MILAN SPECIAL SCHOOL DISTRICT

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

MILAN SPECIAL SCHOOL DISTRICT
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INTRODUCTORY SECTION

MILAN SPECIAL SCHOOL DISTRICT
DIRECTORY
June 30, 2013

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

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

ATA ALEXANDER THOMPSON ARNOLD PLLC

Certified Public Accountants
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Independent Auditor's Report

Board of Education
Milan Special School District
Milan, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Milan Special School District, (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Milan Special School District, as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12 and the required supplementary information on pages 50 and 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 information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Milan Special School District's basic financial statements. The introductory section and other supplementary information section including the schedule of expenditures of federal awards as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated November 15, 2013, on our consideration of the Milan Special School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Milan Special School District's internal control over financial reporting and compliance.

Alexander Thompson Arnold PLLC

Certified Public Accountants
Jackson, Tennessee
November 15, 2013

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, 2013. 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, 2013 by $5,024,746. Of this amount, $393,812 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 $2,721,029.

- At the end of the current fiscal year, unassigned fund balance for the general purpose fund was $1,299,268, or 8% percent of total general purpose fund expenditures.

- The District's total bonded debt decreased by $795,000.

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

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows.* Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., 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 position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by $5,024,746 at the close of the fiscal year ended June 30, 2013.

A large portion of the District's net position 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 Position

	June 30, 2013	June 30, 2012
Assets:		
Current and other	$ 6,832,823	$ 6,668,200
Capital assets - net of accumulated depreciation	14,257,883	14,809,098
Total assets	21,090,706	21,477,298
Liabilities:		
Long-term liabilities	12,094,887	12,355,133
Other liabilities	3,971,073	4,010,283
Total liabilities	16,065,960	16,365,416
Net Position:		
Net investment in capital asset	4,467,384	4,222,645
Restricted	163,550	47,681
Unrestricted	393,812	841,556
Total net position	$ 5,024,746	$ 5,111,882

The above provides a summary of the District's net position for 2013 and 2012.

An additional portion of the District's net position, $163,550, or 3%, 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 position,* $393,812, 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 position.

The District's total net position decreased by $87,136 during the year ended June 30, 2013.

The following summary shows the changes in net position for fiscal years ended June 30, 2013 and 2012:

The District's Changes in Net Position

	June 30, 2013	June 30, 2012
Revenues:		
Program revenues		
Charges for services	$ 265,938	$ 317,483
Operating grants and contributions	3,212,345	3,597,462
General revenues		
Property taxes	3,365,595	3,338,024
Sales taxes	1,239,666	1,040,523
Mixed drink tax	282	267
Grants and contributions not restricted to certain programs	10,492,014	10,285,820
Interest	2,140	1,928
Other miscellaneous revenues	25,302	71,413
Total revenues	18,603,282	18,652,920
Expenses:		
Instruction	$ 10,012,168	$ 10,104,099
Support services	6,304,213	5,614,070
Non-instructional services	2,374,037	2,911,729
Total expenses	18,690,418	18,629,898
Change in net position	(87,136)	23,022
Net position, beginning	5,111,882	5,088,860
Net position, ending	5,024,746	5,111,882

Governmental activities Governmental activities decreased the District's net position by $87,136.

Total governmental activities' revenue for the fiscal year ended June 30, 2013 was $18,603,282 and $18,652,920 for the year ended June 30, 2012. 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, 2013		June 30, 2012	
Revenues:				
Program revenues	Amount	Percent	Amount	Percent
Charges for services	$ 266,663	1%	$ 317,483	2%
Operating grants and contributions	3,212,345	17%	3,597,462	19%
General revenues				
Property taxes	3,365,595	18%	3,338,024	18%
Sales taxes	1,239,666	7%	1,040,523	6%
Mixed drink tax	282	0%	267	0%
Grants and contributions not restricted to certain programs	10,492,014	56%	10,285,820	55%
Interest	2,140	0%	1,928	0%
Other miscellaneous revenues	24,577	0%	71,413	0%
Total revenues	$ 18,603,282	100%	$ 18,652,920	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 inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the District itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the District's Board.

At June 30, 2013, the District's governmental funds reported combined fund balances of $2,721,029, an increase of $126,148 in comparison with the prior year. Approximately 45% of this amount $1,241,435 constitutes *unassigned* fund balance, which is available for spending at the District's discretion. The remainder of the fund balance is either *nonspendable, restricted, committed, or assigned* to indicate that it is 1) not in spendable form $49,079, 2) legally required to be maintained intact $0, 3) restricted for particular purposes $114,471, 4) committed for particular purposes $316,044, or 5) assigned for particular purposes $1,000,000.

The general purpose fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance was $1,299,268.

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 8% of the total general purpose fund expenditures, while total fund balances represents 17% of that same amount.

The District's general purpose fund balance increased by $223,062 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 $329,419.

General Purpose Fund Budgetary Highlights

Differences between the original budgets and the final amended budgets for the years ended June 30, 2013 and 2012 are briefly summarized as follows:

General Purpose Fund	June 30, 2013			June 30, 2012		
Revenues	Original	Final	Difference	Original	Final	Difference
Taxes	$ 4,333,045	$4,333,045	$ -	$4,276,045	$4,276,045	$ -
Intergovernmental	11,195,460	11,230,460	35,000	11,055,583	11,071,306	15,723
Miscellaneous	15,500	15,500	-	72,500	72,500	-
Total revenues	15,544,005	15,579,005	35,000	15,404,128	15,419,851	15,723
Expenditures						
Instruction	8,831,375	8,652,796	(178,579)	8,600,009	8,559,889	(40,120)
Support services	5,357,258	5,540,837	183,579	5,096,779	5,103,052	6,273
Non-instructional services	1,747,784	1,777,784	30,000	1,717,340	1,766,910	49,570
Total expenditures	15,936,417	15,971,417	35,000	15,414,128	15,429,851	15,723
Excess (deficiency) of revenues and other sources (uses) over (under) expenditures	(392,412)	(392,412)	-	(10,000)	(10,000)	-
Other financing sources (uses)	10,000	10,000	-	10,000	10,000	-
Net changes in fund balance	$ (382,412)	$ (382,412)	$ -	$ -	$ -	$ -

For the year ended June 30, 2013 and 2012, 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, 2013 and 2012, amounts to $4,467,384 and $4,222,645 (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, 2013			
	July 1, 2012	Additions	Reductions	June 30, 2013
Capital assets not being depreciated:				
Land	$ 854,415	$ -	$ -	$ 854,415
Work in progress	-	24,194	-	24,194
	854,415	24,194	-	878,609
Capital assets being depreciated:				
Buildings and improvements	21,402,616	-	-	21,402,616
Other capital assets	1,885,200	92,593	-	1,977,793
	23,287,816	92,593	-	23,380,409

	June 30, 2013			
	July 1, 2012	Additions	Reductions	June 30, 2013
Accumulated depreciation:				
Buildings and improvements	7,944,039	585,431	-	8,529,470
Other capital assets	1,389,094	82,571	-	1,471,665
	9,333,133	668,002	-	10,001,135
Capital assets being depreciated, net	13,954,683	(575,409)	-	13,379,274
Capital assets, net of accumulated depreciation	14,809,098	(551,215)	-	14,257,883
Long-term debt related to capital assets	(10,575,000)	-	(795,000)	(9,780,000)
Capital assets net of accumulated depreciation and related debt	4,234,098	(551,215)	(795,000)	4,477,883
Bond premium	(11,453)	-	(954)	(10,499)
Net investment in capital asset	$ 4,222,645	$ (551,215)	$ (795,954)	$ 4,467,384

	June 30, 2012			
	July 1, 2011	Additions	Reductions	June 30, 2012
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)
Net investment in capital asset	$ 3,972,319	$ (505,628)	$ (755,954)	$ 4,222,645

Long-term debt. As of June 30, 2013, the District had total bonded debt outstanding of $9,780,000. As of June 30, 2012, the District had total bonded debt outstanding of $10,575,000. All debt is backed by the full faith and credit of the government.

In addition to the previous information, the District's obligations include compensated absences and other post employment benefits.

