,453	-
Bond issuance costs	(180,272)	-	19,437	(160,835)	-
Net long-term liabilities including associated deferred items	$ 12,441,308	$ 500,960	$ 775,391	$ 12,205,751	$ 833,434

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, 2012 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, 2012, Milan Special School District's annual pension cost of $137,944 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, 2011, which established contribution rates effective July 1, 2012.

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2012	$ 137,944	100.00%	$ -
6/30/2011	147,653	100.00%	-
6/30/2010	131,819	100.00%	-

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was 99.70% percent funded. The actuarial accrued liability for benefits was $3.94 million, and the actuarial value of assets was $3.93 million, resulting in an unfunded actuarial was $0.01 million, and the ratio of the UAAL to the covered payroll was 0.72% 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)
7/1/2011	$ 3,931	$ 3,942	$ 12	99.70%	$ 1,627	0.72%
7/1/2009	3,141	3,156	15	99.52%	1,816	0.84%
7/1/2007	2,759	2,778	19	99.32%	1,580	1.20%

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, 2012 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, 2012, 2011, and 2010 were $735,705, $724,493, and $515,702 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	$ 638,000
Interest on NPO	53,935
Adjustment to the ARC	(52,494)
Annual OPEB cost	639,441
Amount of contribution	(147,671)
Increase/decrease in NPO	491,770
Net OPEB obligation - beginning of year	1,198,543
Net OPEB obligation - end of year	$1,690,313

Year End*	Plan	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End
6/30/2012	Teacher Group	$ 639,440	23%	$ 1,690,313
6/30/2011	Teacher Group	365,164	37%	1,198,543
6/30/2010	Teacher Group	363,883	36%	968,367

Funded Status and Funding Progress
The funded status of the plan as of June 30, 2012, was as follows:

	Teacher Group Plan
Actuarial valuation date	7/1/2011
Actuarial accrued liability (AAL)	$5,331,000
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$5,331,000
Actuarial Value of Assets as a % of the AAL	-
Covered payroll (active plan members)	$9,866,689
UAAL as a percentage of covered payroll	54.03%

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

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. 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 2012 the State made contributions of $89,569.

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 and there has been no significant reduction in coverage.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS - EMPLOYEE RETIREMENT SYSTEM
For The Fiscal Year Then Ended June 30, 2012

(Dollar amounts in thousands)

Actuarial Valuation Date	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)
7/1/2011	$ 3,931	$ 3,942	$ 12	99.70%	$ 1,627	0.72%
7/1/2009	3,141	3,156	15	99.52%	1,816	0.84%
7/1/2007	2,759	2,778	19	99.32%	1,580	1.20%

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, 2012

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)
7/1/2011	Teacher Group	$ -	$ 5,331,000	$ 5,331,000	0.00%	$ 9,866,689	54.03%
7/1/2009	Teacher Group	$ -	$ 3,164,000	$ 3,164,000	0.00%	$ 9,665,627	32.73%
7/1/2007	Teacher Group	$ -	$ 6,594,000	$ 6,594,000	0.00%	$ 9,696,960	68.00%

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.

OTHER SUPPLEMENTARY INFORMATION

MILAN SPECIAL SCHOOL DISTRICT
OTHER GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2012

		Special Revenue Funds		
	Capital Projects Fund	Federal Projects Fund	Centralized Cafeteria Fund	Total
Assets:				
Cash	$ 19,025	$ -	$ 138,963	$ 157,988
Accounts receivable	-	-	1,644	1,644
Due from other governments - grants	-	187,393	12,197	199,590
Inventory	-	-	41,557	41,557
Total assets	**$ 19,025**	**$ 187,393**	**$ 194,361**	**$ 400,779**
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	$ -	$ -	$ 941	$ 941
Due to other funds	-	152,151	5,348	157,499
Unearned revenue	-	35,242	-	35,242
Total liabilities	-	187,393	6,289	193,682
Fund balances:				
Nonspendable				
Inventory	-	-	41,557	41,557
Restricted				
Operation of non-instructional services	-	-	146,515	146,515
Committed				
Education	19,025	-	-	19,025
Total fund balances	19,025	-	188,072	207,097
Total liabilities and fund balances	**$ 19,025**	**$ 187,393**	**$ 194,361**	**$ 400,779**

