

STATE OF TENNESSEE

ANNUAL FINANCIAL REPORT
OF
McKENZIE SPECIAL SCHOOL DISTRICT

SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2004



COMPTROLLER OF THE TREASURY

Department of Audit

Division of County Audit

ANNUAL FINANCIAL REPORT
MCKENZIE SPECIAL SCHOOL DISTRICT
FOR THE YEAR ENDED JUNE 30, 2004

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Audit Highlights

Annual Financial Report
McKenzie Special School District
For the Year Ended June 30, 2004

Scope

We have audited the financial statements of each major fund and the aggregate remaining fund information of the McKenzie Special School District as of and for the year ended June 30, 2004.

Results

Our report on McKenzie Special School District's financial statements expresses an adverse opinion because government-wide financial statements are not presented in accordance with Governmental Accounting Standards Board Statement No. 34.

Our audit resulted in four findings and recommendations, which we have reviewed with McKenzie Special School District management. Detailed findings and recommendations are included in the Single Audit Report.

The following are summaries of the audit findings:

OFFICE OF DIRECTOR OF SCHOOLS:

- ◆ Government-wide financial statements were not presented in accordance with generally accepted accounting principles, resulting in an adverse opinion.
- ◆ The School Federal Projects Fund had a cash overdraft of \$26,779 and a fund deficit of \$22,837 at June 30, 2004. The cash overdraft resulted from the office's issuing checks that exceeded cash on deposit with the bank.
- ◆ Funds on deposit with one depository were not adequately collateralized.
- ◆ The office's check-signing machine did not have a counter to record the number of checks processed.

State of Tennessee
Comptroller of the Treasury
Department of Audit
Division of County Audit

INTRODUCTORY SECTION

McKenzie Special School District Officials
June 30, 2004

Officials:

James D. Ward, Jr., Director of Schools
Dana Deem, Finance Director

Board of Directors:

Ruth Carroll, Chairperson
Jill Holland, Vice-Chairperson
Mildred Sneed, Treasurer
John Austin
Joe Fortner
Van Ramsey
Spiro Roditis

FINANCIAL SECTION



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF COUNTY AUDIT
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INDEPENDENT AUDITOR'S REPORT

January 7, 2005

McKenzie Special School District Director of Schools
and Board of Directors
McKenzie, Tennessee

To the Director of Schools and Board of Directors:

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the McKenzie Special School District, as of and for the year ended June 30, 2004, as shown on pages 11 through 27, which collectively comprise a portion of the district's basic financial statements required by accounting principles generally accepted in the United States of America. These financial statements are the responsibility of McKenzie Special School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements for the district's governmental activities are not reasonably determinable.

As described in Note I, the McKenzie Special School District has prepared its financial statements on a prescribed basis of accounting that demonstrates compliance with financial reporting standards adopted by the Comptroller of the Treasury of the State of Tennessee. These standards require local governments and school districts that do not present government-wide financial statements to present fund financial statements in conformity with all the accounting principles generally accepted in the United States of America that are applicable to fund financial statements, including the notes to the financial statements. These standards also require some additional disclosures to be included in the notes to the financial statements, as described in Note I.

In our opinion, because of the effects of the matters discussed in the two preceding paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the McKenzie Special School District, as of June 30, 2004, or the changes in its financial position for the year then ended.

However, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of the McKenzie Special School District, as of June 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting prescribed by the Comptroller of the Treasury of the State of Tennessee.

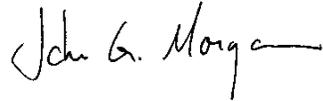
The budgetary comparison information on pages 31 through 33 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the McKenzie Special School District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds and the education debt service fund, miscellaneous schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds and the education debt service fund, and the miscellaneous schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical table have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

As described in Note I, the McKenzie Special School District prepared its financial statements on a prescribed basis of accounting that demonstrates compliance with standards adopted by the Comptroller of the Treasury of the State of Tennessee. This results in a change in the format and content of the basic financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated January 7, 2005, on our consideration of the McKenzie Special School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Very truly yours,

A handwritten signature in cursive script that reads "John G. Morgan". The signature is written in black ink and includes a long horizontal flourish at the end.

John G. Morgan
Comptroller of the Treasury

JGM/yu

BASIC FINANCIAL STATEMENTS

Exhibit A

McKenzie Special School District
Balance Sheet - Governmental Funds
 June 30, 2004

	Major Funds		Nonmajor Funds	Total Govern- mental Funds
	General Purpose School	Education Debt Service	Other Govern- mental Funds	
<u>ASSETS</u>				
Cash	\$ 1,395,266	\$ 750,000	\$ 103,519	\$ 2,248,785
Inventories	0	0	19,539	19,539
Investments	66,699	63,241	56,697	186,637
Due from Other Governments	172,833	14,826	40,888	228,547
Property Taxes Receivable	746,586	564,577	0	1,311,163
Allowance for Uncollectible Property Taxes	(63,542)	(48,204)	0	(111,746)
Total Assets	<u>\$ 2,317,842</u>	<u>\$ 1,344,440</u>	<u>\$ 220,643</u>	<u>\$ 3,882,925</u>
<u>LIABILITIES AND FUND BALANCES</u>				
<u>Liabilities</u>				
Accounts Payable	\$ 6,540	\$ 0	\$ 3,337	\$ 9,877
Payroll Deductions Payable	126,416	0	0	126,416
Cash Overdraft	0	0	26,779	26,779
Due to State of Tennessee	346	0	0	346
Deferred Revenue - Current Property Taxes	675,714	512,610	0	1,188,324
Deferred Revenue - Delinquent Property Taxes	4,836	1,870	0	6,706
Other Deferred Revenues	48,850	0	24,250	73,100
Total Liabilities	<u>\$ 862,702</u>	<u>\$ 514,480</u>	<u>\$ 54,366</u>	<u>\$ 1,431,548</u>
<u>Fund Balances</u>				
Reserved for Encumbrances	\$ 113,940	\$ 0	\$ 255	\$ 114,195
Reserved for Career Ladder - Extended Contract	94,155	0	0	94,155
Reserved for Career Ladder Program	6,813	0	0	6,813
Reserved for Title I Grants to Local Education Agencies	0	0	672	672
Unreserved, Reported In:				
General Purpose School Fund	1,240,232	0	0	1,240,232
Special Revenue Funds	0	0	165,350	165,350
Debt Service Fund	0	829,960	0	829,960
Total Fund Balances	<u>\$ 1,455,140</u>	<u>\$ 829,960</u>	<u>\$ 166,277</u>	<u>\$ 2,451,377</u>
Total Liabilities and Fund Balances	<u>\$ 2,317,842</u>	<u>\$ 1,344,440</u>	<u>\$ 220,643</u>	<u>\$ 3,882,925</u>

The notes to the financial statements are an integral part of this statement.

Exhibit B

McKenzie Special School District
Statement of Revenues, Expenditures,
and Changes in Fund Balances -
Governmental Funds
For the Year Ended June 30, 2004

	<u>Major Funds</u>		<u>Nonmajor</u>	<u>Total</u>
	<u>General</u>	<u>Education</u>	<u>Funds</u>	
	<u>Purpose</u>	<u>Debt</u>	<u>Other</u>	<u>Governmental</u>
	<u>School</u>	<u>Service</u>	<u>Governmental</u>	<u>Governmental</u>
			<u>Funds</u>	<u>Funds</u>
<u>Revenues</u>				
Local Taxes	\$ 1,400,261	\$ 591,667	\$ 0	\$ 1,991,928
Licenses and Permits	527	0	0	527
Charges for Current Services	2,460	0	244,934	247,394
Other Local Revenues	102,640	0	1,569	104,209
State of Tennessee	4,473,549	0	9,421	4,482,970
Federal Government	10,547	0	820,861	831,408
Total Revenues	\$ 5,989,984	\$ 591,667	\$ 1,076,785	\$ 7,658,436
<u>Expenditures</u>				
Current:				
Instruction	\$ 3,761,880	\$ 0	\$ 504,811	\$ 4,266,691
Support Services	1,661,260	12,054	20,420	1,693,734
Operation of Non-Instructional Services	2,124	0	577,180	579,304
Capital Outlay	148,738	0	0	148,738
Debt Service:				
Principal	0	263,179	0	263,179
Interest	0	483,131	0	483,131
Other Debt Service	0	1,021	0	1,021
Total Expenditures	\$ 5,574,002	\$ 759,385	\$ 1,102,411	\$ 7,435,798
Excess (Deficiency) of Revenues Over Expenditures	\$ 415,982	\$ (167,718)	\$ (25,626)	\$ 222,638
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 0	\$ 237,548	\$ 0	\$ 237,548
Transfers Out	(237,548)	0	0	(237,548)
Total Other Financing Sources (Uses)	\$ (237,548)	\$ 237,548	\$ 0	\$ 0
Net Change in Fund Balances	\$ 178,434	\$ 69,830	\$ (25,626)	\$ 222,638
Fund Balance, July 1, 2003	1,276,706	760,130	191,903	2,228,739
Fund Balance, June 30, 2004	\$ 1,455,140	\$ 829,960	\$ 166,277	\$ 2,451,377

The notes to the financial statements are an integral part of this statement.