	June 30, 2013	June 30, 2012
Bonds	$ 9,780,000	$ 10,575,000
OPEB liability	2,170,908	1,690,313
Compensated absences	133,480	89,820
	$ 12,084,388	$ 12,355,133

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 43.

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

Economic Factors and Next Year's Budget and Rates

The unemployment rate for Gibson County is currently 12.9%. The State's average unemployment rate is currently 8.5%. The national average unemployment rate is currently 7.4%. All of the rates are from labor statistics released in July 2013.

All of these factors were considered in preparing the District's budget for the 2013-2014 fiscal year.

The District's unassigned fund balance in the general purpose fund was $2,299,268, for the fiscal year ending June 30, 2013. There is $7,058 of restricted for the general purpose fund. Of this amount, $7,058 has been appropriated for spending in the 2013-2014 fiscal year. It is intended that this use of available fund balance will avoid the need to raise taxes during the 2013-2014 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 POSITION
June 30, 2013

Assets:	
Cash and cash equivalents	$ 2,733,057
Accounts receivable	2,081
Taxes receivable	3,226,088
Due from other governmental agencies - nongrant	240,128
Due from other governmental agencies - grants	440,992
Inventory	49,079
Bond issuance costs	141,398
Capital assets, not being depreciated:	
Land	854,415
Work in progress	24,194
Capital assets, net of accumulated depreciation:	
Buildings and improvements	12,873,146
Other capital assets	506,128
Total assets	**21,090,706**
Liabilities:	
Accounts payable	268,708
Other accrued expenses	468,292
Unearned revenue - grants	7,985
Deferred revenue - taxes	3,226,088
Long-term liabilities:	
Due within one year:	830,000
Due in more than one year	11,264,887
Total liabilities	**16,065,960**
Net position:	
Net investment in capital assets	4,467,384
Restricted for:	
Education	6,124
Instruction	934
Other federal projects	107,413
Food service - inventory	49,079
Unrestricted	393,812
Total net position	**$ 5,024,746**

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, 2013

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 Position
Governmental activities:					
Instruction:					
Regular education	$ 7,924,842	$ -	$ 746,519	$ -	$ (7,178,323)
Alternate education	187,242	-	6,005	-	(181,237)
Special education	1,421,509	-	403,939	-	(1,017,570)
Vocational education	475,175	-	22,705	-	(452,470)
Adult education	3,400	-	1,073	-	(2,327)
Support services:					
Attendance	160,693	-	-	-	(160,693)
Health services	174,858	-	-	-	(174,858)
Other student support	549,704	-	122,156	-	(427,548)
Regular education	916,540	-	324,189	-	(592,351)
Special education	235,771	-	93,700	-	(142,071)
Vocational education	17,433	-	4,279	-	(13,154)
Board of Education	370,896	-	-	-	(370,896)
Office of the Director	293,125	-	1,073	-	(292,052)
Office of the Principal	1,134,636	-	4,293	-	(1,130,343)
Fiscal services	139,860	-	-	-	(139,860)
Human services/personnel	107,353	-	-	-	(107,353)
Operation and maintenance of plant	1,743,926	-	-	-	(1,743,926)
Student transportation	459,418	-	-	-	(459,418)
Non-instructional services:					
Food service	1,268,862	265,938	960,618	-	(42,306)
Community services	-	725	12,250	-	12,975
Early Childhood Education	509,546	-	509,546	-	-
Capital outlay	174,685	-	-	-	(174,685)
Debt service	420,944	-	-	-	(420,944)
	$ 18,690,418	$ 266,663	$ 3,212,345	$ -	$ (15,211,410)

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, 2013

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 Position
	General revenues:				
	Property taxes				$ 3,365,595
	Sales taxes				1,239,666
	Mixed drink tax				282
	Grants and contributions not restricted to certain programs				
	Basic Education Program				10,250,758
	City appropriation				241,256
	Other				1,200
	Interest				2,140
	Other miscellaneous revenues				23,377
	Total general revenues				**15,124,274**
	Change in net position				**(87,136)**
	Net position, beginning				**5,111,882**
	Net position, ending				**$ 5,024,746**

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

FUND FINANCIAL STATEMENTS

MILAN SPECIAL SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2013

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Cash and cash equivalents	$ 2,630,277	$ 102,780	$ 2,733,057
Accounts Receivable	311	1,770	2,081
Taxes receivable	3,226,088	-	3,226,088
Due from other governments - non grants	240,128	-	240,128
Due from other governments - grants	154,866	286,126	440,992
Due from other funds	252,256	-	252,256
Inventory	-	49,079	49,079
Total assets	**$ 6,503,926**	**$ 439,755**	**$ 6,943,681**
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	$ 264,730	$ 3,978	$ 268,708
Accrued expenses	386,232	-	386,232
Due to other funds	-	252,256	252,256
Unearned revenue - grants	-	7,985	7,985
Deferred revenue - grants	23,550	57,833	81,383
Deferred revenue - property taxes	3,226,088	-	3,226,088
Total liabilities	3,900,600	322,052	4,222,652
Fund balances:			
Nonspendable			
Inventory	-	49,079	49,079
Restricted			
Education	6,124	-	6,124
Instruction	934	-	934
Operation of non-instructional services	-	107,413	107,413
Committed			
Education	-	19,044	19,044
Other purposes	297,000	-	297,000
Assigned			
Construction	1,000,000	-	1,000,000
Unassigned	1,299,268	(57,833)	1,241,435
Total fund balances	**2,603,326**	**117,703**	**2,721,029**
Total liabilities and fund balances	**$ 6,503,926**	**$ 439,755**	**$ 6,943,681**

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

MILAN SPECIAL SCHOOL DISTRICT
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET POSITION OF GOVERNMENTAL ACTIVITIES
June 30, 2013

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

Fund balance - total governmental funds (Page 16)	**$ 2,721,029**
Capital assets used in governmental funds are not financial resources and, therefore, are not reported as assets in governmental funds.	14,257,883
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:	
Bond issuance costs	141,398
Receivables not available to pay for current expenditures and, therefore, are deferred in funds.	81,383
Some payables are not due and payable in the current period and, therefore, are not reported in the funds:	
Accrued interest	(82,060)
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	(9,780,000)
OPEB	(2,170,908)
Accrued leave	(133,480)
Bond premium	(10,499)
Net position of governmental activities (Page 13)	**$ 5,024,746**

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, 2013

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	$ 4,605,260	$ -	$ 4,605,260
Intergovernmental	11,219,386	2,308,699	13,528,085
Meal sales	-	265,937	265,937
Interest earnings	2,071	50	2,121
Other local revenues	96,943	19	96,962
Miscellaneous	24,557	-	24,557
Total revenues	15,948,217	2,574,705	18,522,922
Expenditures:			
Instruction	8,497,855	882,429	9,380,284
Support services	5,359,466	523,485	5,882,951
Food service	-	1,265,705	1,265,705
Non-instructional services	1,867,834	-	1,867,834
Total expenditures	15,725,155	2,671,619	18,396,774
Excess (deficiency) of revenues over (under) expenditures	**223,062**	**(96,914)**	**126,148**
Net change in fund balance	**223,062**	**(96,914)**	**126,148**
Fund balance - beginning	2,380,264	207,097	2,587,361
Increase (decrease) in inventory	-	7,520	7,520
Fund balance - ending	$ 2,603,326	$ 117,703	$ 2,721,029

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, 2013

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)	**$**	**126,148**
Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:		
Capital outlays and disposal of assets		116,787
Depreciation		(668,002)
The change in accrued leave is an expenditure in the governmental funds, but the change reduces or increases the liability on the statement of activities.		(43,660)
The change in OPEB is an expenditure in the governmental funds, but the change reduces or increases the liability on the statement of activities.		(480,595)
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds; however, these repayments have no effect on net assets.		795,000
Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of activities.		5,776
The change in inventory is an expenditure in the governmental funds, but the change reduces or increases the fund balance on the statement of activities.		7,520
Revenues in the statement of activities that do not provide current financial resources are not reported as current reveneus in the funds.		72,373
Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The amount is the net effect of these differences in the treatment.		(18,483)
Change in net position of governmental activities (Page 15)	**$**	**(87,136)**