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, 2012

		Special Revenue Funds		
	Capital Projects Fund	Federal Projects Fund	Centralized Cafeteria Fund	Total
Revenues:				
Charges for current services	$ -	$ -	$ 317,482	$ 317,482
Interest earned	22	-	-	22
Other local revenues	-	-	56	56
State revenue	-	-	12,169	12,169
Federal revenue	-	1,741,764	946,782	2,688,546
Total revenues	**22**	**1,741,764**	**1,276,489**	**3,018,275**
Expenditures:				
Instruction	-	1,046,947	-	1,046,947
Support services	-	689,451	-	689,451
Food service	-	-	1,289,370	1,289,370
Total expenditures	**-**	**1,736,398**	**1,289,370**	**3,025,768**
Excess (deficiency) of revenues over (under) expenditures	**22**	**5,366**	**(12,881)**	**(7,493)**
Other financing sources (uses)				
Operating transfers out	-	(1,600)	-	(1,600)
Total other financing sources (uses)	**-**	(1,600)	-	(1,600)
Net changes in fund balance	**22**	**3,766**	**(12,881)**	**(9,093)**
Fund balance - beginning	**19,003**	**(3,766)**	**214,503**	**229,740**
Increase (decrease) in inventory	-	-	(13,550)	(13,550)
Fund balance - ending	**$ 19,025**	**$ -**	**$ 188,072**	**$ 207,097**

See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
FEDERAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For The Fiscal Year Then Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Revenues:				
Federal through State:				
Vocational education - Basic grants to states	$ 27,163	$ 27,163	$ 27,163	$ -
Title I	399,469	399,469	399,469	-
Title I - ARRA	5,886	5,886	5,886	-
Education of the Handicapped - IDEA	509,052	508,479	507,859	(620)
Education of the Handicapped - IDEA - ARRA	-	2,330	2,525	195
Education of the Handicapped - Preschool - Competitive	10,150	10,150	10,055	(95)
Education of the Handicapped - Preschool - Discretionary	64,200	64,200	60,827	(3,373)
Education of the Handicapped - Preschool	17,198	17,235	17,235	-
Education of the Handicapped - Preschool - ARRA	21,400	21,400	17,017	(4,383)
English language acquisition grants	24,029	24,029	16,904	(7,125)
Education Jobs Program	533,085	533,085	468,428	(64,657)
Rural Education	48,314	48,314	42,595	(5,719)
Eisenhower	83,970	83,970	75,943	(8,027)
Race to the Top - ARRA	105,700	111,700	85,662	(26,038)
Other federal through state	259	259	259	-
Other federal through state - ARRA	366	366	3,937	3,571
Total federal through state	1,850,241	1,858,035	1,741,764	(116,271)
Total revenues	**1,850,241**	**1,858,035**	**1,741,764**	**(116,271)**
Expenditures:				
Instruction:				
Regular instruction program:				
Teachers	165,439	165,439	151,177	(14,262)
Aides	93,000	89,507	89,507	-
Other salaries and wages	57,644	56,356	30,850	(25,506)
Substitute teachers	180	270	270	-
Non-certified substitute teachers	1,000	3,383	3,383	-
Social Security	18,396	17,214	14,476	(2,738)
State retirement	24,707	24,512	21,939	(2,573)
Medical insurance	35,086	35,476	35,278	(198)
Medicare	4,515	4,243	3,521	(722)
Other contracted services	200	200	50	(150)
Instructional supplies	20,032	23,908	19,951	(3,957)
Other supplies and materials	300	300	-	(300)
Equipment	2,686	2,386	2,330	(56)
	423,185	423,194	372,732	(50,462)
Alternate Instruction program:				
Teachers	10,000	13,050	13,050	-
Social Security	620	809	809	-
Employer medicare	145	189	189	-
	10,765	14,048	14,048	-