**MCKENZIE SPECIAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the McKenzie Special School District are not presented in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments. In June 1999, the GASB unanimously approved Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. Some of the significant changes in the statement include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of a government’s overall financial position and results of operations
- Government-wide financial statements prepared using full accrual accounting for all of a government’s activities, including infrastructure (roads, bridges, etc.)
- A change in the fund financial statements to focus on the major funds

McKenzie Special School District has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities. The two government-wide financial statements, the statement of net assets and the statement of activities, should be included in the basic financial statements to conform with the provisions of GASB Statement 34 and accounting principles generally accepted in the United States of America. McKenzie Special School District has elected instead only to implement the provisions of the statement and other accounting principles generally accepted in the United States of America that relate to the fund financial statements. This departure from GAAP results in an incomplete presentation and has caused McKenzie Special School District’s auditor to issue an adverse opinion on the district’s financial statements.

Although McKenzie Special School District’s financial statements are not presented in conformity with GAAP, the financial statements have been presented in conformity with financial reporting standards adopted by the Comptroller of the Treasury of the State of Tennessee. The Comptroller of the Treasury has adopted financial reporting standards for local governments in Tennessee that do not implement the provisions of GASB Statement 34. These standards require fund financial statements to be presented in conformity with all the provisions of GASB Statement 34 that are applicable to fund financial statements, including the notes to the financial statements. These standards also require the fund financial statements to be presented in conformity with all other accounting principles generally accepted in the United States of America that are applicable to fund financial statements, including the notes to the financial statements.

The following are the more significant accounting policies of McKenzie Special School District:

A. Reporting Entity

McKenzie Special School District is a public municipal corporation governed by an elected seven-member board. As required by GAAP, these financial statements present McKenzie Special School District. There are no component units of the district that meet the criteria for being reported as part of the district's reporting entity. The district operates the public school system in the district and receives funding from local, state, and federal government sources.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Fund financial statements of McKenzie Special School District are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. McKenzie Special School District has no proprietary funds or fiduciary funds to report. An emphasis is placed on major funds within the governmental category.

Major individual governmental funds are reported as separate columns in the fund financial statements. All other governmental funds are segregated into single columns on the fund financial statements.

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 become 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 district considers revenues other than grants to be available if they are collected within 30 days after year-end. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and the revenues are available. McKenzie Special School District considers grant and similar revenues to be available if they are collected within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Principal and interest on long-term debt are recognized as fund liabilities when due or when amounts have been accumulated in the Education Debt Service Fund for payments to be made early in the following year.

Property taxes for the period levied, in-lieu-of tax payments, sales taxes, interest, and miscellaneous taxes are all considered to be susceptible to accrual and have been recognized as revenues of the current period.

Applicable business taxes, litigation taxes, state-shared excise taxes, fines, forfeitures, and penalties are not susceptible to accrual since they are not measurable (reasonably estimable). All other revenue items are considered to be measurable and available only when the district receives cash.

McKenzie Special School District reports the following major governmental fund:

General Purpose School Fund – This is the school district’s primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Debt Service Fund – The Education Debt Service Fund accounts for the accumulation of resources and payments made for principal and interest on long-term general obligation debt of governmental funds.

Additionally, McKenzie Special School District reports the following fund type:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specific purposes.

C. Assets, Liabilities, and Equity

1. Deposits and Investments

State statutes authorize the government to make direct investments in bonds, notes, or treasury bills of the U.S. government and obligations guaranteed by the U.S. government or any of its agencies; bonds of any state or political subdivision rated A or higher by any nationally recognized rating service; the district’s own legally issued bonds or notes; the State Treasurer’s Investment Pool; and repurchase agreements.

The McKenzie Special School District maintains a cash and internal investment pool that is used by all funds. Each fund’s portion of this pool is displayed on the balance sheets as Cash and Investments. Most income from these pooled investments is assigned to the General Purpose School Fund. McKenzie Special School District has adopted a policy of reporting U. S. Treasury obligations, U. S. agency obligations, and repurchase agreements with maturities of one year or less when purchased on the balance sheet at amortized cost. Certificates of deposit and investments in the State Treasurer’s Investment Pool are reported at cost. The State Treasurer’s Investment Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC’s Rule 2a7 of the

Investment Company Act of 1940. Rule 2a7 allows SEC-registered mutual funds to use amortized cost rather than fair value to report net assets to compute share prices if certain conditions are met. State statutes require the state treasurer to administer the pool under the same terms and conditions, including collateral requirements, as prescribed for other funds invested by the state treasurer. No investments required to be reported at fair value were held at the balance sheet date.

2. **Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either interfund loans receivable-current/interfund loans payable-current (the current portion of interfund loans) or interfund loans receivable-long-term/interfund loans payable-long-term (the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as due to/from other funds.

Long-term interfund loans or advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

Property tax receivables are shown with an allowance for uncollectibles. The allowance for uncollectible property taxes is equal to 4.5 percent of total taxes levied.

Property taxes receivable are recognized as of the date an enforceable legal claim to the taxable property arises. This date is January 1 and is referred to as the lien date. However, revenues from property taxes are recognized in the period for which the taxes are levied, which is the ensuing fiscal year. Since the receivable is recognized before the period of revenue recognition, the entire amount of the receivable, less an estimated allowance for uncollectible taxes, is reported as deferred revenue as of June 30.

Property taxes receivable are also reported as of June 30 for the taxes that are levied, collected, and reported as revenue during the current fiscal year. These property taxes receivable are presented on the balance sheet with offsetting deferred revenue to reflect amounts not available as of June 30. Property taxes collected within 30 days of

year-end are considered available and accrued. The allowance for uncollectible taxes represents the estimated amount of the receivable that will be filed in court for collection. Delinquent taxes filed in court for collection are not included in taxes receivable since they are neither measurable nor available.

Property taxes are levied as of the first Monday in October. Taxes become delinquent and begin accumulating interest and penalty the following March 1. Suit must be filed in Chancery Court between the following February 1 to April 1 for any remaining unpaid taxes. Additional costs attach to delinquent taxes after a court suit has been filed.

3. Inventories

Inventories of governmental funds consist of food and food-related items held for consumption and are valued at the lower of cost or market based on the first-in, first-out method.

4. Capital Assets

Governmental funds do not capitalize the cost of capital outlays; these funds report capital outlays as expenditures upon acquisition. McKenzie Special School District does not maintain capital assets records, as required by generally accepted accounting principles. Capital assets should be reported in the government-wide statement of net assets; however, as previously noted, McKenzie Special School District does not present government-wide statements.

5. Compensated Absences

The general policy of the McKenzie Special School District does not allow for the accumulation of vacation days beyond year-end. The district permits the unlimited accumulation of unused sick leave days for all professional personnel (teachers) and the limited accumulation of sick leave days for noncertified employees. The granting of sick leave has no guaranteed payment attached and therefore is not required to be accrued or recorded.

6. Long-term Obligations

Only the matured portion (the portion that has come due for payment) of long-term indebtedness, including bonds payable, is recognized as a liability and expenditure in the governmental fund financial statements. Liabilities and expenditures for other long-term obligations, including compensated absences, claims and judgments, special termination benefits, are recognized to the extent that the liabilities have matured (come due for payment) each period.

Governmental funds recognize debt premiums and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are 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.

7. Fund Equity

Governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Fund Deficit

The School Federal Projects Fund (a nonmajor special revenue fund) had a fund deficit of \$22,837 at June 30, 2004. This fund deficit resulted from the deferral of certain revenues under the School Department's revenue recognition policy. The deficit was liquidated when these revenues were recognized subsequent to June 30, 2004.

B. Cash Overdraft

The School Federal Projects had a cash overdraft of \$26,779 at June 30, 2004. This cash overdraft was liquidated subsequent to June 30, 2004.

C. Expenditures Exceeded Appropriations

Expenditures and encumbrances exceeded appropriations in certain major appropriation categories (the legal budgetary level of control) in the General Fund, School Federal Projects Fund, and Education Debt Service Fund. Such overexpenditures are a violation of state statute. The overexpenditures in the General Fund and the Education Debt Service Fund were funded by available fund balances.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Total cash and investments for all funds are as follows for McKenzie Special School District:

	Exhibit A - Governmental Funds
Cash	\$2,248,785
Investments	<u>186,637</u>
Total	<u><u>\$2,435,422</u></u>

Cash on the balance sheets includes cash on hand, demand deposits, and certificates of deposit and is analyzed as follows:

	Exhibit A - Governmental Funds
Cash on Hand	\$ 3
Cash in Bank	<u>2,248,782</u>
Total	<u><u>\$ 2,248,785</u></u>

Investments on the balance sheets consist entirely of amounts invested in the State Treasurer's Investment Pool, which are stated at cost as of June 30, 2004.

Deposits – All deposits with financial institutions must be secured by one of two methods. One method involves financial institutions that participate in the bank collateral pool administered by the state treasurer. Participating banks determine the aggregate balance of their public fund accounts for the State of Tennessee and its political subdivisions. The amount of collateral required to secure these public deposits must equal at least 105 percent of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the state treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for the purposes of credit risk disclosure.

For deposits with financial institutions that do not participate in the bank collateral pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured amount of the deposits. The collateral must be placed by the depository bank in an escrow account in a second bank for the benefit of the district.

The carrying amount of McKenzie Special School District's deposits with financial institutions was \$2,222,003, and the bank balance was \$2,482,511. These deposits are categorized as follows to give an indication of the level of risk assumed at year-end. Category 1 includes deposits insured or collateralized with securities held by the entity or its agent in the entity's name. Category 2 includes deposits collateralized with securities held by the pledging financial institution's agent or trust department in the entity's name. Category 3 includes deposits uncollateralized or collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the entity's name. Category 1 deposits were \$2,366,626 and Category 3 deposits were \$115,885.