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 BALANCES - BUDGET AND ACTUAL
For The Fiscal Year Then Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Revenues:				
Taxes:				
Local option sales tax	$ 1,032,000	$ 1,032,000	$ 1,238,718	$ 206,718
Interstate telecommunications tax	2,000	2,000	948	(1,052)
	1,034,000	1,034,000	1,239,666	205,666
City/Special School District:				
Current property tax	3,057,000	3,057,000	3,038,753	(18,247)
Prior year's property tax	125,000	125,000	205,888	80,888
Interest and penalty	19,000	19,000	20,472	1,472
Payment in lieu of taxes	98,045	98,045	100,481	2,436
	3,299,045	3,299,045	3,365,594	66,549
Total taxes	**4,333,045**	**4,333,045**	**4,605,260**	**272,215**
Intergovernmental:				
Licenses and Permits:				
Marriage licenses	900	900	746	(154)
City General Fund:				
Budget and appropriations	241,256	241,256	241,256	-
State revenues:				
State education funds:				
Basic Education Program	10,205,000	10,240,000	10,250,758	10,758
Early Childhood Education	509,545	509,545	509,546	1
Driver education	3,000	3,000	2,982	(18)
Other state education funds	95,650	95,650	89,921	(5,729)
Career Ladder	105,809	105,809	82,385	(23,424)
Career Ladder - Extended Contract	34,200	34,200	32,500	(1,700)
Special education	-	-	9,010	9,010
	10,953,204	10,988,204	10,977,102	(11,102)
Other State revenues:				
Mixed drink tax	100	100	282	182
Total State revenues	10,953,304	10,988,304	10,977,384	(10,920)

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, 2013

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Total intergovernmental	**$ 11,195,460**	**$ 11,230,460**	**$ 11,219,386**	**$ (11,074)**
Other local revenues:				
Interest earned	5,000	5,000	2,071	(2,929)
Lease/rentals	500	500	725	225
Miscellaneous refunds	-	-	1,487	1,487
Contributions	5,000	5,000	1,200	(3,800)
Other local revenues	5,000	5,000	21,145	16,145
	15,500	15,500	26,628	11,128
Total miscellaneous	**15,500**	**15,500**	**26,628**	**11,128**
Total revenues	**15,544,005**	**15,579,005**	**15,851,274**	**272,269**
Expenditures:				
Instruction:				
Regular instruction program:				
Teachers	4,957,346	4,765,899	4,743,836	(22,063)
Career Ladder Program	47,400	47,400	47,380	(20)
Career Ladder - Extended Contract	28,880	32,370	32,370	-
Homebound teachers	3,100	3,100	1,590	(1,510)
Aides	122,466	128,466	105,258	(23,208)
Other Salaries and wages	20,232	52,832	42,941	(9,891)
Substitute teachers	32,000	23,000	12,220	(10,780)
Non-certified substitute teachers	62,000	63,400	61,813	(1,587)
Social Security	329,802	315,043	287,224	(27,819)
State retirement	461,500	458,000	429,365	(28,635)
Medical insurance	536,300	571,300	556,665	(14,635)
Medicare	77,500	76,700	67,858	(8,842)
Other contracted services	34,500	34,500	37,255	2,755
Instructional supplies/materials	135,000	135,000	159,128	24,128
Textbooks	125,000	125,000	126,596	1,596
Other charges	500	500	2,943	2,443
Equipment	100,000	100,000	118,244	18,244
	7,073,526	6,932,510	6,832,686	(99,824)

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, 2013

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Alternate instruction program:				
Teachers	$ 94,898	$ 135,098	$ 129,848	$ (5,250)
Career Ladder	1,000	1,000	1,000	-
Educational assistants	-	15,500	14,922	(578)
Non-certified substitute teachers	9,000	500	303	(197)
Social Security	6,504	7,384	6,678	(706)
State retirement	8,516	9,671	8,818	(853)
Medical insurance	13,000	17,600	17,997	397
Medicare	1,521	2,321	1,866	(455)
Instructional supplies/materials	2,000	2,000	878	(1,122)
	136,439	191,074	182,310	(8,764)
Special education program:				
Teachers	674,550	658,550	658,486	(64)
Career Ladder	8,000	8,000	8,000	-
Homebound teachers	3,500	3,500	1,326	(2,174)
Aides	46,092	36,092	35,965	(127)
Speech pathologist	62,938	63,400	63,400	-
Other salaries and wages	22,731	22,731	22,506	(225)
Substitute teachers	4,000	4,000	1,280	(2,720)
Non-certified substitute teachers	15,000	18,840	18,840	-
Social Security	51,490	45,490	45,380	(110)
State retirement	68,031	68,031	66,644	(1,387)
Medical insurance	84,200	75,700	75,223	(477)
Medicare	12,050	12,050	10,614	(1,436)
Contracts with other school systems	16,300	16,300	16,381	81
Instructional supplies/materials	400	400	2,111	1,711
	1,069,282	1,033,084	1,026,156	(6,928)

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, 2013

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Vocational education program:				
Teachers	$ 338,190	$ 298,190	$ 297,587	$ (603)
Career Ladder	2,000	2,000	1,800	(200)
Aides	23,933	23,933	23,932	(1)
Substitute teachers	6,700	6,700	1,015	(5,685)
Non-certified substitute teachers	8,000	8,000	4,043	(3,957)
Social Security	23,487	23,487	17,824	(5,663)
State retirement	31,025	31,025	25,348	(5,677)
Medical insurance	45,900	29,900	29,373	(527)
Medicare	5,493	5,493	4,473	(1,020)
Maintenance and repair - equipment	3,000	3,000	-	(3,000)
Instructional supplies	25,400	25,400	23,904	(1,496)
Other charges	5,000	5,000	528	(4,472)
Equipment	30,000	30,000	23,476	(6,524)
	548,128	492,128	453,303	(38,825)
Adult education program:				
Other contracted services	4,000	4,000	3,400	(600)
Total instruction	**8,831,375**	**8,652,796**	**8,497,855**	**(154,941)**
Support Services:				
Attendance:				
Director	70,230	70,730	70,540	(190)
Career Ladder	1,000	1,000	1,000	-
Social workers	43,094	43,094	43,094	-
Social Security	9,711	9,211	6,207	(3,004)
State retirement	13,908	12,908	10,180	(2,728)
Medical insurance	15,200	15,200	15,001	(199)
Medicare	2,271	2,271	1,452	(819)
Maintenance and repair - equipment	200	200	-	(200)
Travel	3,000	3,000	508	(2,492)
Other supplies and materials	6,000	6,000	7,302	1,302
In-service/staff development	2,000	2,000	3,041	1,041
Other charges	-	-	929	929
Equipment	2,000	2,000	1,439	(561)
	168,614	167,614	160,693	(6,921)

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, 2013

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Health Services:				
Supervisor/director	$ 44,077	$ 44,077	$ 44,077	$ -
Medical personnel	64,150	65,390	64,148	(1,242)
Other salaries and wages	17,294	18,327	18,326	(1)
Social Security	6,232	10,267	6,990	(3,277)
State retirement	7,980	12,580	5,801	(6,779)
Medical insurance	19,300	25,000	18,665	(6,335)
Medicare	1,458	2,308	1,635	(673)
Postage	200	200	144	(56)
Printing, stationery and forms	200	200	500	300
Travel	3,700	3,700	2,214	(1,486)
Other contracted services	300	2,800	2,208	(592)
Drugs and medical supplies	1,500	1,500	2,096	596
Other supplies/materials	1,500	1,500	5,511	4,011
In-service/staff development	1,100	1,100	511	(589)
Other charges	1,000	1,000	123	(877)
Health equipment	750	750	1,909	1,159
	170,741	190,699	174,858	(15,841)
Other student support:				
Career Ladder	3,800	4,040	4,040	-
Guidance personnel	326,391	326,391	318,128	(8,263)
Social Security	16,618	16,618	14,436	(2,182)
State retirement	23,801	24,401	22,899	(1,502)
Medical insurance	25,600	25,600	19,349	(6,251)
Medicare	4,788	4,788	4,299	(489)
Evaluation/testing	35,500	35,500	26,441	(9,059)
Travel	500	500	416	(84)
Instructional supplies/materials	1,000	5,000	4,423	(577)
In-service/staff development	400	1,800	5,949	4,149
Other charges	1,500	1,500	11,502	10,002
	439,898	446,138	431,882	(14,256)
Regular education program:				
Director	218,777	153,777	153,405	(372)
Career Ladder	8,320	8,320	5,000	(3,320)
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, 2013