See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
FEDERAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For The Fiscal Year Then Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Special education program:				
Teachers	$ 75,300	$ 75,825	$ 75,798	$ (27)
Aides	296,723	284,787	284,268	(519)
Substitute teachers	900	540	540	-
Non-certified substitute teachers	4,100	4,565	4,565	-
Social Security	22,583	20,443	20,074	(369)
State retirement	31,527	28,167	26,127	(2,040)
Medical Insurance	52,400	65,517	60,804	(4,713)
Medicare	6,093	5,048	4,694	(354)
Maintenance and repair	1,000	1,459	1,459	-
Other contracted services	91,000	98,564	98,564	-
Instructional supplies	10,900	14,651	14,558	(93)
Other charges	500	169	169	-
Special education equipment	56,232	51,879	51,879	-
	649,258	651,614	643,499	(8,115)
Vocational education program:				
Instructional supplies and materials	3,000	4,200	4,200	-
Other contracted services	1,375	-	-	-
Other supplies and materials	1,200	-	-	-
Equipment	5,500	12,468	12,468	-
	11,075	16,668	16,668	-
Total instruction	**1,094,283**	**1,105,524**	**1,046,947**	**(58,577)**
Support Services:				
Attendance:				
Social workers	29,400	29,400	29,291	(109)
Social security	1,823	1,823	1,517	(306)
State retirement	2,334	2,684	2,651	(33)
Medical insurance	5,000	5,025	5,018	(7)
Medicare	426	426	355	(71)
	38,983	39,358	38,832	(526)

See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
FEDERAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For The Fiscal Year Then Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Health services:				
Medical personnel	$ 37,124	$ 38,024	$ 38,018	$ (6)
Social security	2,302	2,302	1,944	(358)
State retirement	2,948	2,948	2,656	(292)
Medical insurance	10,064	10,064	10,063	(1)
Medicare	538	538	455	(83)
	52,976	53,876	53,136	(740)
Other student support:				
Other salaries and wages	36,000	36,000	32,871	(3,129)
Other salaries and wages	128,150	123,063	115,252	(7,811)
Social security	6,132	5,716	5,406	(310)
State retirement	8,758	8,654	7,018	(1,636)
Medical insurance	9,000	9,111	8,972	(139)
Medicare	2,410	2,276	2,078	(198)
Contracts with other school systems	19,568	19,568	13,874	(5,694)
Evaluation and testing	5,000	5,000	-	(5,000)
Travel	6,915	6,829	6,829	-
Other contracted services	9,500	11,400	8,650	(2,750)
Instructional supplies and materials	1,187	1,188	429	(759)
Other supplies and materials	2,200	2,200	2,544	344
In-service/staff development	7,813	7,813	3,901	(3,912)
Other charges	7,500	4,933	4,131	(802)
	250,133	243,751	211,955	(31,796)
Regular instruction program:				
Supervisor/director	29,950	29,901	29,901	-
Secretary(s)	10,700	10,610	10,610	-
Other salaries and wages	137,347	141,193	140,266	(927)
Substitute teachers	500	500	-	(500)
In-service training	10,500	4,785	2,928	(1,857)
Non-certified substitute teachers	500	500	-	(500)
Social Security	11,237	10,705	10,059	(646)
State retirement	16,307	16,521	15,439	(1,082)
Medical insurance	16,460	20,267	19,901	(366)
Medicare	2,911	2,731	2,388	(343)
Travel	200	314	314	-
Other contracted services	1,600	1,465	1,465	-
Other supplies and materials	778	777	517	(260)
In-service-staff development	78,042	77,982	57,173	(20,809)
Other charges	76,838	78,423	78,423	-
Other equipment	1,590	1,590	1,104	(486)
	395,460	398,264	370,488	(27,776)

See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
FEDERAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For The Fiscal Year Then Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Special education program:				
Secretary(s)	$ 7,600	$ 7,806	$ 7,806	$ -
Social Security	500	500	477	(23)
State retirement	600	620	620	-
Medicare	120	120	112	(8)
Travel	400	448	448	-
Other supplies and materials	1,000	1,000	767	(233)
In-service-staff development	5,000	4,609	4,251	(358)
	15,220	15,103	14,481	(622)
Vocational education program:				
Inservice/staff development	1,586	559	559	-
Total support services	**754,358**	**750,911**	**689,451**	**(61,460)**
Total expenditures	**1,848,641**	**1,856,435**	**1,736,398**	**(120,037)**
Excess (deficiency) of revenues over (under) expenditures	**1,600**	**1,600**	**5,366**	**3,766**
Other financing sources (uses)				
Operating transfers out	(1,600)	(1,600)	(1,600)	-
Net changes in fund balance	**$ -**	**$ -**	**3,766**	**$ 3,766**
Fund balance - beginning			(3,766)	
Fund balance - ending			**$ -**	

