

ANNUAL FINANCIAL REPORT
McKENZIE SPECIAL SCHOOL DISTRICT



FOR THE YEAR ENDED JUNE 30, 2006

**Comptroller of the Treasury
Department of Audit
Division of County Audit
Nashville, Tennessee**

ANNUAL FINANCIAL REPORT
McKENZIE SPECIAL SCHOOL DISTRICT
FOR THE YEAR ENDED JUNE 30, 2006

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

TIFFANY NOLEN, CFE
JAKE MCNATT
ELISHA CROWELL, CFE
State Auditors

This financial report is available at www.comptroller.state.tn.us

McKENZIE SPECIAL SCHOOL DISTRICT

TABLE OF CONTENTS

	Exhibit	Page(s)
Audit Highlights		1
<u>INTRODUCTORY SECTION</u>		3
McKenzie Special School District Officials		5
<u>FINANCIAL SECTION</u>		7
Independent Auditor's Report		9-11
BASIC FINANCIAL STATEMENTS:		13
Fund Financial Statements:		
Governmental Funds:		
Balance Sheet	A	15
Statement of Revenues, Expenditures, and Changes in Fund Balances	B	16
Notes to the Financial Statements		17-31
REQUIRED SUPPLEMENTARY INFORMATION:		33
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Actual (Budgetary Basis) and Budget:		
General Purpose School Fund	C	35-36
Notes to the Required Supplementary Information		37
COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES:		39
Nonmajor Governmental Funds:		41
Combining Balance Sheet	D-1	43
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	D-2	44
Schedules of Revenues, Expenditures, and Changes in Fund Balances – Actual (Budgetary Basis) and Budget:		
School Federal Projects Fund	D-3	45
Central Cafeteria Fund	D-4	46
Major Governmental Fund:		47
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Actual and Budget:		
Education Debt Service Fund	E	49

	Exhibit	Page(s)
Miscellaneous Schedules:		51
Schedule of Changes in Long-term Note and Bonds	F-1	53
Schedule of Bond and Interest Requirements by Year	F-2	54
Schedule of Investments	F-3	55
Schedule of Transfers	F-4	56
Schedule of Salaries and Official Bonds of Principal Officials	F-5	57
Schedule of Detailed Revenues – All Governmental Fund Types	F-6	58-59
Schedule of Detailed Expenditures – All Governmental Fund Types	F-7	60-69
 <u>SINGLE AUDIT SECTION</u>		 71
 Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <u>Government Auditing Standards</u>		 73-74
Auditor’s Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With <u>OMB Circular A-133</u>		 75-76
Schedule of Expenditures of Federal Awards		77
Schedule of Audit Findings Not Corrected		79
Schedule of Findings and Questioned Costs		81-84
Auditee Reporting Responsibilities		85

Audit Highlights

Annual Financial Report
McKenzie Special School District
For the Year Ended June 30, 2006

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, 2006.

Results

Our report on the 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 two findings and recommendations, which we have reviewed with McKenzie Special School District management. Detailed findings, recommendations, and management's responses are included in the Single Audit Section of this report.

Findings

The following are summaries of the audit findings:

- ◆ 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 \$85,260 at June 30, 2006.

INTRODUCTORY SECTION

McKenzie Special School District Officials
June 30, 2006

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
Brad Davis
Joe Fortner
Van Ramsey

FINANCIAL SECTION



**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**

INDEPENDENT AUDITOR'S REPORT

March 16, 2007

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, 2006, as shown on pages 15 through 31, 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 the 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 auditing standards generally accepted in the United States of America and 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 special 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, 2006, 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, 2006, 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.