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Librarian(s)	$ 173,497	$ 162,997	$ 162,911	$ (86)
Instructional computer personnel	37,292	37,392	37,387	(5)
Aides	32,210	32,210	31,353	(857)
Other salaries and wages	45,364	50,664	50,616	(48)
Social Security	32,095	25,181	25,005	(176)
State retirement	41,663	35,663	35,154	(509)
Medical insurance	51,150	51,150	51,948	798
Medicare	7,651	7,651	5,866	(1,785)
Travel	2,000	2,000	1,278	(722)
Library books	18,200	18,200	15,200	(3,000)
In-service/staff development	30,500	25,100	25,249	149
Other charges	-	1,000	177	(823)
	704,039	616,625	605,869	(10,756)
Special education program:				
Director	34,475	34,475	32,561	(1,914)
Social Security	2,137	2,137	1,799	(338)
State retirement	3,061	3,061	2,891	(170)
Medical insurance	3,655	3,655	3,599	(56)
Medicare	500	500	421	(79)
Travel	500	500	894	394
Other contracted services	93,000	96,100	98,447	2,347
In-service/staff development	1,500	1,500	915	(585)
Other supplies/materials	250	250	548	298
	139,078	142,178	142,075	(103)
Vocational education program:				
Director	10,000	10,000	9,996	(4)
Social security	639	639	566	(73)
State retirement	915	915	854	(61)
Medicare	149	149	132	(17)
Travel	3,500	3,500	3,462	(38)
Other supplies/materials	200	200	-	(200)
In-service/staff development	2,000	2,000	959	(1,041)
Other charges	500	500	168	(332)
	17,903	17,903	16,137	(1,766)

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, 2013

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Board of Education services:				
Secretary to Board	$ 1,399	$ 1,439	$ 1,434	$ (5)
Social Security	87	87	79	(8)
State retirement	48	53	49	(4)
Unemployment compensation	50,000	27,000	23,103	(3,897)
Medicare	20	20	18	(2)
Other fringe benefits	52,000	52,000	43,375	(8,625)
Audit services	30,880	30,880	30,880	-
Dues and memberships	8,000	8,000	10,251	2,251
Legal services	17,000	17,000	19,118	2,118
Other contracted services	1,000	14,000	15,960	1,960
Liability insurance	15,900	15,900	17,022	1,122
Premium on surety bond	1,986	1,986	2,072	86
Trustee commissions	90,000	90,000	77,474	(12,526)
Workmen's compensation insurance	85,481	85,481	98,258	12,777
In-service/staff development	5,000	5,000	8,982	3,982
Other charges	25,700	25,700	22,821	(2,879)
	384,501	374,546	370,896	(3,650)
Office of the Director of Schools:				
County official/administrative officer	126,287	126,287	123,888	(2,399)
Career Ladder	1,000	1,000	1,000	-
Secretary(ies)	35,088	35,198	35,193	(5)
Clerical personnel	32,196	32,306	32,301	(5)
Other salaries and wages	5,000	6,000	3,840	(2,160)
Social Security	12,063	12,063	10,997	(1,066)
State retirement	13,597	14,097	13,731	(366)
Medical insurance	6,200	9,700	9,892	192
Medicare	2,821	2,821	2,676	(145)
Communication	5,000	5,000	3,738	(1,262)
Dues and memberships	3,000	3,000	3,325	325
Postal charges	3,000	3,000	2,558	(442)
Travel	6,500	2,000	341	(1,659)
Other contracted services	12,000	15,000	19,166	4,166
Office supplies	7,000	7,000	4,108	(2,892)
In-service/staff development	10,000	10,000	14,464	4,464
Other charges	4,000	4,000	7,017	3,017

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, 2013

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Equipment	$ 6,500	$ 6,500	$ 4,890	$ (1,610)
	291,252	294,972	293,125	(1,847)
Office of the Principal:				
Principals	240,107	253,607	253,294	(313)
Career Ladder	1,000	4,000	4,000	-
Assistant(s)	383,165	383,165	377,769	(5,396)
Secretary(ies)	244,220	244,220	241,820	(2,400)
Other salaries and wages	10,000	10,000	9,967	(33)
Social Security	54,032	51,032	50,397	(635)
State retirement	64,030	64,930	64,798	(132)
Medical insurance	86,600	86,600	85,335	(1,265)
Medicare	12,637	12,637	11,786	(851)
Communication	12,000	10,000	9,707	(293)
Dues and memberships	3,000	3,000	1,020	(1,980)
Postal charges	5,000	5,000	5,050	50
Travel	1,500	1,500	3,581	2,081
Other contracted services	1,875	-	-	-
Office supplies	2,000	2,000	2,020	20
In-service/staff development	10,500	10,500	5,058	(5,442)
	1,131,666	1,142,191	1,125,602	(16,589)
Fiscal services:				
Director	37,292	37,292	37,087	(205)
Accountants/bookkeepers	43,889	44,539	43,995	(544)
Other salaries & wages	17,944	17,999	17,997	(2)
Social Security	6,177	6,177	5,204	(973)
State retirement	5,464	5,464	5,407	(57)
Medical insurance	19,450	18,800	17,589	(1,211)
Medicare	1,445	1,445	1,217	(228)
Other contracted services	10,395	10,395	1,988	(8,407)
Office supplies	2,000	2,000	1,445	(555)
In-service/staff development	1,000	1,000	859	(141)
Equipment	2,000	2,000	7,072	5,072
	147,056	147,111	139,860	(7,251)

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, 2013

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Human services/personnel:				
Supervisor/director	$ 39,006	$ 42,506	$ 42,066	$ (440)
Clerical personnel	33,698	33,848	33,803	(45)
Social security	4,539	4,539	4,335	(204)
State retirement	4,657	4,957	4,888	(69)
Medical insurance	8,400	8,400	7,396	(1,004)
Medicare	1,061	1,061	1,014	(47)
Dues and memberships	500	500	355	(145)
Postal charges	100	100	-	(100)
Travel	1,200	1,200	1,130	(70)
Other contracted services	2,000	2,000	1,360	(640)
Office supplies	500	500	864	364
In-service/staff development	1,800	1,800	3,260	1,460
Other charges	5,500	5,500	5,341	(159)
Equipment	2,000	2,000	1,541	(459)
	104,961	108,911	107,353	(1,558)
Operation and maintenance of plant:				
Operation of plant:				
Other contracted services	370,100	370,100	375,613	5,513
Custodial supplies	500	500	-	(500)
Electricity	400,000	400,000	370,434	(29,566)
Natural gas	70,000	70,000	66,801	(3,199)
Water and sewer	38,000	38,000	37,966	(34)
Boiler insurance	4,000	4,000	4,190	190
Building and contents insurance	70,000	70,000	76,334	6,334
	952,600	952,600	931,338	(21,262)
Maintenance of plant:				
Director	46,154	46,704	46,692	(12)
Maintenance personnel	68,802	69,252	69,244	(8)
Other salaries and wages	10,500	10,500	7,656	(2,844)
Social Security	7,127	7,627	7,380	(247)
State retirement	3,920	4,820	4,453	(367)
Medical insurance	8,600	8,600	8,599	(1)
Medicare	1,667	1,817	1,726	(91)
Communication	1,500	1,500	1,086	(414)
Maintenance and repair - buildings	50,000	50,000	42,364	(7,636)