See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
CENTRALIZED CAFETERIA FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For The Fiscal Year Then Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Revenues:				
Charges for current services:				
Lunch payments - children	$ 335,000	$ 335,000	$ 191,772	$ (143,228)
Lunch payments - adults	50,000	50,000	35,295	(14,705)
A La Carte sales	100,000	100,000	79,627	(20,373)
Other charges for services	11,000	11,000	10,788	(212)
	496,000	496,000	317,482	(178,518)
Other revenues:				
Interest earned	200	200	56	(144)
State education funds:				
School food service	14,000	14,000	12,169	(1,831)
Federal through State:				
USDA - lunch	603,050	603,050	557,762	(45,288)
USDA - commodities (non-cash)	90,000	90,000	60,018	(29,982)
USDA - breakfast	300,000	300,000	311,339	11,339
USDA - other	30,000	30,000	17,663	(12,337)
	1,023,050	1,023,050	946,782	(76,268)
Total revenues	**1,533,250**	**1,533,250**	**1,276,489**	**(256,761)**
Expenditures:				
Food service:				
Director	35,500	35,500	35,500	-
Clerical personnel	18,500	18,500	16,761	(1,739)
Cafeteria personnel	344,500	344,500	322,613	(21,887)
Other salaries & wages	3,000	3,000	1,825	(1,175)
Non-certified substitute teachers	6,000	6,000	1,446	(4,554)
Social Security	26,000	26,000	21,041	(4,959)
State retirement	32,000	32,000	24,912	(7,088)
Medical insurance	80,000	80,000	53,436	(26,564)
Medicare liability	6,000	6,000	4,921	(1,079)
Communication	750	750	594	(156)
Maintenance & repair - equipment	15,000	15,000	7,511	(7,489)
Travel	2,500	5,000	3,526	(1,474)
Food supplies	750,000	750,000	652,513	(97,487)

See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
CENTRALIZED CAFETERIA FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For The Fiscal Year Then Ended June 30, 2012

Expenditures (Cont.)	Original Budget	Final Budget	Actual	Variance-Over (Under)
Food service (Cont.):				
USDA - commodities (non-cash)	$ 90,000	$ 90,000	$ 60,018	$ (29,982)
Other supplies & materials	95,500	95,500	74,795	(20,705)
In service/staff development	2,000	4,500	2,959	(1,541)
Other charges	6,000	6,000	4,457	(1,543)
Equipment	20,000	15,000	542	(14,458)
Total expenditures	**1,533,250**	**1,533,250**	**1,289,370**	**(243,880)**
Net changes in fund balance	**$ -**	**$ -**	**(12,881)**	**$ (12,881)**
Fund balance - beginning			**214,503**	
Increase (decrease) in inventory			(13,550)	
Fund balance - ending			**$ 188,072**	

See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
EDUCATION CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - ACTUAL
For The Fiscal Year Then Ended June 30, 2012

Revenues:	
Other local revenues:	
Interest earned	$ 22
Excess (deficiency) of revenues over (under) expenditures	**22**
Fund balance - beginning	**19,003**
Fund balance - ending	**$ 19,025**

See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF PROPERTY TAX RATES AND ASSESSMENTS - PAST TEN YEARS
June 30, 2012

Year Ended June, 30	Tax Rates	Assessments	Tax Levy
2012	$ 1.84	$ 175,774,003	$ 3,234,242
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, 2012:

2013	$ 1.84	$ 175,860,018	$ 3,235,824

See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF LONG-TERM DEBT
June 30, 2012

Year Ended	Bonds								
	Series 2009		Series 2005		Series 2008		Total Requirements		
June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
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
	$ 890,000	$ 42,900	$ 8,685,000	$ 2,552,390	$ 1,000,000	$ 310,925	$ 10,575,000	$ 2,906,215	$ 13,481,215

See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF INTERFUND TRANSFERS
For The Fiscal Year Then Ended June 30, 2012

Operating Transfers					
Transfer In	Budget	Actual	Transfer Out	Budget	Actual
General Purpose	$ 10,000	$ 1,600	Federal Projects	$ 1,600	$ 1,600

See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF SALARIES AND BONDS
June 30, 2012

	Salary	Bond	
Director of Schools	$ 119,529	$ 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, 2012