Investments – The district is authorized to make direct investments in bonds, notes, or treasury bills of the U.S. government and obligations guaranteed by the U.S. government or any of its agencies; bonds of any state or political subdivision rated A or higher by any nationally recognized rating service; and the district's own legally issued bonds or notes. These investments may not have a maturity greater than two years. The district may make investments with longer maturities if various restrictions set out in state law are followed. The district is also authorized to make investments in the State Treasurer's Investment Pool and in repurchase agreements. Repurchase agreements must be approved by the state director of Local Finance and executed in accordance with procedures established by the State Funding Board. Securities purchased under a repurchase agreement must be obligations of the U.S. government or obligations guaranteed by the U.S. government or any of its agencies. When repurchase agreements are executed, the purchase of the securities must be priced at least two percent below the market value of the securities on the day of purchase.

Pooled investments are separately categorized as follows to give an indication of the level of risk assumed at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the entity or its agent in the entity's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the entity's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the entity's name. Funds invested in the State Treasurer's Investment Pool are not required to be categorized by generally accepted accounting principles.

Pooled investments with a reported amount and fair value of \$186,637 consisted entirely of funds deposited with the State Treasurer's Investment Pool.

B. Interfund Transfers

Interfund transfers for the year ended June 30, 2004, consisted of the following amounts:

<u>Transfers Out</u>	<u>Transfers In</u> Education Debt Service Fund
General Purpose School Fund	<u>\$ 237,548</u>
Total	<u><u>\$ 237,548</u></u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.

C. Long-term Debt

Since McKenzie Special School District is presenting fund financial statements only, long-term debt is not reported as a liability in the financial statements of the governmental funds. Long-term debt for governmental funds is required to be reported as a liability in government-wide financial statements, but McKenzie Special School District is not presenting government-wide financial statements.

General Obligation Bonds and Notes

The district issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. In addition, general obligation bonds have been issued to refund other general obligation bonds. Capital outlay notes are also issued to fund capital facilities and other capital outlay purchases, such as equipment.

General obligation bonds and capital outlay notes are direct obligations and pledge the full faith and credit of the district. General obligation bonds and capital outlay notes outstanding were issued for original terms of up to 24 years for bonds, and up to eight years for notes. Repayment terms are generally structured with increasing amounts of principal maturing as interest requirements decrease over the term of the debt. All bonds and notes included in long-term debt as of June 30, 2004, will be retired from the Education Debt Service Fund.

General obligation bonds and capital outlay notes outstanding as of June 30, 2004, are as follows:

Type	Interest Rate	Amount
General Obligation Bonds	4.55 to 7.38%	\$ 720,000
General Obligation Bonds - Refunding	4.1 to 5	8,620,000
Capital Outlay Notes	3	99,882

The annual requirements to amortize all general obligation bonds and notes outstanding as of June 30, 2004, including interest payments of \$5,219,726 (bonds) and \$7,601 (notes), are presented in the following table:

Year Ending June 30	Bonds		Notes	
	Principal	Interest	Principal	Interest
2005	\$ 265,000	\$ 463,199	\$ 23,874	\$ 2,997
2006	275,000	445,146	24,591	2,280
2007	300,000	426,075	25,329	1,542
2008	325,000	410,425	26,088	782
2009	350,000	396,125	0	0
2010-2014	2,195,000	1,715,811	0	0
2015-2019	3,145,000	1,108,945	0	0
2020-2022	2,485,000	254,000	0	0
Total	<u>\$ 9,340,000</u>	<u>\$ 5,219,726</u>	<u>\$ 99,882</u>	<u>\$ 7,601</u>

There is \$829,960 available in the Education Debt Service Fund to service long-term debt.

Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Bonds	Note
Governmental Activities:		
Balance, July 1, 2003	\$ 9,580,000	\$ 123,061
Deductions	240,000	23,179
Balance, June 30, 2004	<u>\$ 9,340,000</u>	<u>\$ 99,882</u>
Balance Due Within One Year	<u>\$ 265,000</u>	<u>\$ 23,874</u>

Defeasance of Prior Debt

In prior years, the McKenzie Special School District defeased certain outstanding general obligation bonds by placing the proceeds of new bonds into an irrevocable trust to provide for all future debt service payments on the old bonds. The trustee is empowered, and required, to pay all principal

and interest on the defeased bonds as originally scheduled. Accordingly, the trust accounts and the defeased bonds are not included in the county's financial statements. At June 30, 2004, the following outstanding bonds are considered defeased:

School Bonds, Series 1996	\$8,125,000
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IV. OTHER INFORMATION

A. Risk Management

Employee Health Insurance

The McKenzie Special School District participates in the Local Education Group Insurance Fund (LEGIF), a public entity risk pool established to provide a program of health insurance coverage for employees of local education agencies. In accordance with Section 8-27-302, Tennessee Code Annotated (TCA), all local education agencies are eligible to participate. The LEGIF is included in the Comprehensive Annual Financial Report of the State of Tennessee, but the state does not retain any risk for losses by this fund. Section 8-27-303, TCA, provides for the LEGIF to be self-sustaining through member premiums.

Workers' Compensation Insurance

The McKenzie Special School District participates in the Tennessee School Boards - Workers' Compensation Trust (TSBWCF), a public entity risk pool established by the Tennessee School Boards Association to provide a program of workers' compensation coverage to employees of local school boards. The School Department pays an annual premium to the TSBWCF for its workers' compensation insurance coverage. The TSBWCF is to be self-sustaining through member premiums.

Liability, Property, and Casualty

The McKenzie Special School District participates in the Tennessee School Boards Liability Trust (TSBLT), which is a public entity risk pool established by the Tennessee School Boards Association, an association of member school systems. The School Department pays an annual premium to the TSBLT for its general liability, property, and casualty insurance coverage. The creation of the TSBLT provides for it to be self-sustaining through member premiums. The TSBLT reinsures through commercial insurance companies for claims exceeding \$100,000 for each insured event.

B. Accounting Changes

At the beginning of the year, McKenzie Special School District adopted certain provisions of GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local

Governments. As previously discussed under the Summary of Significant Accounting Policies, McKenzie Special School District elected to only implement the provisions of Statement 34 that relate to the fund financial statements. These provisions eliminated the general long-term debt account group and narrowed the definition for the fiduciary fund types.

At the beginning of the year, McKenzie Special School District also adopted the provisions of GASB Interpretation 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements. The provisions of Interpretation 6 are applicable to governmental funds following the modified accrual basis of accounting. Under these provisions, fund liabilities and expenditures are accrued for the matured portion of long-term indebtedness (the portion that has come due). Fund liabilities and expenditures for compensated absences and claims and judgments are recognized to the extent that the liabilities have matured (come due for payment). McKenzie Special School District was already following these provisions in governmental fund financial statements. Therefore, Interpretation 6 had no effect on the governmental fund financial statements.

C. Contingent Liabilities

Management has informed us that there were no pending lawsuits in which the district has been named as a defendant.

D. Retirement Commitments

Plan Description

Employees of McKenzie 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 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 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, Chapters 34-37 of Tennessee Code Annotated. State statutes are amended by the Tennessee General Assembly. Political subdivisions such as McKenzie Special School District participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not

applicable to a political subdivision unless approved by the chief governing body.

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

Funding Policy

McKenzie Special School District requires employees to contribute 5.0 percent of earnable compensation. The district is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2004, was 5.34 percent of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for McKenzie Special School District is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ended June 30, 2004, McKenzie Special School District's annual pension cost of \$24,967 to TCRS was equal to the district's required and actual contributions. The required contribution was determined as part of the July 1, 2001, actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post-retirement increases of 3.0 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. McKenzie 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, 2001, was 18 years. An actuarial valuation was performed as of July 1, 2003, which established contribution rates effective July 1, 2004.

Trend Information

Fiscal Year Ended	Annual Pension Cost(APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2004	\$ 24,967	100%	\$ 0
June 30, 2003	27,240	100	0
June 30, 2002	26,835	100	0

Required Supplementary Information

Schedule of Funding Progress for McKenzie Special School District

(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)
6/30/2003	\$ 668	\$ 712	\$ 44	93.82%	\$ 504	8.73%
6/30/2001	529	595	66	88.91	458	14.41
6/30/1999	409	474	65	86.29	445	14.60

SCHOOL TEACHERS

Plan Description

The McKenzie Special School District contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEPP), a cost-sharing multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service, or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was 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 Tennessee Code Annotated. State statutes are amended by the

Tennessee General Assembly. A cost of living adjustment (COLA) is 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 increases less than 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 at www.treasury.state.tn.us.

Funding Policy

Most teachers are required by state statute to contribute 5.0 percent of their salaries to the plan. The employer contribution rate for the McKenzie Special School District is established at an actuarially determined rate. The employer rate for the fiscal year ended June 30, 2004, was 3.39 percent of annual covered payroll. The employer contribution requirement for the McKenzie Special School District is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ended June 30, 2004, 2003, and 2002, were \$115,846, \$120,233, and \$129,110, respectively, equal to the required contributions for each year.

E. Purchasing Laws

Purchasing procedures for the McKenzie Special School District are governed by purchasing laws applicable to schools as set forth in Section 49-2-203, Tennessee Code Annotated, which provides for the Board of Education, through its executive committee (director of schools and chairman of the Board of Education), to make all purchases. This statute also requires competitive bids to be solicited through newspaper advertisement on all purchases estimated to exceed \$5,000.