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, 2013

	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	$ 53,636	$ 28,636
Matching share	-	-	525	525
Other contracted services	36,000	59,000	58,942	(58)
Other supplies and materials	41,300	40,400	46,650	6,250
In-service/staff development	1,000	1,000	-	(1,000)
	301,570	326,220	348,953	22,733
Total operation and maintenance of plant	1,254,170	1,278,820	1,280,291	1,471
Student transportation:				
Director	39,006	41,806	41,766	(40)
Bus drivers	120,100	120,100	114,716	(5,384)
Clerical personnel	4,105	4,255	4,207	(48)
Other salaries and wages	50,680	64,180	63,184	(996)
Social Security	13,292	13,692	13,582	(110)
State retirement	9,472	9,472	8,456	(1,016)
Medical insurance	2,200	3,000	3,018	18
Medicare	3,109	3,209	3,176	(33)
Communication	1,000	1,000	1,357	357
Contracts with public carriers	10,800	10,800	12,250	1,450
Travel	500	500	904	404
Other contracted services	55,000	55,000	55,550	550
Diesel fuel	60,000	60,000	59,650	(350)
Gasoline	5,100	5,100	7,581	2,481
Other supplies and materials	2,165	2,165	841	(1,324)
Vehicle and equipment insurance	21,350	21,350	23,568	2,218
In-service/staff development	2,000	2,000	2,058	58
Other charges	3,500	3,500	2,149	(1,351)
Transportation equipment	-	192,000	92,812	(99,188)
	403,379	613,129	510,825	(102,304)
Total support services	**5,357,258**	**5,540,837**	**5,359,466**	**(181,371)**

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, 2013

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Non-Instructional Services:				
Early Childhood Education				
Supervisor/director	$ 11,000	$ 11,504	$ 11,504	$ -
Teachers	204,500	193,427	193,427	-
Clerical personnel	13,000	12,781	12,781	-
Educational assistants	161,000	158,931	158,931	-
Substitute teachers	300	-	-	-
Non-certified substitute teachers	1,000	660	660	-
Social Security	24,500	21,850	21,850	-
State retirement	25,500	24,052	24,052	-
Medical insurance	18,000	23,083	23,083	-
Medicare	5,700	5,110	5,110	-
Other contracted services	9,800	13,436	13,436	-
Instructional supplies and materials	20,646	35,360	35,360	-
In-service/staff development	5,500	1,300	1,300	-
Other charges	1,600	575	575	-
Other equipment	7,500	7,477	7,477	-
	509,546	509,546	509,546	-
Capital outlay:				
Other capital outlay	35,000	65,000	58,107	(6,893)
Debt service:				
Principal on bonds	795,000	795,000	795,000	-
Interest on bonds	407,138	407,138	407,138	-
Other debt service	1,100	1,100	1,100	-
	1,203,238	1,203,238	1,203,238	-
Total non-instructional services	**1,747,784**	**1,777,784**	**1,770,891**	**(6,893)**
Total expenditures	**15,936,417**	**15,971,417**	**15,628,212**	**(343,205)**
Excess (deficiency) of revenues over (under) expenditures	**(392,412)**	**(392,412)**	**223,062**	**615,474**

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, 2013

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Other financing sources (uses)				
Operating transfers in	$ 10,000	$ 10,000	$ -	$ (10,000)
Net changes in fund balance	**$ (382,412)**	**$ (382,412)**	**223,062**	**$ 605,474**
Fund balance - beginning			2,380,264	
Fund balance - ending			**$ 2,603,326**	

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

Inflows/revenues:		
Actual amounts (budgetary basis)	$ 15,851,274	$ 272,269
Differences - budget to GAAP:		
Fringe benefits - noncash	96,943	96,943
Total Revenues as Reported on Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	15,948,217	369,212
Outflows/expenditures:		
Actual amounts (budgetary basis)	15,628,212	(343,205)
Differences - budget to GAAP:		
Fringe benefits - noncash	96,943	96,943
Total Expenditures as Reported on Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	15,725,155	(246,262)
Other financing sources (uses)	-	(10,000)
Net changes in fund balance	**$ 223,062**	**$ 605,474**

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.

B. District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net position 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.

Property 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 Position 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 primarily includes unearned or unavailable revenue amounts that were receivable and measurable at June 30, 2013 but, were not available to finance expenditures for the year ended June 30, 2013, are considered to be deferred revenue. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

On Behalf Payments for Fringe Benefits
The District records on-behalf payments made by the State of Tennessee to be used for postemployment health insurance benefits for employees not yet eligible for Medicare. Such

payments are recorded as intergovernmental revenue and instruction expenses/expenditures in the GAAP basis district-wide and general fund financial statements, but are not budgeted and, therefore, are not included in the general purpose fund budgetary basis financial statements.

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 position. 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.

Deferred Outflows/Inflows of Resources
During the year ended June 30, 2013, the District adopted the provisions of GASB Statement No.63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* The objective of the statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources.

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District currently has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents acquisition of net position that applies to a future period and so will not be

recognized as an inflow of resources (revenue) until that time. The District does not have any items that qualify for reporting in this category as of June 30, 2013.

Net position flow assumption
Sometimes the government will find outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – pet position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

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.

Fund balance flow assumptions
Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Impact of other recently issued accounting pronouncements
In December 2010, the GASB issued Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in non-governmental pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This statement is effective for periods beginning after December 15, 2011. The adoption of GASB 62 had no impact on the District's financial statements.

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities.* GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows or deferred inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for periods beginning after December 15, 2012. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements, but has not implemented its effects on items currently reported as deferred assets or liabilities in the financial statements presented herein.

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 Position

The governmental fund balance sheet includes reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the district-wide statement of net position. 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 ($9,780,000) are as follows:

School bonds payable, Series 2009	$ (450,000)
School bonds payable, Series 2005	(8,330,000)
School bonds payable, Series 2008	(1,000,000)
	$ (9,780,000)

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 $14,257,883 are as follows:

Land	$ 854,415
Work in progress	24,194
Buildings and improvements	21,402,616
Other capital assets	1,977,793
	24,259,018
Less accumulated depreciation	(10,001,135)
Net investment in capital assets	$14,257,883

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 position." The details of this $795,000 are as follows:

Principal repayments:	
School bonds payable, Series 2005	$ 355,000
School bonds payable, Series 2009	440,000
	$ 795,000

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 $116,787 and ($668,002) are as follows:

Capital outlays	$ 116,787
Depreciation expense	$ (668,002)

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 ($43,660) are as follows:

Accrued leave as of June 30, 2012	$ 89,820
Accrued leave as of June 30, 2013	(133,480)
	$ (43,660)

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 ($480,595) are as follows:

OPEB Liability as of June 30, 2012	$ 1,690,313
OPEB Liability as of June 30, 2013	(2,170,908)
	$ (480,595)

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 $5,776 are as follows:

Accrued interest as of June 30, 2012	$ 87,836
Accrued interest as of June 30, 2013	(82,060)
	$ 5,776

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 ($18,483) are as follows:

Amortization of bond premium	$ 954
Amortization of bond issuance costs	(19,437)
	$ (18,483)

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 ($72,373) are as follows:

Deferred grant revenue as of June 30, 2012	$ (81,383)
Deferred grant revenue as of June 30, 2013	9,010
	$ (72,373)

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, 2013, 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, 2013.

The following is a summary of cash and cash equivalents as of June 30, 2013.

Cash in bank	$2,346,240
Local Government Investment Pool	386,817
Total cash and cash equivalents	$2,733,057

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	$ 311	$ 1,770	$ 2,081
Taxes	3,226,088	-	3,226,088
Grants	154,866	286,126	440,992
Intergovernmental	252,256	-	252,256
Total receivables	$3,633,521	$ 287,896	$3,921,417

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 2013 tax levy not being due and payable until October 2013. Therefore, the funds are unavailable to the District as of June 30, 2013.