	Federal CFDA Number	Agency or Pass-through Number	Balance 7/1/11	Cash Receipts	Expenditures/ Amount Earned/ Amount Issued	Balance Unearned (Receivable) 6/30/12
U.S. Department of Agriculture						
Pass-through the Tennessee Department of Education						
School Breakfast Program	10.553*	N/A	$ (1,559)	$ 309,901	$ 311,339	(2,997)
National School Lunch Program - Snack	10.555*	N/A	-	16,822	17,663	(841)
National School Lunch Program	10.555*	N/A	(5,252)	554,655	557,762	(8,359)
Food-Distribution - Commodities	10.555*	N/A	-	60,018	60,018	-
			(5,252)	631,495	635,443	(9,200)
Total U.S. Department of Agriculture			**(6,811)**	**941,396**	**946,782**	**(12,197)**
U.S. Department of Labor						
Pass-through Tennessee Employment Training Administration						
WIA Youth Activities	17.259	N/A	(2,909)	27,909	25,000	-
U.S. Department of Education						
Pass-through the Tennessee Department of Education						
Special Education - Grants to States						
IDEA, Part B	84.027	N/A	(9,699)	507,762	507,859	(9,796)
ARRA - IDEA, Part B	84.391	N/A	(34,200)	36,530	2,330	-
Additional Special Education Funds	84.027	N/A	(6,008)	6,008	9,010	(9,010)
			(49,907)	550,300	519,199	(18,806)
Special Education - Preschool Grants:						
IDEA Preschool	84.173	N/A	(1,030)	15,873	17,235	(2,392)
Preschool Program - Behavior Grant	84.173	N/A	-	16,102	17,017	(915)
Preschool Program - Competitive	84.173	N/A	-	7,624	10,055	(2,431)
Preschool Program - Inclusion	84.173	N/A	-	55,824	60,827	(5,003)
			(1,030)	95,423	105,134	(10,741)
Total special education grants			(50,937)	645,723	624,333	(29,547)

See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Cont.)
For The Fiscal Year Then Ended June 30, 2012

	Federal CFDA Number	Agency or Pass-through Number	Balance 7/1/11	Cash Receipts	Expenditures/ Amount Earned/ Amount Issued	Balance Unearned (Receivable) 6/30/12
U.S. Department of Education (Cont.)						
Pass-through the Tennessee Department of Education (Cont.)						
Office of Elementary and Secondary Education						
Rural Education	84.358	N/A	-	4,728	4,728	-
State Fiscal Stabilization Fund						
ARRA - SFSF Race to the Top	84.395	N/A	-	6,000	6,000	-
ARRA - SFSF Race to the Top	84.395	N/A	-	108	9,058	(8,950)
ARRA - SFSF Race to the Top	84.395	N/A	(709)	49,050	70,604	(22,263)
			(709)	55,158	85,662	(31,213)
State Fiscal Stabilization Fund						
ARRA - SFSF Statewide Student Mgmt System	84.397	N/A	-	5,618	5,618	-
ARRA - SFSF Coordinated School Health	84.397	N/A	(25,137)	25,137	-	-
ARRA - SFSF Safe Schools	84.397	N/A	(1,553)	12,300	10,747	-
ARRA - SFSF Extended Contracts	84.397	N/A	(47,523)	47,523	-	-
			(74,213)	90,578	16,365	-
Title I, Grants to Local Education Agencies						
ARRA - Part A	84.389	N/A	(67)	5,953	5,886	-
Part A	84.010	N/A	(127)	386,276	399,469	(13,320)
			(194)	392,229	405,355	(13,320)
Career and Technical Education - Basic Grants to States						
Carl D. Perkins	84.048	N/A	(4,802)	23,916	27,163	(8,049)

See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Cont.)
For The Fiscal Year Then Ended June 30, 2012

	Federal CFDA Number	Agency or Pass-through Number	Balance 7/1/11	Cash Receipts	Expenditures/ Amount Earned/ Amount Issued	Balance Unearned (Receivable) 6/30/12
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	-	16,289	16,904	(615)
Education Technology State Grants						
Title II, Part A	84.367	N/A	-	65,398	75,943	(10,545)
Title II, Part D	84.367	N/A	-	259	259	-
			-	65,657	76,202	(10,545)
ARRA - Title II, Part D	84.386	N/A	(3,571)	3,937	366	-
			(3,571)	3,937	366	-
Rural and Low-Income School Program						
Title VI, Part B, Subpart 2	84.358	N/A	(4,840)	43,430	42,595	(4,005)
Title I, Education Jobs Program	84.410*	N/A	-	404,560	468,428	(63,868)
Total US Department of Education			**(139,266)**	**1,741,477**	**1,763,373**	**(161,162)**
U.S. Department of Human Services						
Pass-through the Tennessee Department of Human Services						
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	N/A	-	900	900	-
Total federal awards			**$ (148,986)**	**$ 2,716,410**	**$ 2,740,783**	**$ (173,359)**

*Major federal financial assistance program.
All expenditures reported are under the modified accrual basis of accounting whereby revenues are recorded when measurable and available and expenditures are recorded when the liability is incurred.