**REQUIRED SUPPLEMENTARY
INFORMATION**

Exhibit C

McKenzie Special School District
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
General Purpose School Fund
For the Year Ended June 30, 2004

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2003	Add: Encumbrances 6/30/2004	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
<u>Revenues</u>							
Local Taxes	\$ 1,400,261	\$ 0	\$ 0	\$ 1,400,261	\$ 1,174,027	\$ 1,175,226	\$ 225,035
Licenses and Permits	527	0	0	527	600	600	(73)
Charges for Current Services	2,460	0	0	2,460	2,000	2,000	460
Other Local Revenues	102,640	0	0	102,640	85,000	100,355	2,285
State of Tennessee	4,473,549	0	0	4,473,549	4,414,544	4,488,716	(15,167)
Federal Government	10,547	0	0	10,547	10,500	9,507	1,040
Total Revenues	\$ 5,989,984	\$ 0	\$ 0	\$ 5,989,984	\$ 5,686,671	\$ 5,776,404	\$ 213,580
<u>Expenditures</u>							
<u>Instruction</u>							
Regular Instruction Program	\$ 3,332,233	(431)	\$ 106,733	\$ 3,438,535	\$ 3,320,459	\$ 3,463,217	\$ 24,682
Special Education Program	338,621	0	0	338,621	350,838	349,345	10,724
Vocational Education Program	91,026	0	0	91,026	95,066	91,166	140
<u>Support Services</u>							
Attendance	5,939	0	0	5,939	4,975	6,198	259
Health Services	30,492	0	12	30,504	30,749	30,749	245
Other Student Support	173,787	0	0	173,787	171,977	173,919	132
Regular Instruction Program	265,940	0	240	266,180	272,197	266,662	482
Special Education Program	25,049	0	0	25,049	21,204	25,454	405
Vocational Education Program	3,867	0	0	3,867	5,413	4,038	171
Board of Education	90,904	0	0	90,904	100,220	97,670	6,766
Director of Schools	110,516	0	0	110,516	113,931	110,731	215
Office of the Principal	334,392	(72)	0	334,320	337,264	335,264	944
Fiscal Services	79,360	0	0	79,360	83,387	79,575	215
Operation of Plant	406,552	0	0	406,552	406,203	406,203	(349)
Maintenance of Plant	134,462	(1,268)	0	133,194	132,740	134,588	1,394
<u>Operation of Non-Instructional Services</u>							
Community Services	2,124	0	0	2,124	2,500	2,500	376

(Continued)

Exhibit C

McKenzie Special School District
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
General Purpose School Fund (Cont.)

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2003	Add: Encumbrances 6/30/2004	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
<u>Expenditures (Cont.)</u>							
<u>Capital Outlay</u>							
Regular Capital Outlay	\$ 148,738	\$ (6,862)	\$ 6,955	\$ 148,831	\$ 0	\$ 144,882	\$ (3,949)
Total Expenditures	\$ 5,574,002	\$ (8,633)	\$ 113,940	\$ 5,679,309	\$ 5,449,123	\$ 5,722,161	\$ 42,852
Excess (Deficiency) of Revenues Over Expenditures	\$ 415,982	\$ 8,633	\$ (113,940)	\$ 310,675	\$ 237,548	\$ 54,243	\$ 256,432
<u>Other Financing Sources (Uses)</u>							
Transfers Out	\$ (237,548)	\$ 0	\$ 0	\$ (237,548)	\$ (237,548)	\$ (237,548)	\$ 0
Total Other Financing Sources (Uses)	\$ (237,548)	\$ 0	\$ 0	\$ (237,548)	\$ (237,548)	\$ (237,548)	\$ 0
Net Change in Fund Balance	\$ 178,434	\$ 8,633	\$ (113,940)	\$ 73,127	\$ 0	\$ (183,305)	\$ 256,432
Fund Balance, July 1, 2003	1,276,706	(8,633)	0	1,268,073	1,219,992	1,403,297	(135,224)
Fund Balance, June 30, 2004	\$ 1,455,140	\$ 0	\$ (113,940)	\$ 1,341,200	\$ 1,219,992	\$ 1,219,992	\$ 121,208

MCKENZIE SPECIAL SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2004

A. BUDGETARY INFORMATION

The district is required by state statute to adopt annual budgets. Annual budgets are prepared on the basis in which current available funds must be sufficient to meet current expenditures. Expenditures and encumbrances may not legally exceed appropriations authorized by the Board of Education and any authorized revisions. Unencumbered appropriations lapse at the end of each fiscal year.

The budgetary level of control is at the major category level established by the State Uniform Chart of Accounts, as prescribed by the Comptroller of the Treasury of the State of Tennessee. Major categories are at the department level (examples of General Purpose School Fund major categories: Regular Instruction Program, Special Education Program, Student Body Education Program, Attendance, etc.). Management may make revisions within major categories, but only the governing body may transfer appropriations between major categories. During the year, several supplementary appropriations were necessary.

The district's budgetary basis of accounting is consistent with generally accepted accounting principles (GAAP), except instances in which encumbrances are treated as budgeted expenditures. The difference between the budgetary basis and the GAAP basis is presented on the face of each budgetary statement.

B. EXPENDITURES AND ENCUMBRANCES EXCEEDED APPROPRIATIONS

Expenditures and encumbrances exceeded appropriations in the Support Services – Operation of Plant (\$349) and Capital Outlay – Regular Capital Outlay (\$3,949) major appropriation categories (the legal level of control) of the General Purpose School Fund. Such overexpenditures are a violation of state statute. These overexpenditures were funded by available fund balance.

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**

Nonmajor Governmental Funds

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes.

School Federal Projects Fund – The School Federal Projects Fund is used to account for restricted federal revenues which must be expended on specific education programs.

Central Cafeteria Fund – The Central Cafeteria Fund is used to account for the cafeteria operations in each of the schools. The primary sources of funding are federal revenues for the school lunch program and sales to students and adults.

McKenzie Special School District
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2004

	<u>Special Revenue Funds</u>		<u>Total</u>
	<u>School</u>	<u>Central</u>	<u>Nonmajor</u>
	<u>Federal</u>	<u>Cafeteria</u>	<u>Governmental</u>
	<u>Projects</u>		<u>Funds</u>
<u>ASSETS</u>			
Cash	\$ 0	\$ 103,519	\$ 103,519
Inventories	0	19,539	19,539
Investments	0	56,697	56,697
Due from Other Governments	29,739	11,149	40,888
	<hr/>		
Total Assets	\$ 29,739	\$ 190,904	\$ 220,643
	<hr/>		
<u>LIABILITIES AND FUND BALANCES</u>			
<u>Liabilities</u>			
Accounts Payable	\$ 620	\$ 2,717	\$ 3,337
Cash Overdraft	26,779	0	26,779
Other Deferred Revenues	24,250	0	24,250
Total Liabilities	\$ 51,649	\$ 2,717	\$ 54,366
	<hr/>		
<u>Fund Balances</u>			
Reserved for Encumbrances	\$ 255	\$ 0	\$ 255
Reserved for Title I Grants to Local Education Agencies	672	0	672
Unreserved (Deficit)	(22,837)	188,187	165,350
Total Fund Balances	\$ (21,910)	\$ 188,187	\$ 166,277
	<hr/>		
Total Liabilities and Fund Balances	\$ 29,739	\$ 190,904	\$ 220,643
	<hr/>		

Exhibit D-2

McKenzie Special School District
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances -
Nonmajor Governmental Funds
For the Year Ended June 30, 2004

	<u>Special Revenue Funds</u>		Total Nonmajor Governmental Funds
	School Federal Projects	Central Cafeteria	
<u>Revenues</u>			
Charges for Current Services	\$ 0	\$ 244,934	\$ 244,934
Other Local Revenues	0	1,569	1,569
State of Tennessee	0	9,421	9,421
Federal Government	473,056	347,805	820,861
Total Revenues	<u>\$ 473,056</u>	<u>\$ 603,729</u>	<u>\$ 1,076,785</u>
<u>Expenditures</u>			
Current:			
Instruction	\$ 504,811	\$ 0	\$ 504,811
Support Services	20,420	0	20,420
Operation of Non-Instructional Services	0	577,180	577,180
Total Expenditures	<u>\$ 525,231</u>	<u>\$ 577,180</u>	<u>\$ 1,102,411</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (52,175)</u>	<u>\$ 26,549</u>	<u>\$ (25,626)</u>
Net Change in Fund Balances	\$ (52,175)	\$ 26,549	\$ (25,626)
Fund Balance, July 1, 2003	30,265	161,638	191,903
Fund Balance, June 30, 2004	<u>\$ (21,910)</u>	<u>\$ 188,187</u>	<u>\$ 166,277</u>

Exhibit D-3

McKenzie Special School District
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
School Federal Projects Fund
For the Year Ended June 30, 2004

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2003	Add: Encumbrances 6/30/2004	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
<u>Revenues</u>							
Federal Government	\$ 473,056	\$ 0	\$ 0	\$ 473,056	\$ 649,109	\$ 657,760	\$ (184,704)
Total Revenues	\$ 473,056	\$ 0	\$ 0	\$ 473,056	\$ 649,109	\$ 657,760	\$ (184,704)
<u>Expenditures</u>							
<u>Instruction</u>							
Regular Instruction Program	\$ 235,713	\$ (2,139)	\$ 0	\$ 233,574	\$ 243,524	\$ 242,037	\$ 8,463
Special Education Program	247,893	(2,247)	255	245,901	350,399	351,361	105,460
Vocational Education Program	21,205	(937)	0	20,268	18,193	18,193	(2,075)
<u>Support Services</u>							
Other Student Support	7,326	0	0	7,326	9,412	9,412	2,086
Regular Instruction Program	12,285	(404)	0	11,881	46,931	52,519	40,638
Special Education Program	795	0	0	795	6,000	14,499	13,704
Vocational Education Program	14	0	0	14	0	0	(14)
Total Expenditures	\$ 525,231	\$ (5,727)	\$ 255	\$ 519,759	\$ 674,459	\$ 688,021	\$ 168,262
Excess (Deficiency) of Revenues Over Expenditures	\$ (52,175)	\$ 5,727	\$ (255)	\$ (46,703)	\$ (25,350)	\$ (30,261)	\$ (16,442)
Net Change in Fund Balance	\$ (52,175)	\$ 5,727	\$ (255)	\$ (46,703)	\$ (25,350)	\$ (30,261)	\$ (16,442)
Fund Balance, July 1, 2003	30,265	(5,727)	0	24,538	25,350	30,261	(5,723)
Fund Balance, June 30, 2004	\$ (21,910)	\$ 0	\$ (255)	\$ (22,165)	\$ 0	\$ 0	\$ (22,165)