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	Uneamed	Total
General Fund			
IDEA - High Cost Student	$ 12,250	$ -	$ 12,250
Safe Schools	11,300	-	11,300
Federal Projects Fund			
Title III, Part A	1,356	-	1,356
Title I, Focus	56,477	-	56,477
IDEA Program	-	7,985	7,985
Total receivables	$ 81,383	$ 7,985	$ 89,368

C. Interfund Receivables and Payables

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 composition of balances as of June 30, 2013, is as follows:

Receivable Fund	Payable Fund	Amount
General Purpose	Federal Projects	$ 252,256
		252,256
Elimination for district-wide statements		(252,256)
		$ -

D. Capital Assets

Capital asset activity for the year ended June 30, 2013 was as follows:

	July 1, 2012	Additions	Reductions	June 30, 2013
Capital assets not being depreciated:				
Land	$ 854,415	$ -	$ -	$ 854,415
Work in progress	-	24,194	-	24,194
	854,415	24,194	-	878,609
Capital assets being depreciated:				
Buildings and improvements	21,402,616	-	-	21,402,616
Other capital assets	1,885,200	92,593	-	1,977,793
	23,287,816	92,593	-	23,380,409
Accumulated depreciation:				
Buildings and improvements	(7,944,039)	(585,431)	-	(8,529,470)
Other capital assets	(1,389,094)	(82,571)	-	(1,471,665)
	(9,333,133)	(668,002)	-	(10,001,135)
Total capital assets being depreciated, net	13,954,683	(575,409)	-	13,379,274
Total capital assets, net	$ 14,809,098	$ (551,215)	$ -	$ 14,257,883

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

Instruction:	
Regular education	$ 1,388
Vocational education	1,314
Support services:	
Office of the Principal	9,034
Operation and maintenance of plant	6,007
Student transportation	41,182
Non-instructional services:	
Capital outlay	598,400
Food service	10,677
	$ 668,002

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, 2013, were as follows:

Year Ended June 30,	
2014	$ 29,580
2015	29,580
2016	26,700
2017	11,125
	$ 96,985

The lease expense for the year ended June 30, 2013 was $29,580.

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, 2013 are as follows:

Years Ending	Bonds		
June 30,	Principal	Interest	Total
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	830,000	269,500	1,099,500
2019-2023	4,800,000	823,355	5,623,355
2024	1,085,000	44,760	1,129,760
	$ 9,780,000	$ 2,499,078	$ 12,279,078

The following is a summary of long-term debt transactions for the year ended June 30, 2013:

	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	$ 8,685,000	$ -	$ 355,000	$ 8,330,000	$ 380,000
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	890,000	-	440,000	450,000	450,000
Bond premium	11,453	-	954	10,499	-
Total bonds payable	10,586,453	-	795,954	9,790,499	830,000
Other post employment benefits	1,690,313	480,595	-	2,170,908	-
Compensated absences	89,820	43,660	-	133,480	-
Total long-term liabilities	12,366,586	524,255	795,954	12,094,887	830,000
Other deferred costs:					
Bond issuance costs	(160,835)	-	(19,437)	(141,398)	-
Net long-term liabilities including associated deferred items	$ 12,205,751	$ 524,255	$ 776,517	$ 11,953,489	$ 830,000

The General Fund is used to liquidate compensated absences.

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 position 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 position. 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 http://www.tn.gov/treasury/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, 2013 was 3.41% 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, 2013, Milan Special School District's annual pension cost of $63,093 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, 2011 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, 2011 was 1 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
6/30/2013	$ 63,093	100.00%	$ -
6/30/2012	137,944	100.00%	-
6/30/2011	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 accrued liability (UAAL) of $0.01 million. The covered payroll (annual payroll of active employees covered by the plan) $1.63 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.

(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/Schools.

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, 2013 was 8.88% 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, 2013, 2012, and 2011 were $729,160, $735,705, and $724,493 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	$ 644,000
Interest on NPO	76,064
Adjustment to the ARC	(74,032)
Annual OPEB cost	646,032
Amount of contribution	(165,437)
Increase/decrease in NPO	480,595
Net OPEB obligation - beginning of year	1,690,313
Net OPEB obligation - end of year	$2,170,908

Year End*	Plan	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End
6/30/2013	Teacher Group	$ 646,031	26%	$ 2,170,908
6/30/2012	Teacher Group	639,440	23%	1,690,313
6/30/2011	Teacher Group	365,164	37%	1,198,543

Funded Status and Funding Progress
The funded status of the plan as of June 30, 2013, 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)	$ 10,061,519
UAAL as a percentage of covered payroll	52.98%

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, 2011, actuarial valuation for the Local Education plan, the Projected Unit Credit actuarial cost method was used and the actuarial assumptions included a 4 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 9.25 percent initially. The rate decreased to 8.75 percent in fiscal year 2013 and then will be reduced by decrements to an ultimate rate of 5 percent by fiscal year 2021. The annual healthcare premium trend rate for the Medicare Supplement plan was 6.50 percent initially. The rate reduced to 6.25 percent for fiscal year 2013 and then will be reduced by decrements to an ultimate rate of 5 percent by fiscal year 2018. Both rates include a 2.5 percent inflation assumption, which also represent projected salary increase. 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 July 1, 2007.

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 2013 the State made contributions of $96,943.

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, 2013

(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, 2013

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%	$ 10,061,519	52.98%
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.

See independent auditor's report.

OTHER SUPPLEMENTARY INFORMATION

MILAN SPECIAL SCHOOL DISTRICT
OTHER GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2013

		Special Revenue Funds		
	Capital Projects Fund	Federal Projects Fund	Centralized Cafeteria Fund	Total
Assets:				
Cash	$ 19,044	$ -	$ 83,736	$ 102,780
Accounts receivable	-	-	1,770	1,770
Due from other governments - grants	-	263,150	22,976	286,126
Inventory	-	-	49,079	49,079
Total assets	**$ 19,044**	**$ 263,150**	**$ 157,561**	**$ 439,755**
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	$ -	$ 2,909	$ 1,069	$ 3,978
Due to other funds	-	252,256	-	252,256
Unearned revenue	-	7,985	-	7,985
Deferred revenue	-	57,833	-	57,833
Total liabilities	-	320,983	1,069	322,052
Fund balances:				
Nonspendable				
Inventory	-	-	49,079	49,079
Restricted				
Operation of non-instructional services	-	-	107,413	107,413
Committed				
Education	19,044	-	-	19,044
Unassigned	-	(57,833)	-	(57,833)
Total fund balances	19,044	(57,833)	156,492	117,703
Total liabilities and fund balances	**$ 19,044**	**$ 263,150**	**$ 157,561**	**$ 439,755**

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, 2013

		Special Revenue Funds		
	Capital Projects Fund	Federal Projects Fund	Centralized Cafeteria Fund	Total
Revenues:				
Charges for current services	$ -	$ -	$ 265,937	$ 265,937
Interest earned	19	-	-	19
Other local revenues	-	-	50	50
State revenue	-	-	11,958	11,958
Federal revenue	-	1,348,081	948,660	2,296,741
Total revenues	**19**	**1,348,081**	**1,226,605**	**2,574,705**
Expenditures:				
Instruction	-	882,429	-	882,429
Support services	-	523,485	-	523,485
Food service	-	-	1,265,705	1,265,705
Total expenditures	**-**	**1,405,914**	**1,265,705**	**2,671,619**
Excess (deficiency) of revenues over (under) expenditures	**19**	**(57,833)**	**(39,100)**	**(96,914)**
Fund balance - beginning	**19,025**	**-**	**188,072**	**207,097**
Increase (decrease) in inventory	-	-	7,520	7,520
Fund balance - ending	**$ 19,044**	**$ (57,833)**	**$ 156,492**	**$ 117,703**