In accordance with Government Auditing Standards, we have also issued our report dated March 16, 2007, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The budgetary comparison information on pages 35 through 37 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, and miscellaneous schedules 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 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 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

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/sb

BASIC FINANCIAL STATEMENTS

Exhibit A

McKenzie Special School District
Balance Sheet - Governmental Funds
June 30, 2006

	Major Funds		Nonmajor Funds	Total Governmental Funds
	General Purpose School	Education Debt Service	Other Governmental Funds	
<u>ASSETS</u>				
Equity in Pooled Cash and Investments	\$ 2,127,297	\$ 626,242	\$ 217,427	\$ 2,970,966
Inventories	0	0	23,926	23,926
Due from Other Governments	188,345	12,562	121,355	322,262
Property Taxes Receivable	749,349	568,471	0	1,317,820
Allowance for Uncollectible Property Taxes	(56,578)	(42,921)	0	(99,499)
Total Assets	<u>\$ 3,008,413</u>	<u>\$ 1,164,354</u>	<u>\$ 362,708</u>	<u>\$ 4,535,475</u>
<u>LIABILITIES AND FUND BALANCES</u>				
<u>Liabilities</u>				
Accounts Payable	\$ 5,297	\$ 0	\$ 12,191	\$ 17,488
Payroll Deductions Payable	110,421	0	0	110,421
Cash Overdraft	0	0	85,260	85,260
Due to State of Tennessee	6,877	0	0	6,877
Deferred Revenue - Current Property Taxes	679,150	515,217	0	1,194,367
Deferred Revenue - Delinquent Property Taxes	11,726	8,896	0	20,622
Other Deferred Revenues	58,762	0	849	59,611
Total Liabilities	<u>\$ 872,233</u>	<u>\$ 524,113</u>	<u>\$ 98,300</u>	<u>\$ 1,494,646</u>
<u>Fund Balances</u>				
Reserved for Encumbrances	\$ 81,913	\$ 0	\$ 98	\$ 82,011
Reserved for Career Ladder - Extended Contract	131,364	0	0	131,364
Reserved for Career Ladder Program	5,089	0	0	5,089
Reserved for Title I Grants to Local Education Agencies	0	0	2,335	2,335
Reserved for Special Education - Grants to States	0	0	13,077	13,077
Other Federal Reserves	0	0	1,599	1,599
Unreserved, Reported In:				
General Fund	1,917,814	0	0	1,917,814
Special Revenue Funds	0	0	247,299	247,299
Debt Service Funds	0	640,241	0	640,241
Total Fund Balances	<u>\$ 2,136,180</u>	<u>\$ 640,241</u>	<u>\$ 264,408</u>	<u>\$ 3,040,829</u>
Total Liabilities and Fund Balances	<u>\$ 3,008,413</u>	<u>\$ 1,164,354</u>	<u>\$ 362,708</u>	<u>\$ 4,535,475</u>

Exhibit B

McKenzie Special School District
Statement of Revenues, Expenditures,
and Changes in Fund Balances -
Governmental Funds
For the Year Ended June 30, 2006

	Major Funds		Nonmajor	Total Governmental Funds
	General Purpose School	Education Debt Service	Other Govern- mental Funds	
<u>Revenues</u>				
Local Taxes	\$ 1,419,707	\$ 521,366	\$ 0	\$ 1,941,073
Licenses and Permits	2,716	0	0	2,716
Charges for Current Services	2,456	0	267,785	270,241
Other Local Revenues	159,981	0	114	160,095
State of Tennessee	5,207,933	0	8,787	5,216,720
Federal Government	23,384	0	997,647	1,021,031
Total Revenues	<u>\$ 6,816,177</u>	<u>\$ 521,366</u>	<u>\$ 1,274,333</u>	<u>\$ 8,611,876</u>
<u>Expenditures</u>				
Current:				
Instruction	\$ 4,227,077	\$ 0	\$ 566,544	\$ 4,793,621
Support Services	1,875,232	11,150	19,792	1,906,174
Operation of Non-Instructional Services	88,508	0	672,831	761,339
Capital Outlay	27,616	0	0	27,616
Debt Service:				
Principal on Debt	0	299,591	0	299,591
Interest on Debt	0	447,427	0	447,427
Other Debt Service	0	1,014	0	1,014
Total Expenditures	<u>\$ 6,218,433</u>	<u>\$ 759,182</u>	<u>\$ 1,259,167</u>	<u>\$ 8,236,782</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 597,744</u>	<u>\$ (237,816)</u>	<u>\$ 15,166</u>	<u>\$ 375,094</u>
<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)	<u>\$ (237,548)</u>	<u>\$ 237,548</u>	<u>\$ 0</u>	<u>\$ 0</u>
Net Change in Fund Balances	\$ 360,196	\$ (268)	\$ 15,166	\$ 375,094
Fund Balance, July 1, 2005	1,588,977	827,516	249,242	2,665,735
Prior Period Adjustment	187,007	(187,007)	0	0
Fund Balance, June 30, 2006	<u>\$ 2,136,180</u>	<u>\$ 640,241</u>	<u>\$ 264,408</u>	<u>\$ 3,040,829</u>