Exhibit D-4

McKenzie Special School District
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
Central Cafeteria Fund
For the Year Ended June 30, 2004

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2003	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
				Original	Final	
<u>Revenues</u>						
Charges for Current Services	\$ 244,934	\$ 0	\$ 244,934	\$ 214,500	\$ 214,500	\$ 30,434
Other Local Revenues	1,569	0	1,569	1,800	1,800	(231)
State of Tennessee	9,421	0	9,421	10,221	10,221	(800)
Federal Government	347,805	0	347,805	289,359	304,359	43,446
Total Revenues	\$ 603,729	\$ 0	\$ 603,729	\$ 515,880	\$ 530,880	\$ 72,849
<u>Expenditures</u>						
<u>Operation of Non-Instructional Services</u>						
Food Service	\$ 577,180	\$ (4,987)	\$ 572,193	\$ 515,880	\$ 580,117	\$ 7,924
Total Expenditures	\$ 577,180	\$ (4,987)	\$ 572,193	\$ 515,880	\$ 580,117	\$ 7,924
Excess (Deficiency) of Revenues Over Expenditures	\$ 26,549	\$ 4,987	\$ 31,536	\$ 0	\$ (49,237)	\$ 80,773
Net Change in Fund Balance	\$ 26,549	\$ 4,987	\$ 31,536	\$ 0	\$ (49,237)	\$ 80,773
Fund Balance, July 1, 2003	161,638	(4,987)	156,651	134,551	183,788	(27,137)
Fund Balance, June 30, 2004	\$ 188,187	\$ 0	\$ 188,187	\$ 134,551	\$ 134,551	\$ 53,636

Major Governmental Fund

Education Debt Service Fund

The Education Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

Exhibit E

McKenzie Special School District
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
Education Debt Service Fund
For the Year Ended June 30, 2004

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 591,667	\$ 517,306	\$ 517,306	\$ 74,361
Total Revenues	<u>\$ 591,667</u>	<u>\$ 517,306</u>	<u>\$ 517,306</u>	<u>\$ 74,361</u>
<u>Expenditures</u>				
<u>Support Services</u>				
Board of Education	\$ 12,054	\$ 11,000	\$ 11,000	\$ (1,054)
<u>Principal</u>				
Education	263,179	263,179	263,179	0
<u>Interest</u>				
Education	483,131	483,131	483,131	0
<u>Other Debt Service</u>				
Education	1,021	1,500	1,500	479
Total Expenditures	<u>\$ 759,385</u>	<u>\$ 758,810</u>	<u>\$ 758,810</u>	<u>\$ (575)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (167,718)</u>	<u>\$ (241,504)</u>	<u>\$ (241,504)</u>	<u>\$ 73,786</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 237,548	\$ 237,548	\$ 237,548	\$ 0
Total Other Financing Sources (Uses)	<u>\$ 237,548</u>	<u>\$ 237,548</u>	<u>\$ 237,548</u>	<u>\$ 0</u>
Net Change in Fund Balance	\$ 69,830	\$ (3,956)	\$ (3,956)	\$ 73,786
Fund Balance, July 1, 2003	<u>760,130</u>	<u>763,125</u>	<u>763,125</u>	<u>(2,995)</u>
Fund Balance, June 30, 2004	<u>\$ 829,960</u>	<u>\$ 759,169</u>	<u>\$ 759,169</u>	<u>\$ 70,791</u>

MISCELLANEOUS SCHEDULES

Exhibit F-1

McKenzie Special School District
Schedule of Changes in General Long-term Note and Bonds
For the Year Ended June 30, 2004

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding 7/1/2003	Paid and/or Matured During Period	Outstanding 6/30/2004
<u>NOTE PAYABLE</u>							
<u>Payable through Education Debt Service Fund</u>							
Energy Efficiency Capital Outlay	\$ 167,413	3%	12/4/2000	2/1/2008	\$ 123,061	\$ 23,179	\$ 99,882
<u>GENERAL BONDED DEBT</u>							
<u>Payable through Education Debt Service Fund</u>							
School Construction - Series 1996	9,495,000	4.55 to 7.38	7/28/1996	4/1/2007	\$ 920,000	\$ 200,000	\$ 720,000
School Refunding - Series 1998	8,990,000	4.1 to 5	8/1/1998	4/1/2022	8,660,000	40,000	8,620,000
Total General Bonded Debt					<u>\$ 9,580,000</u>	<u>\$ 240,000</u>	<u>\$ 9,340,000</u>

Exhibit F-2

McKenzie Special School District
Schedule of Bond and Interest Requirements By Year
General Bonded Debt

Year	Bond Requirements	Interest Requirements	Total Requirements
7-1-04 to 6-30-05	\$ 265,000	\$ 463,199	\$ 728,199
7-1-05 6-30-06	275,000	445,146	720,146
7-1-06 6-30-07	300,000	426,075	726,075
7-1-07 6-30-08	325,000	410,425	735,425
7-1-08 6-30-09	350,000	396,125	746,125
7-1-09 6-30-10	375,000	380,550	755,550
7-1-10 6-30-11	410,000	363,488	773,488
7-1-11 6-30-12	435,000	344,627	779,627
7-1-12 6-30-13	470,000	324,618	794,618
7-1-13 6-30-14	505,000	302,528	807,528
7-1-14 6-30-15	540,000	278,540	818,540
7-1-15 6-30-16	585,000	252,620	837,620
7-1-16 6-30-17	625,000	223,955	848,955
7-1-17 6-30-18	670,000	193,330	863,330
7-1-18 6-30-19	725,000	160,500	885,500
7-1-19 6-30-20	775,000	124,250	899,250
7-1-20 6-30-21	825,000	85,500	910,500
7-1-21 6-30-22	885,000	44,250	929,250
Total	\$ 9,340,000	\$ 5,219,726	\$ 14,559,726

McKenzie Special School District
Schedule of Investments - All Funds
June 30, 2004

<u>Fund and Type</u>	<u>Amount</u>
<u>General Purpose School Fund</u>	
State Treasurer's Investment Pool	<u>\$ 66,699</u>
<u>Central Cafeteria Fund</u>	
State Treasurer's Investment Pool	<u>\$ 56,697</u>
<u>Education Debt Service Fund</u>	
State Treasurer's Investment Pool	<u>\$ 63,241</u>
Total Investments - All Funds	<u><u>\$ 186,637</u></u>

Exhibit F-4

McKenzie Special School District
Schedule of Transfers - All Funds
For the Year Ended June 30, 2004

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
<u>Operating Transfers</u>			
General Purpose School	Education Debt Service	To Provide Funds for Retirement of School Debt	<u>\$ 237,548</u>
Total Transfers			<u><u>\$ 237,548</u></u>

Exhibit F-5

McKenzie Special School District
Schedule of Salaries and Official Bonds of Principal Officials
For the Year Ended June 30, 2004

Official	Authorization for Salary	Salary Paid During Period	Bond	Surety
Director of Schools	State Board of Education and McKenzie Special School District Board of Education	\$ 69,391	\$ 214,000	The Ohio Casualty Insurance Company
Finance Director:				
Stan George (7/1/03 through 8/31/03)	McKenzie Special School District Board of Education	10,421	150,000	Tennessee School Boards Liability Trust
Dana Deem (9/10/03 through 6/30/04)	McKenzie Special School District Board of Education	31,666	150,000	Tennessee School Boards Liability Trust
Employees' Blanket Bond	-	-	150,000	Tennessee School Boards Liability Trust

Exhibit F-6

McKenzie Special School District
Schedule of Detailed Revenues -
All Governmental Fund Types
For the Year Ended June 30, 2004