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, 2013

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Revenues:				
Federal through State:				
Vocational education -				
Basic grants to states	$ 36,988	$ 36,988	$ 36,988	$ -
Title I	547,542	547,542	470,449	(77,093)
Title I - Focus	-	200,000	76,274	(123,726)
Education of the Handicapped - IDEA	462,471	462,471	406,577	(55,894)
Preschool Program - Graduation Rate	5,500	5,500	5,367	(133)
Preschool Program - Inclusion	40,000	40,000	39,972	(28)
IDEA Preschool	16,179	16,179	15,804	(375)
Preschool Program - Behavior	22,260	22,260	17,281	(4,979)
English language acquisition grants	25,879	25,879	17,387	(8,492)
Rural Education	46,645	46,645	23,043	(23,602)
Eisenhower	97,534	97,534	93,646	(3,888)
Race to the Top - ARRA	307,796	107,796	80,636	(27,160)
Other federal through state	72,099	72,099	64,657	(7,442)
Total federal through state	1,680,893	1,680,893	1,348,081	(332,812)
Total revenues	**1,680,893**	**1,680,893**	**1,348,081**	**(332,812)**
Expenditures:				
Instruction:				
Regular instruction program:				
Teachers	201,396	133,015	123,133	(9,882)
Aides	111,444	115,906	113,286	(2,620)
Other salaries and wages	58,324	61,429	61,404	(25)
Substitute teachers	110	310	150	(160)
Non-certified substitute teachers	3,106	6,606	5,173	(1,433)
Social Security	23,805	20,008	17,290	(2,718)
State retirement	26,589	20,242	18,999	(1,243)
Medical insurance	30,872	32,684	28,021	(4,663)
Medicare	5,979	5,092	4,044	(1,048)
Other contracted services	300	300	-	(300)
Instructional supplies	55,522	80,422	43,493	(36,929)
Other supplies and materials	21,304	21,304	602	(20,702)
Other charges	1,500	1,500	-	(1,500)
Equipment	14,658	92,135	45,991	(46,144)
	554,909	590,953	461,586	(129,367)

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, 2013

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Alternate Instruction program:				
Teachers	$ 1,200	$ 4,687	$ 4,687	$ -
Social Security	74	177	177	-
Employer medicare	18	68	68	-
	1,292	4,932	4,932	-
Special education program:				
Teachers	41,000	2,798	2,798	-
Aides	260,358	284,383	262,860	(21,523)
Non-certified substitute teachers	260	660	660	-
Social Security	19,025	17,924	14,550	(3,374)
State retirement	13,176	10,325	7,181	(3,144)
Medical Insurance	61,300	66,221	53,536	(12,685)
Medicare	4,720	4,377	3,403	(974)
Other contracted services	38,000	38,000	37,988	(12)
Instructional supplies	500	11,668	5,211	(6,457)
Other supplies and materials	-	200	-	(200)
Special education equipment	7,000	7,531	7,166	(365)
	445,339	444,087	395,353	(48,734)
Vocational education program:				
Instructional supplies and materials	4,068	4,068	4,067	(1)
Other supplies and materials	1,000	975	975	-
Equipment	12,376	15,516	15,516	-
	17,444	20,559	20,558	(1)
Total instruction	**1,018,984**	**1,060,531**	**882,429**	**(178,102)**

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, 2013

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Support Services:				
Health services:				
Medical personnel	$ 3,237	$ -	$ -	$ -
Social security	165	-	-	-
State retirement	97	-	-	-
Medical insurance	839	-	-	-
Medicare	38	-	-	-
	4,376	-	-	-
Other student support:				
Guidance personnel	3,121	12,272	12,272	-
Other salaries and wages	57,391	57,391	49,923	(7,468)
Social security	182	637	637	-
State retirement	277	1,090	1,090	-
Medical insurance	372	1,759	1,759	-
Medicare	875	981	872	(109)
Contracts with other school systems	20,432	20,432	15,682	(4,750)
Travel	16,397	13,610	12,056	(1,554)
Other contracted services	10,000	10,752	10,752	-
Instructional supplies and materials	759	796	796	-
Other supplies and materials	11,707	11,040	2,236	(8,804)
In-service/staff development	3,674	3,744	3,744	-
Other charges	7,302	8,215	6,003	(2,212)
	132,489	142,719	117,822	(24,897)
Regular instruction program:				
Supervisor/director	31,510	31,510	31,510	-
Secretary(s)	11,800	11,800	11,183	(617)
Other salaries and wages	199,553	201,052	177,762	(23,290)
In-service training	202	202	202	-
Non-certified substitute teachers	2,500	3,600	-	(3,600)
Social Security	13,510	15,240	13,160	(2,080)
State retirement	18,763	23,002	18,272	(4,730)
Medical insurance	17,000	13,020	10,484	(2,536)
Medicare	3,517	3,534	3,081	(453)
Travel	3,000	3,000	661	(2,339)
Other contracted services	6,800	6,800	6,594	(206)
Other supplies and materials	5,300	6,300	4,747	(1,553)
In-service-staff development	45,369	32,369	26,517	(5,852)
Other charges	54,247	2,547	600	(1,947)
Other equipment	5,000	12,000	5,898	(6,102)
	418,071	365,976	310,671	(55,305)

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, 2013

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Special education program:				
Secretary(s)	$ 7,900	$ 8,188	$ 8,188	$ -
Social Security	523	523	500	(23)
State retirement	300	300	279	(21)
Medicare	128	128	117	(11)
Travel	-	1,198	1,198	-
Other contracted services	90,000	92,182	79,804	(12,378)
Other supplies and materials	233	865	620	(245)
In-service-staff development	1,987	2,987	2,990	3
	101,071	106,371	93,696	(12,675)
Vocational education program:				
Travel	1,602	1,186	1,186	
Other charges	300	110	110	-
	1,902	1,296	1,296	-
Total support services	**657,909**	**616,362**	**523,485**	**(92,877)**
Total expenditures	**1,676,893**	**1,676,893**	**1,405,914**	**(270,979)**
Excess (deficiency) of revenues over (under) expenditures	**4,000**	**4,000**	**(57,833)**	**(61,833)**
Other financing sources (uses)				
Operating transfers out	(4,000)	(4,000)	-	4,000
Net changes in fund balance	**$ -**	**$ -**	**(57,833)**	**$ (57,833)**
Fund balance - beginning			-	
Fund balance - ending			**$ (57,833)**	

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, 2013

	Original Budget	Final Budget	Actual	Variance-Over (Under)
Revenues:				
Charges for current services:				
Lunch payments - children	$ 235,000	$ 235,000	$ 155,974	$ (79,026)
Lunch payments - adults	36,400	36,400	27,057	(9,343)
A La Carte sales	66,000	66,000	69,123	3,123
Other charges for services	27,000	27,000	13,783	(13,217)
	364,400	364,400	265,937	(98,463)
Other revenues:				
Interest earned	100	100	50	(50)
State education funds:				
School food service	12,500	12,500	11,958	(542)
Federal through State:				
USDA - lunch	575,000	575,000	553,972	(21,028)
USDA - commodities (non-cash)	65,000	65,000	63,367	(1,633)
USDA - breakfast	310,000	310,000	312,027	2,027
USDA - other	18,000	18,000	19,294	1,294
	968,000	968,000	948,660	(19,340)
Total revenues	**1,345,000**	**1,345,000**	**1,226,605**	**(118,395)**
Expenditures:				
Food service:				
Director	57,227	57,727	57,719	(8)
Clerical personnel	18,500	18,500	17,196	(1,304)
Cafeteria personnel	312,032	333,032	332,496	(536)
Other salaries & wages	3,000	3,000	1,858	(1,142)
Non-certified substitute teachers	6,000	6,000	4,145	(1,855)
Social Security	19,742	23,042	22,956	(86)
State retirement	10,858	11,958	11,931	(27)
Medical insurance	43,400	55,400	55,183	(217)
Medicare liability	4,616	5,416	5,369	(47)
Communication	600	600	584	(16)
Maintenance & repair - equipment	10,000	13,000	12,563	(437)
Travel	2,500	3,500	3,306	(194)
Food supplies	700,000	700,000	604,543	(95,457)

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, 2013

Expenditures (Cont.)	Original Budget	Final Budget	Actual	Variance-Over (Under)
Food service (Cont.):				
USDA - commodities (non-cash)	$ 65,000	$ 65,000	$ 63,367	$ (1,633)
Other supplies & materials	74,338	74,338	67,248	(7,090)
In service/staff development	2,000	2,000	1,908	(92)
Other charges	5,000	5,000	3,333	(1,667)
Equipment	10,187	10,187	-	(10,187)
Total expenditures	**1,345,000**	**1,387,700**	**1,265,705**	**(121,995)**
Net changes in fund balance	**$ -**	**$ (42,700)**	**(39,100)**	**$ 3,600**
Fund balance - beginning			**188,072**	
Increase (decrease) in inventory			7,520	
Fund balance - ending			**$ 156,492**	