See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF STATE FINANCIAL ASSISTANCE
For The Fiscal Year Then Ended June 30, 2012

	Balance 7/1/11	Cash Receipts	Expenditures/ Amount Earned/ Amount Issued	Balance Unearned (Receivable) 6/30/12
Special Programs - Early Childhood	$ (51,073)	$ 512,526	$ 501,679	$ (40,226)
Drivers Education	-	9,400	9,400	-
Child Nutrition State Match	-	12,169	12,169	-
Safe Schools	-	-	11,300	(11,300)
Arts Student Ticket Subsidy	-	1,350	1,350	-
ACT/Explore Testing	-	2,607	2,607	-
Coordinated School Health	-	35,815	75,000	(39,185)
Career Ladder Program	-	93,426	94,593	(1,167)
Extended Contract	-	51,300	51,300	-
Internet ConnectTN	-	7,520	7,520	-
Total State Awards	**$ (51,073)**	**$ 726,113**	**$ 766,918**	**$ (91,878)**
Total per Schedule of Expenditures of Federal Awards				(173,359)
Total grants				$ (265,237)

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, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 15, 2012. 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

Management of the District is responsible for establishing and maintaining effective 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned cost as item 12-01 to be a material weakness.

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

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

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 15, 2012

ALEXANDER THOMPSON ARNOLD PLLC

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Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect 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, 2012.

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

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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 15, 2012

MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2012

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?	X	yes		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:
84.410	Education Jobs Program
	USDA Cluster:
10.553	School Breakfast Program
10.555	National School Lunch Program - Snack
10.555	National School Lunch Program
10.555	Food-Distribution - Commodities

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, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

Prior Year Findings

None reported.

Current Year Findings

12-01 Payroll Preparation Issues (Material Weakness)

Condition: The District's computation of payroll is very complex. Proper payroll is based upon different rates and different positions as well as different pay periods. Due to the complex payroll system, only one person is able to fully perform and understand the process. As a result of the complex payroll system, four out of twenty-four employees tested were not paid the proper amount. Two were underpaid and two were over paid.

Criteria: Payroll computations and disbursements should be accurate.

Effect: Over/under paid employees. Misstatement of financials. Risk of Fraud.

Recommendation: We recommend the District look into possibilities of simplifying the payroll system to reduce the risk of error. We also recommend that another person, other than the payroll clerk, to have knowledge and to be trained on the payroll system and review the payroll computations prior to disbursing payroll.

Response: We will discuss with all Administrative staff to meet with Payroll Officer to discuss salaries and benefits prior to submitting grant applications and any hirings. This will provide consistency throughout the district. We are recommending that Human Resource Department also be knowledgeable and become very involved in the payroll process. This will also provide another set of eyes to review computations prior to payroll.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Prior Year Findings

None reported.

Current Year Findings

None reported.

MILAN SPECIAL SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
June 30, 2012

The Milan Special School District respectfully submits the following corrective action plan for the year ended June 30, 2012.

Name and address of independent public accounting firm:

Alexander Thompson Arnold PLLC
227 Oil Well Road
Jackson, TN 38305

Audit period:

June 30, 2012

The findings from the June 30, 2012, schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

Findings required to be reported in accordance with governmental auditing standards.

12-01 Payroll Preparation Issues (Material Weakness)

Recommendation: We recommend the District look into possibilities of simplifying the payroll system to reduce the risk of error. We also recommend that another person, other than the payroll clerk, to have knowledge and to be trained on the payroll system and review the payroll computations prior to disbursing payroll.

Response: We will discuss with all Administrative staff to meet with Payroll Officer to discuss salaries and benefits prior to submitting grant applications and any hirings. This will provide consistency throughout the district. We are recommending that Human Resource Department also be knowledgeable and become very involved in the payroll process. This will also provide another set of eyes to review computations prior to payroll.