	General Purpose School	School Federal Projects	Central Cafeteria	Education Debt Service	Total
<u>Local Taxes</u>					
<u>County Property Taxes</u>					
Current Property Tax	\$ 2	\$ 0	\$ 0	\$ 0	2
Trustee's Collections - Prior Year	1,468	0	0	0	1,468
Circuit/Clerk & Master Collections - Prior Years	82	0	0	0	82
Interest and Penalty	1,229	0	0	0	1,229
<u>County Local Option Taxes</u>					
Local Option Sales Tax	616,150	0	0	0	616,150
<u>Statutory Local Taxes</u>					
Interstate Telecommunications Tax	1,405	0	0	0	1,405
<u>City/School District Property Taxes</u>					
Current Property Tax	666,553	0	0	505,653	1,172,206
Prior Year's Property Tax	76,924	0	0	58,365	135,289
Interest and Penalty	28,380	0	0	21,529	49,909
Payments in Lieu of Taxes	8,068	0	0	6,120	14,188
Total Local Taxes	\$ 1,400,261	\$ 0	\$ 0	\$ 591,667	\$ 1,991,928
<u>Licenses and Permits</u>					
<u>Licenses</u>					
Marriage Licenses	\$ 527	\$ 0	\$ 0	\$ 0	527
Total Licenses and Permits	\$ 527	\$ 0	\$ 0	\$ 0	527
<u>Charges for Current Services</u>					
<u>Fees</u>					
Copy Fees	\$ 10	\$ 0	\$ 0	\$ 0	10
<u>Education Charges</u>					
Tuition - Other	2,450	0	0	0	2,450
Lunch Payments - Children	0	0	127,207	0	127,207
Lunch Payments - Adults	0	0	15,047	0	15,047
Income from Breakfast	0	0	13,527	0	13,527
A la carte Sales	0	0	79,017	0	79,017
<u>Other Charges for Services</u>					
Other Charges for Services	0	0	10,136	0	10,136
Total Charges for Current Services	\$ 2,460	\$ 0	\$ 244,934	\$ 0	\$ 247,394
<u>Other Local Revenues</u>					
<u>Recurring Items</u>					
Investment Income	\$ 29,081	\$ 0	\$ 1,569	\$ 0	30,650
Lease/Rentals	39,996	0	0	0	39,996
Sale of Materials and Supplies	805	0	0	0	805
Miscellaneous Refunds	13,991	0	0	0	13,991
<u>Nonrecurring Items</u>					
Insurance Recovery	17,923	0	0	0	17,923
Sale of Equipment	650	0	0	0	650
Contributions & Gifts	11	0	0	0	11
<u>Other Local Revenues</u>					
Other Local Revenues	183	0	0	0	183
Total Other Local Revenues	\$ 102,640	\$ 0	\$ 1,569	\$ 0	\$ 104,209
<u>State of Tennessee</u>					
<u>Public Safety Grants</u>					
Safe and Drug-Free Schools and Communities	\$ 10,275	\$ 0	\$ 0	\$ 0	10,275
<u>State Education Funds</u>					
Basic Education Program	4,306,909	0	0	0	4,306,909
School Food Service	0	0	8,311	0	8,311
Driver Education	3,300	0	0	0	3,300
Career Ladder Program	96,892	0	1,110	0	98,002
Career Ladder - Extended Contract	55,722	0	0	0	55,722
<u>Other State Revenues</u>					
Mixed Drink Tax	451	0	0	0	451
Total State of Tennessee	\$ 4,473,549	\$ 0	\$ 9,421	\$ 0	\$ 4,482,970

(Continued)

Exhibit F-6

McKenzie Special School District
Schedule of Detailed Revenues -
All Governmental Fund Types (Cont.)

	General Purpose School	School Federal Projects	Central Cafeteria	Education Debt Service	Total
<u>Federal Government</u>					
<u>Federal Through State</u>					
USDA School Lunch Program	\$ 0	\$ 0	\$ 245,226	\$ 0	\$ 245,226
Breakfast	0	0	101,264	0	101,264
USDA - Other	0	0	1,315	0	1,315
Vocational Education - Basic Grants to States	0	22,116	0	0	22,116
Title I Grants to Local Education Agencies	0	175,153	0	0	175,153
Innovative Education Program Strategies	0	3,678	0	0	3,678
Special Education - Grants to States	8,507	186,461	0	0	194,968
Special Education Preschool Grants	0	21,764	0	0	21,764
Eisenhower Professional Development State Grants	0	57,040	0	0	57,040
Other Federal through State	0	6,844	0	0	6,844
<u>Direct Federal Revenue</u>					
Public Law 874 - Maintenance and Operation	2,040	0	0	0	2,040
Total Federal Government	\$ 10,547	\$ 473,056	\$ 347,805	\$ 0	\$ 831,408
Total	\$ 5,989,984	\$ 473,056	\$ 603,729	\$ 591,667	\$ 7,658,436

McKenzie Special School District
Schedule of Detailed Expenditures -
All Governmental Fund Types
For the Year Ended June 30, 2004

General Purpose School Fund

Instruction

Regular Instruction Program

Teachers	\$ 2,495,361	
Career Ladder Program	60,770	
Career Ladder Extended Contracts	12,500	
Homebound Teachers	4,370	
Educational Assistants	19,062	
Substitute Teachers	47,660	
Social Security	151,177	
State Retirement	87,857	
Medical Insurance	201,104	
Unemployment Compensation	2,562	
Employer Medicare	35,626	
Contracts with Other School Systems	15,684	
Data Processing Services	300	
Evaluation and Testing	7,217	
Maintenance Agreements	1,486	
Maintenance & Repair Services- Equipment	1,239	
Medical and Dental Services	822	
Printing, Stationery and Forms	1,002	
Instructional Supplies and Materials	56,278	
Textbooks	5,120	
Other Charges	25,002	
Regular Instruction Equipment	100,034	
Total Regular Instruction Program		\$ 3,332,233

Special Education Program

Teachers	\$ 238,461	
Career Ladder Program	9,500	
Educational Assistants	18,723	
Substitute Teachers	1,500	
Social Security	16,150	
State Retirement	9,738	
Medical Insurance	17,760	
Unemployment Compensation	270	
Employer Medicare	3,777	
Contracts with Other School Systems	17,034	
Travel	40	
Instructional Supplies and Materials	5,668	
Total Special Education Program		338,621

(Continued)

McKenzie Special School District
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

General Purpose School Fund (Cont.)

Instruction (Cont.)

Vocational Education Program

Teachers	\$	70,153	
Career Ladder Program		3,000	
Social Security		3,812	
State Retirement		2,480	
Medical Insurance		10,190	
Unemployment Compensation		60	
Employer Medicare		891	
Travel		275	
Instructional Supplies and Materials		165	
Total Vocational Education Program			\$ 91,026

Support Services

Attendance

Clerical Personnel	\$	1,223	
Social Security		76	
Unemployment Compensation		5	
Employer Medicare		18	
Data Processing Services		4,564	
Postal Charges		53	
Total Attendance			5,939

Health Services

Medical Personnel	\$	26,170	
Social Security		1,590	
State Retirement		1,398	
Unemployment Compensation		30	
Employer Medicare		372	
Travel		355	
Drugs and Medical Supplies		457	
In Service/Staff Development		120	
Total Health Services			30,492

Other Student Support

Career Ladder Program	\$	3,000	
Guidance Personnel		115,682	
Career Ladder Extended Contracts		4,000	
Other Salaries & Wages		12,172	
Social Security		7,922	
State Retirement		4,779	

(Continued)

McKenzie Special School District
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

General Purpose School Fund (Cont.)

Support Services (Cont.)

Other Student Support (Cont.)

Medical Insurance	\$	12,149	
Unemployment Compensation		93	
Employer Medicare		1,853	
Communication		1,244	
Evaluation and Testing		9,110	
Travel		255	
Instructional Supplies and Materials		568	
In Service/Staff Development		110	
Other Equipment		850	
Total Other Student Support			\$ 173,787

Regular Instruction Program

Supervisor/Director	\$	35,413	
Career Ladder Program		3,000	
Librarians		106,538	
Instructional Computer Personnel		32,129	
Educational Assistants		12,920	
Social Security		10,515	
State Retirement		7,315	
Medical Insurance		22,433	
Unemployment Compensation		191	
Employer Medicare		2,459	
Communication		528	
Data Processing Services		15,138	
Dues and Memberships		20	
Travel		2,239	
Instructional Supplies and Materials		661	
Library Books/Media		5,672	
Office Supplies		9	
Periodicals		2,625	
Other Supplies and Materials		220	
In Service/Staff Development		2,007	
Other Equipment		3,908	
Total Regular Instruction Program			265,940

Special Education Program

Supervisor/Director	\$	15,177
Social Security		888
State Retirement		520

(Continued)

McKenzie Special School District
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

General Purpose School Fund (Cont.)

Support Services (Cont.)

Special Education Program (Cont.)

Medical Insurance	\$	2,939	
Unemployment Compensation		9	
Employer Medicare		208	
Travel		5,308	
Total Special Education Program			\$ 25,049

Vocational Education Program

Supervisor/Director	\$	3,305	
Social Security		213	
State Retirement		117	
Medical Insurance		147	
Unemployment Compensation		2	
Employer Medicare		50	
Travel		23	
Other Charges		10	
Total Vocational Education Program			3,867

Board of Education

Election Commission	\$	275	
Audit Services		3,375	
Dues and Memberships		4,045	
Legal Services		123	
Postal Charges		156	
Travel		16	
Maintenance and Repair Services - Records		1,000	
Office Supplies		249	
Liability Insurance		30,786	
Premiums on Corporate Surety Bonds		2,690	
Trustee's Commission		21,142	
Worker's Compensation Insurance		22,205	
In Service/Staff Development		594	
Other Charges		4,248	
Total Board of Education			90,904

Director of Schools

County Official/Administrative Officer	\$	69,391	
Secretary(s)		8,794	
Social Security		4,707	
State Retirement		2,822	

(Continued)

McKenzie Special School District
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

General Purpose School Fund (Cont.)

Support Services (Cont.)

Director of Schools (Cont.)