**MCKENZIE SPECIAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006**

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.

The 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. The 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 the district's auditor to issue an adverse opinion on the district's financial statements.

Although the 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 the district:

A. Reporting Entity

The district is a public municipal corporation governed by an elected seven-member board. As required by GAAP, these financial statements present the district. The district operates a public school system and receives funding from local, state, and federal government sources.

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

Fund financial statements of the 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. Funds are organized into three major categories: governmental, proprietary, and fiduciary. However, the district has no proprietary 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 aggregated into a single column 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. The district considers grants 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 state-shared excise taxes 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.

The district reports the following major governmental funds:

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

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

Additionally, the 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 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 district 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 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 Equity in Pooled Cash and Investments. Income from these pooled investments is assigned to the General Purpose School Fund. The 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

Property taxes receivable are shown with an allowance for uncollectibles. The allowance for uncollectible property taxes is equal to 4.02 percent of total taxes levied.

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 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. The 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, the district does not present government-wide statements.

5. Compensated Absences

The general policy of the 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 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.

8. Prior-period Adjustment

Prior-period adjustments in the General Purpose School Fund and the Education Debt Service Fund reflect investment balances that were incorrectly stated in the prior year.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for all government funds. All annual appropriations lapse at fiscal year end.

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 Directors 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, Vocational Education Program, Attendance, etc.). Management may make revisions within major categories, but only the Board of Directors may transfer appropriations between major categories. During the year, several supplementary appropriations were necessary.

The district's budgetary basis of accounting is consistent with 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 schedule.

B. Cash Overdraft

The School Federal Projects had a cash overdraft of \$85,260 at June 30, 2006. This cash overdraft was liquidated subsequent to June 30, 2006.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The district participates in an internal cash and investment pool managed by the district's finance director. Each fund's portion of this pool is displayed on the balance sheets as Equity in Pooled Cash and Investments.

Deposits

Legal Provisions. 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.

Investments

Legal Provisions. 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.

Investment Balances. As of June 30, 2006, the district had the following investments carried at cost. All investments are in the district's investment pool.

<u>Investment</u>	<u>Maturities</u>	<u>Cost</u>
State Treasurer's Investment Pool	Daily	<u>\$ 1,852,444</u>
Total		<u><u>\$ 1,852,444</u></u>

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. State statutes limit the maturities of certain investments as previously disclosed. The district does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State statutes limit the ratings of certain investments as previously explained. The district has no investment policy that would further limit its investment choices. As of June 30, 2006, the district's investment in the State Treasurer's Investment Pool was unrated.

B. Interfund Transfers

Interfund transfers for the year ended June 30, 2006, consisted of the following amount:

<u>Transfers Out</u>	<u>Transfers In</u> Education Debt Service Fund
General Purpose School Fund	\$ 237,548
Total	<u>\$ 237,548</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 the 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 the 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, 2006, will be retired from the Education Debt Service Fund.