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, 2013

Revenues:	
Other local revenues:	
Interest earned	$ 19
Excess (deficiency) of revenues over (under) expenditures	**19**
Fund balance - beginning	**19,025**
Fund balance - ending	**$ 19,044**

See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF PROPERTY TAX RATES AND ASSESSMENTS - PAST TEN YEARS
June 30, 2013

Year Ended June, 30	Tax Rates	Assessments	Tax Levy
2013	$ 1.84	$ 175,860,018	$ 3,235,824
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

The following is the tax levied January 1, 2013:

2014	$ 1.8415	$ 175,188,027	$ 3,226,088

See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF LONG-TERM DEBT
June 30, 2013

Year Ended June 30,	Bonds								
	Series 2009		Series 2005		Series 2008		Total Requirements		
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
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
	$ 450,000	$ 14,850	$ 8,330,000	$ 2,213,853	$ 1,000,000	$ 270,375	$ 9,780,000	$ 2,499,078	$ 12,279,078

See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF INTERFUND TRANSFERS
For The Fiscal Year Then Ended June 30, 2013

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

See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF SALARIES AND BONDS
June 30, 2013

	Bond
Director of Schools	$ 431,213 *

*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, 2013

	Federal CFDA Number	Agency or Pass-through Number	Balance 7/1/12	Cash Receipts	Expenditures/ Amount Earned/ Amount Issued	Balance Unearned (Receivable) 6/30/13
U.S. Department of Agriculture						
Pass-through the Tennessee Department of Education						
School Breakfast Program	10.553	N/A	$ (2,997)	$ 308,465	$ 312,027	(6,559)
National School Lunch Program - Snack	10.555	N/A	(841)	20,135	19,294	-
National School Lunch Program	10.555	N/A	(8,359)	545,914	553,972	(16,417)
Food-Distribution - Commodities	10.555	N/A	-	63,367	63,367	-
			(9,200)	629,416	636,633	(16,417)
Total U.S. Department of Agriculture			**(12,197)**	**937,881**	**948,660**	**(22,976)**
U.S. Department of Education						
Pass-through the Tennessee Department of Education						
Special Education - Grants to States						
IDEA, Part B	84.027	H0278120052	(9,796)	373,574	406,577	(42,799)
Additional Special Education Funds	84.027	N/A	(9,010)	9,010	12,250	(12,250)
			(18,806)	382,584	418,827	(55,049)
Special Education - Preschool Grants:						
IDEA Preschool	84.173	N/A	(2,392)	17,425	15,804	(771)
Preschool Program - Behavior Grant	84.173	N/A	(915)	15,702	17,281	(2,494)
Preschool Program - Competitive	84.173	N/A	(2,431)	2,431	-	-
Preschool Program - Inclusion	84.173	N/A	(5,003)	5,003	-	-
Preschool Program - Graduation Rate	85.173	N/A	-	5,367	5,367	-
Preschool Program - Inclusion	86.173	N/A	-	29,282	39,972	(10,690)
			(10,741)	75,210	78,424	(13,955)
Total special education grants			(29,547)	457,794	497,251	(69,004)

See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Cont.)
For The Fiscal Year Then Ended June 30, 2013

	Federal CFDA Number	Agency or Pass-through Number	Balance 7/1/12	Cash Receipts	Expenditures/ Amount Earned/ Amount Issued	Balance Unearned (Receivable) 6/30/13
U.S. Department of Education (Cont.)						
Pass-through the Tennessee Department of Education (Cont.)						
Office of Elementary and Secondary Education						
Advanced Placement Program	84.330	N/A	$ -	$ 371	$ 371	$ -
State Fiscal Stabilization Fund						
ARRA - SFSF Race to the Top	84.395	S395A100032	(8,950)	16,392	7,442	-
ARRA - SFSF Race to the Top	84.395	S395A100032	(22,263)	94,136	73,194	(1,321)
			(31,213)	110,528	80,636	(1,321)
Title I, Grants to Local Education Agencies						
Part A	84.010*	S010A120042	(13,320)	385,069	470,449	(98,700)
Focus	84.010*	S010A110042	-	65,093	132,751	(67,658)
			(13,320)	450,162	603,200	(166,358)
Office of Vocational and Adult Education						
Career and Technical Education - Basic Grants to States	84.048	47131	(8,049)	37,250	36,988	(7,787)

See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Cont.)
For The Fiscal Year Then Ended June 30, 2013

	Federal CFDA Number	Agency or Pass-through Number	Balance 7/1/12	Cash Receipts	Expenditures/ Amount Earned/ Amount Issued	Balance Unearned (Receivable) 6/30/13
U.S. Department of Education (Cont.)						
Pass-through the Tennessee Department of Education (Cont.)						
English Language Acquisition Grants						
Title III, Part A	84.365	S365A120042	$ (615)	$ 14,527	$ 18,742	$ (4,830)
Office of Elementary and Secondary Education						
Improving Teacher Quality State Grants	84.367	S367A120040	(10,545)	86,076	93,646	(18,115)
Rural Education	84.358	S358B120042	(4,005)	27,048	23,043	-
Title I, Education Jobs Program	84.410	S410A100043	(63,868)	128,525	64,657	-
Total US Department of Education			**(161,162)**	**1,311,910**	**1,418,163**	**(267,415)**
Total federal awards			**$ (173,359)**	**$ 2,250,162**	**$ 2,367,194**	**$ (290,391)**

*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, 2013

	Balance 7/1/12	Cash Receipts	Expenditures/ Amount Earned/ Amount Issued	Balance Unearned (Receivable) 6/30/13
Tennessee Department of Education				
Special Programs - Early Childhood	$ (40,226)	$ 442,332	$ 509,546	$ (107,440)
Drivers Education	-	2,982	2,982	-
Child Nutrition State Match	-	11,958	11,958	-
Safe Schools	(11,300)	11,300	11,300	(11,300)
SSMS	-	5,613	5,613	-
ACT/Explore Testing	-	2,412	2,412	-
Coordinated School Health	(39,185)	91,474	75,000	(22,711)
Career Ladder Program	(1,167)	82,387	82,385	(1,165)
Extended Contract	-	32,500	32,500	-
Internet ConnectTN	-	6,896	6,896	-
Total State Awards	**$ (91,878)**	**$ 689,854**	**$ 740,592**	**$ (142,616)**

See independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE SECTION

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Kentucky Society of Certified Public Accountants

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Independent Auditor's 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Milan Special School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Milan Special School District's basic financial statements and have issued our report thereon dated November 15, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Milan Special School 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 *Government Auditing Standards.*

We noted certain matters that we reported to management of the District in a separate letter dated November 15, 2013.

Purpose of this Report

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

Alexander Thompson Arnold PLLC

Certified Public Accountants
Jackson, Tennessee
November 15, 2013

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Independent Auditor's Report on Compliance With for Each Major Program and Report on Internal Control over Compliance in Accordance with OMB Circular A-133

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

Report on Compliance for Each Major Federal Program

We have audited Milan Special School District's 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 Milan Special School District's major federal programs for the year ended June 30, 2013. Milan Special School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Milan Special School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 Milan Special School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Milan Special School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Milan Special School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Milan Special School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Milan Special School District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Alexander Thompson Arnold PLLC

Certified Public Accountants
Jackson, Tennessee
November 15, 2013

MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements		
Type of auditor's report issued:		Unqualified
Internal control over financial reporting:		
Material weakness(es) identified?	_____ yes	X no
Significant deficiency(ies) identified?	_____ yes	X none reported
Noncompliance material to financial statements noted?	_____ yes	X no
Federal Awards		
Internal control over major programs:		
Material weakness(es) identified?	_____ yes	X no
Significant deficiency(ies) identified?	_____ yes	X none reported
Type of auditor's report issued on compliance for major programs:		Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	_____ yes	X no

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster:
	Title I, Grants to Local Education Agencies Cluster:
84.010	Part A
84.010	Focus

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, 2013

SECTION II – FINANCIAL STATEMENT FINDINGS

Current Year Findings

None reported.

Prior Year Findings

12-01 Payroll Preparation Issues (Material Weakness) (Corrected)

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Prior Year Findings

None reported.

Current Year Findings

None reported.