Medical Insurance	\$	10,519	
Unemployment Compensation		40	
Employer Medicare		1,119	
Advertising		471	
Communication		2,928	
Dues and Memberships		658	
Operating Lease Payments		2,594	
Legal Notices, Recording and Court Costs		1,355	
Maintenance & Repair Services- Office Equipment		480	
Postal Charges		1,508	
Printing, Stationery and Forms		175	
Travel		1,796	
Office Supplies		652	
Periodicals		78	
In Service/Staff Development		429	
Total Director of Schools			\$ 110,516

Office of the Principal

Principals	\$	162,394	
Career Ladder Program		3,000	
Accountants/Bookkeepers		42,207	
Assistant Principals		24,801	
Secretary(s)		4,679	
Clerical Personnel		16,198	
Social Security		15,436	
State Retirement		9,437	
Medical Insurance		33,129	
Unemployment Compensation		254	
Employer Medicare		3,610	
Communication		7,791	
Dues and Memberships		500	
Operating Lease Payments		7,780	
Travel		103	
Office Supplies		599	
Periodicals		75	
In Service/Staff Development		1,539	
Administration Equipment		860	
Total Office of the Principal			334,392

(Continued)

McKenzie Special School District
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

General Purpose School Fund (Cont.)
Support Services (Cont.)

Fiscal Services

Supervisor/Director	\$	42,087	
Purchasing Personnel		8,794	
Clerical Personnel		11,223	
Social Security		3,714	
State Retirement		2,236	
Medical Insurance		3,293	
Unemployment Compensation		90	
Employer Medicare		869	
Bank Charges		143	
Data Processing Services		3,991	
Postal Charges		114	
Printing, Stationery and Forms		1,099	
Travel		678	
Office Supplies		552	
Periodicals		57	
Trustee's Commission		7	
In Service/Staff Development		254	
Administration Equipment		159	
Total Fiscal Services			\$ 79,360

Operation of Plant

Custodial Personnel	\$	109,997	
Other Salaries & Wages		756	
Social Security		6,747	
State Retirement		2,712	
Life Insurance		20	
Unemployment Compensation		347	
Employer Medicare		1,578	
Communication		1,091	
Maintenance & Repair Services- Buildings		700	
Disposal Fees		3,646	
Custodial Supplies		24,632	
Electricity		144,020	
Natural Gas		48,318	
Water and Sewer		11,595	
Boiler Insurance		2,536	
Building and Contents Insurance		46,203	
Other Charges		115	
Plant Operation Equipment		1,539	
Total Operation of Plant			406,552

(Continued)

McKenzie Special School District
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

General Purpose School Fund (Cont.)

Support Services (Cont.)

Maintenance of Plant

Maintenance Personnel	\$	47,525	
Other Salaries & Wages		4,684	
Social Security		2,994	
State Retirement		2,549	
Unemployment Compensation		83	
Employer Medicare		700	
Maintenance & Repair Services- Buildings		60,033	
Maintenance & Repair Services- Equipment		316	
Maintenance & Repair Services- Vehicles		1,561	
Pest Control		2,210	
Travel		561	
Gasoline		1,289	
Other Charges		110	
Communication Equipment		3,916	
Maintenance Equipment		313	
Other Equipment		5,618	
Total Maintenance of Plant			\$ 134,462

Operation of Non-Instructional Services

Community Services

Contracts with Government Agencies	\$	2,124	
Total Community Services			2,124

Capital Outlay

Regular Capital Outlay

Building Construction	\$	47,563	
Building Improvements		16,113	
Heating and Air Conditioning Equipment		23,092	
Motor Vehicles		5,229	
Other Capital Outlay		56,741	
Total Regular Capital Outlay			148,738

Total General Purpose School Fund \$ 5,574,002

School Federal Projects Fund

Instruction

Regular Instruction Program

Teachers	\$	162,380	
Educational Assistants		19,509	

(Continued)

McKenzie Special School District
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

School Federal Projects Fund (Cont.)

Instruction (Cont.)

Regular Instruction Program (Cont.)

Substitute Teachers	\$	2,015	
Social Security		10,201	
State Retirement		6,376	
Medical Insurance		12,221	
Unemployment Compensation		184	
Employer Medicare		2,385	
Instructional Supplies and Materials		13,727	
Other Charges		1,990	
Regular Instruction Equipment		4,725	
Total Regular Instruction Program			\$ 235,713

Special Education Program

Teachers	\$	41,309	
Clerical Personnel		9,470	
Educational Assistants		51,559	
Social Security		5,695	
State Retirement		3,474	
Medical Insurance		1,904	
Unemployment Compensation		211	
Employer Medicare		1,332	
Contracts with Other School Systems		71,974	
Contracts with Private Agencies		15,383	
Other Contracted Services		6,340	
Instructional Supplies and Materials		30,835	
Other Supplies and Materials		16	
Special Education Equipment		8,391	
Total Special Education Program			247,893

Vocational Education Program

Travel	\$	222	
Instructional Supplies and Materials		2,709	
In Service/Staff Development		159	
Other Charges		194	
Vocational Instruction Equipment		17,921	
Total Vocational Education Program			21,205

Support Services

Other Student Support

Guidance Personnel	\$	5,489	
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(Continued)

McKenzie Special School District
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

School Federal Projects Fund (Cont.)

Support Services (Cont.)

Other Student Support (Cont.)

Travel	\$ 1,837	
Total Other Student Support		\$ 7,326

Regular Instruction Program

Travel	\$ 2,427	
In Service/Staff Development	9,858	
Total Regular Instruction Program		12,285

Special Education Program

Travel	\$ 290	
In Service/Staff Development	505	
Total Special Education Program		795

Vocational Education Program

Other Charges	\$ 14	
Total Vocational Education Program		14

Total School Federal Projects Fund \$ 525,231

Central Cafeteria Fund

Operation of Non-Instructional Services

Food Service

Supervisor/Director	\$ 33,303
Career Ladder Program	454
Accountants/Bookkeepers	10,000
Cafeteria Personnel	144,840
Social Security	11,554
State Retirement	7,494
Medical Insurance	1,295
Unemployment Compensation	523
Employer Medicare	2,701
Advertising	38
Communication	2,099
Data Processing Services	1,600
Dues and Memberships	505
Maintenance & Repair Services- Buildings	5,187
Maintenance & Repair Services- Equipment	8,023
Pest Control	150
Postal Charges	34

(Continued)

McKenzie Special School District
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

Central Cafeteria Fund (Cont.)

Operation of Non-Instructional Services (Cont.)

Food Service (Cont.)

Printing, Stationery and Forms	\$	157	
Travel		1,750	
Disposal Fees		2,761	
Permits		240	
Custodial Supplies		1,965	
Drugs and Medical Supplies		27	
Food Preparation Supplies		18,232	
Food Supplies		240,034	
Office Supplies		775	
Uniforms		1,249	
Utilities		22,736	
Other Supplies and Materials		4,170	
Refunds		71	
Worker's Compensation Insurance		5,294	
In Service/Staff Development		1,764	
Other Charges		1,433	
Food Service Equipment		44,722	
Total Food Service		<u>44,722</u>	\$ 577,180

Total Central Cafeteria Fund \$ 577,180

Education Debt Service Fund

Support Services

Board of Education

Trustee's Commission	\$	12,054	
Total Board of Education			\$ 12,054

Principal

Education

Principal on Bonds	\$	240,000	
Principal on Notes		23,179	
Total Education		<u>263,179</u>	263,179

Interest

Education

Interest on Bonds	\$	479,439	
Interest on Notes		3,692	
Total Education		<u>483,131</u>	483,131

(Continued)

Exhibit F-7

McKenzie Special School District
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

<u>Education Debt Service Fund (Cont.)</u>		
<u>Other Debt Service</u>		
<u>Education</u>		
Other Debt Service	\$ 1,021	
Total Education	<u>1,021</u>	\$ <u>1,021</u>
Total Education Debt Service Fund		\$ <u>759,385</u>
Total McKenzie Special School District		\$ <u><u>7,435,798</u></u>

STATISTICAL SECTION

Table 1

McKenzie Special School District
Tax Rates and Assessments
Last Ten Years

<u>Fund</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
General Purpose School	\$ 1.26	\$ 1.26	\$ 1.26	\$ 1.26	\$ 1.01	\$ 1.01	\$ 0.88	\$ 0.88	\$ 0.88	0.87
Education Debt Service	0.52	0.52	0.52	0.95	0.77	0.77	0.67	0.67	0.67	0.66
Total Tax Rates	\$ 1.78	\$ 1.78	\$ 1.78	2.21	\$ 1.78	\$ 1.78	\$ 1.55	\$ 1.55	\$ 1.55	1.53
<u>Assessed Valuation</u>										
Real and Personal	\$ 39,669,740	\$ 41,533,881	\$ 44,819,600	\$ 44,224,023	\$ 56,968,382	\$ 58,103,501	\$ 68,726,585	\$ 73,546,967	\$ 74,212,634	\$ 78,595,034
Public Utilities	2,643,695	1,864,453	2,934,834	2,187,284	2,574,454	2,466,049	2,833,127	2,519,221	2,133,668	2,232,633
Total Assessed Valuation	\$ 42,313,435	\$ 43,398,334	\$ 47,754,434	\$ 46,411,307	\$ 59,542,836	\$ 60,569,550	\$ 71,559,712	\$ 76,066,188	\$ 76,346,302	\$ 80,827,667

SINGLE AUDIT REPORT
MCKENZIE SPECIAL SCHOOL DISTRICT
FOR THE YEAR ENDED JUNE 30, 2004

DEPARTMENT OF AUDIT:
JOHN G. MORGAN
Comptroller of the Treasury

DIVISION OF COUNTY AUDIT:
RICHARD V. NORMENT
Assistant to the Comptroller

ARTHUR L. ALEXANDER
Director

NORM R. NORMENT, CGFM
Audit Manager

NOLAN R. BRADFORD, CPA, CGFM
Auditor 4

B. KEITH RICE, CGFM
ELISHA WASNIOWSKI
State Auditors

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF COUNTY AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0269
PHONE (615) 401-7841

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

January 7, 2005

McKenzie Special School District Director of Schools
and Board of Directors
McKenzie, Tennessee

To the Director of Schools and Board of Directors:

We have audited the financial statements of the McKenzie Special School District as of and for the year ended June 30, 2004, and have issued our report thereon dated January 7, 2005. Our report on the financial statements of the McKenzie Special School District expresses an adverse opinion because the government-wide financial statements are not presented in accordance with Governmental Accounting Standards Board Statement No. 34. We conducted our audit in accordance with the auditing standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether McKenzie 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 grants, 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 one material instance of noncompliance that is required to be reported under Government Auditing Standards and is described in the accompanying Schedule of Findings and Questioned Costs as item 04.01. We also noted other instances of noncompliance that are described in the accompanying Schedule of Findings and Questioned Costs as items 04.02 and 04.03. In addition, we noted another,

less significant instance of noncompliance that we have reported to management in a separate communication.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered McKenzie Special School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect McKenzie Special School District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 04.04.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness. We also noted another matter involving the internal control over financial reporting that we have reported to management in a separate communication.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Very truly yours,



John G. Morgan
Comptroller of the Treasury

JGM/yu



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF COUNTY AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0269
PHONE (615) 401-7841

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

January 7, 2005

McKenzie Special School District Director of Schools
and Board of Directors
McKenzie, Tennessee

To the Director of Schools and Board of Directors:

Compliance

We have audited the compliance of the McKenzie Special School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. McKenzie 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of McKenzie Special School District's management. Our responsibility is to express an opinion on McKenzie Special School District's compliance based on our audit.

We conducted our audit of compliance in accordance with the auditing 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 McKenzie 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. Our audit does not provide a legal determination on McKenzie Special School District's compliance with those requirements.

In our opinion, McKenzie Special School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of McKenzie Special School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered McKenzie Special School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We have audited the financial statements of the McKenzie Special School District as of and for the year ended June 30, 2004, and have issued our report thereon dated January 7, 2005. Our report on the financial statements of the McKenzie Special School District expresses an adverse opinion because the government-wide financial statements are not presented in accordance with Governmental Accounting Standards Board Statement No. 34. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards and State Grants is presented for purposes of additional analysis, as required by OMB Circular A-133, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Very truly yours,



John G. Morgan
Comptroller of the Treasury

JGM/yu

McKenzie Special School District
Schedule of Expenditures of Federal Awards (1)
For the Year Ended June 30, 2004

Federal/Pass-through Agency/State Grantor Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. Department of Agriculture:			
Passed-through Tennessee Department of Agriculture: Food Donation (Noncash Assistance)	10.550	(2)	\$ 31,235
Passed-through Tennessee Department of Education: Nutrition Cluster:			
School Breakfast Program	10.553	(2)	\$ 101,264
National School Lunch Program	10.555	(2)	246,541
Total Passed-through Tennessee Department of Education			<u>\$ 347,805</u>
Total U.S. Department of Agriculture			<u>\$ 379,040</u>
U.S. Department of Education:			
Direct Program:			
Impact Aid	84.041	N/A	\$ 2,040
Passed-through Tennessee Department of Education:			
Title I Grants to Local Educational Agencies	84.010	N/A	\$ 178,271
Special Education - Grants to States	84.027	N/A	235,595
Vocational Education - Basic Grants to States	84.048	N/A	23,054
Special Education - Preschool Grants	84.173	N/A	21,446
Safe and Drug-Free Schools and Communities - State Grants	84.186	(2)	14,994 (3)
Safe and Drug-Free Schools and Communities - State Grants	84.186	Z-04-019522	2,125 (3)
Eisenhower Professional Development State Grants	84.281	N/A	59,871
State Grants for Innovative Programs	84.298	N/A	8,658
Total Passed-through Tennessee Department of Education			<u>\$ 544,014</u>
Total U.S. Department of Education			<u>\$ 546,054</u>
Total Expenditures of Federal Awards			<u>\$ 925,094</u>

CFDA = Catalog of Federal Domestic Assistance
N/A = Not Applicable

- (1) Presented in conformity with generally accepted accounting principles using the modified accrual basis of accounting.
(2) Pass-through entity identifying number not available.
(3) Total Safe and Drug-Free Schools and Communities - State Grants (CFDA No. 84.186) from the U. S. Department of Education \$17,119.

McKenzie Special School District
Schedule of Audit Finding Not Corrected
June 30, 2004

Government Auditing Standards require auditors to report the status of uncorrected findings from prior audits. Presented below is the finding from the Annual Financial Report for McKenzie Special School District for the year ended June 30, 2003, which has not been corrected.

OFFICE OF DIRECTOR OF SCHOOLS

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
03.01	74	Records Were Not Maintained for Capital Assets

**MCKENZIE SPECIAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2004**

PART I, SUMMARY OF AUDITOR'S RESULTS

1. An adverse opinion was issued on the financial statements of the McKenzie Special School District.
2. A reportable condition in internal control was disclosed by the audit of the financial statements of the McKenzie Special School District. This condition was not considered to be a material weakness.
3. The audit disclosed one instance of noncompliance that is material to the financial statements of the McKenzie Special School District.
4. No reportable conditions in internal control over major programs were disclosed by the audit.
5. An unqualified opinion was issued on compliance for major programs.
6. The audit disclosed no audit findings that are required to be reported under Section 510(a) of OMB Circular A-133.
7. The Nutrition Cluster, School Breakfast Program, and National School Lunch Program (CFDA No.'s 10.553 and 10.555) and Special Education – Grants to States (CFDA No. 84.027) were determined to be major programs.
8. A threshold of \$300,000 was used to distinguish between Type A and Type B federal programs.
9. The McKenzie Special School District did not qualify as a low-risk auditee.

PART II, FINDINGS RELATING TO THE FINANCIAL STATEMENTS

Findings and recommendations as a result of our examination are presented below. We have reviewed these findings and recommendations with management to provide an opportunity for their response. Management offered oral responses to these findings and recommendations; however, these oral responses have not been included in this report.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 04.01 **GOVERNMENT-WIDE FINANCIAL STATEMENTS WERE NOT PRESENTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**

(Material Noncompliance Under Government Auditing Standards)

McKenzie Special School District did not identify and determine the historical value of its capital assets and the related depreciation amounts of these assets. Therefore, the district was unable to provide the information necessary to prepare government-wide financial statements for all of its activities, as required by Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. GASB is the standard-setting body for accounting principles that state and local governments are required to follow. As a result of this omission, McKenzie Special School District’s financial statements are not presented in accordance with generally accepted accounting principles; thus, we have issued an adverse opinion on its financial statements.

The Office of the Comptroller of the Treasury, State of Tennessee, requires governments that do not implement GASB Statement 34 to issue a financial report in compliance with Financial Reporting Standards for County Governments, Component Units of County Governments, and Special School Districts That Do Not Implement Governmental Accounting Standards Board Statement 34, established by the Comptroller of the Treasury. McKenzie Special School District’s financial statements are presented in compliance with these requirements.

RECOMMENDATION

McKenzie Special School District should present government-wide financial statements in conformity with generally accepted accounting principles, and should compile and maintain records that properly account for its capital assets. These records should document the historical cost of its capital assets and the related depreciation amounts of these assets. This information is necessary to present the financial statements in accordance with generally accepted accounting principles.

FINDING 04.02 THE SCHOOL FEDERAL PROJECTS FUND HAD A CASH OVERDRAFT AND FUND DEFICIT
(Noncompliance Under Government Auditing Standards)

The School Federal Projects Fund had a cash overdraft of \$26,779 and a fund deficit of \$22,837 at June 30, 2004. The cash overdraft resulted from the office's issuing checks that exceeded cash on deposit with the bank. The cash overdraft and fund deficit were liquidated subsequent to June 30, 2004, when proceeds from federal entitlement programs and federal grants were received.

FINDING 04.03 THE DIRECTOR OF SCHOOLS DID NOT REQUIRE ONE DEPOSITORY TO ADEQUATELY COLLATERALIZE FUNDS
(Noncompliance Under Government Auditing Standards)

The director of schools did not require one depository holding district funds to pledge adequate securities to protect funds that exceeded Federal Deposit Insurance Corporation (FDIC) coverage. At June 30, 2004, deposits at the depository exceeded FDIC coverage and collateral securities pledged by \$115,885. Sections 9-1-107 and 9-4-105, Tennessee Code Annotated, provide for officials to require any bank that is a depository of public funds to deposit in an escrow account in a second bank collateral security equal to 105 percent of such public funds.

RECOMMENDATION

The director of schools should require all depositories to pledge adequate securities to protect district funds exceeding FDIC coverage, as required by state statutes.

FINDING 04.04 THE OFFICE HAD DEFICIENCIES INVOLVING ITS CHECK-SIGNING MACHINE
(Internal Control – Reportable Condition Under Government Auditing Standards)

A mechanical signing machine was used to affix the official's signature to checks. However, this machine did not have a counter to record the number of checks signed.

RECOMMENDATION

The office should acquire a machine that has a counter that cannot be reset indicating the number of checks processed.

**PART III, FINDINGS AND QUESTIONED
COSTS FOR FEDERAL AWARDS**

There were no findings and questioned costs for federal awards.

**MCKENZIE SPECIAL SCHOOL DISTRICT
AUDITEE REPORTING RESPONSIBILITIES
For the Year Ended June 30, 2004**

There were no audit findings relative to federal awards presented in the prior audit's Schedule of Findings and Questioned Costs or the current year's Schedule of Findings and Questioned Costs.