General obligation bonds and capital outlay notes outstanding as of June 30, 2006, are as follows:

Type	Interest Rates	Original Amount of Issue	Balance 6-30-06
General Obligation Bonds	4.55 to 7.38%	\$ 9,495,000	\$ 260,000
General Obligation Bonds - Refunding	4.1 to 5	8,990,000	8,540,000
Capital Outlay Note	3	167,413	51,417

The annual requirements to amortize all general obligation bonds and notes outstanding as of June 30, 2006, including interest payments, are presented in the following table:

Year Ending June 30	Bonds		Note	
	Principal	Interest	Principal	Interest
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	375,000	380,550	0	0
2011	410,000	363,488	0	0
2012-2016	2,535,000	1,502,933	0	0
2017-2021	3,620,000	787,535	0	0
2022	885,000	44,250	0	0
Total	<u>\$ 8,800,000</u>	<u>\$ 4,311,381</u>	<u>\$ 51,417</u>	<u>\$ 2,324</u>

There is \$640,241 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, 2006, was as follows:

Governmental Activities:

	Bonds	Note
Balance, July 1, 2005	\$ 9,075,000	\$ 76,008
Deductions	(275,000)	(24,591)
Balance, June 30, 2006	<u>\$ 8,800,000</u>	<u>\$ 51,417</u>
Balance Due Within One Year	<u>\$ 300,000</u>	<u>\$ 25,329</u>

IV. OTHER INFORMATION

A. Risk Management

Employee Health Insurance

The 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.

General Liability, Property, Casualty, and Workers' Compensation Insurance

The district joined the Tennessee School Boards Risk Management Trust (TSB-RMT), which is a public entity risk pool established by the Tennessee School Boards Association, an association of local school districts. The district pays an annual premium to the TSB-RMT for its general liability, property, casualty, and workers' compensation insurance coverage. The creation of the TSB-RMT provides for it to be self-sustaining through member premiums. The TSB-RMT reinsures through commercial insurance companies for claims exceeding \$100,000 for each insured event.

B. Accounting Changes

The provisions of Governmental Accounting Standards Board (GASB) Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries became effective for the year ended June 30, 2006. GASB Statement No. 42 requires governments to report the effects of capital asset impairments in their financial statements when they occur rather than as a part of the ongoing depreciation expense for the capital asset or upon disposal of the capital asset. In addition, GASB Statement No. 42 clarifies and establishes accounting requirements for insurance recoveries. GASB Statement No. 42 had no effect on the financial statements for the year ended June 30, 2006, since no capital asset impairment and insurance recoveries occurred. However, it is reasonably expected that capital asset impairment and insurance recoveries may occur in subsequent years that will be subject to the provisions of Statement No. 42.

The provisions of GASB Statement No. 44, Economic Condition Reporting: The Statistical Section (an amendment of NCGA Statement 1) became effective for the year ended June 30, 2006. GASB Statement No. 44 applies to the preparation of the statistical section. State and local governments may, but are not required to, prepare a statistical section to accompany basic

financial statements. However, a statistical section is required to accompany a comprehensive annual financial report. Since the district is not presenting a comprehensive annual financial report, it has elected not to prepare a statistical section. A limited statistical section was presented in the prior year's report. GASB Statement No. 44 amends guidance related to the preparation of the statistical section. This statement improves the understandability and usefulness of statistical information by addressing the comparability problems that have developed in practice and by adding information from the new financial reporting model for state and local governments required by GASB Statement No. 34. GASB Statement No. 44 establishes the objectives of the statistical section and the five categories it contains: financial trends, revenue capacity, debt capacity, demographic and economic, and operating. It is reasonably expected that the district will prepare and present a statistical section in subsequent years that follows the requirements of GASB Statement No. 44.

The provisions of GASB Statement No. 46, Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34 became effective for the year ended June 30, 2006. GASB Statement No. 46 provides guidance to determine when net assets have been restricted to a particular use by the passage of enabling legislation and specifies how those net assets should be reported in financial statements when there are changes in the circumstances surrounding such legislation. The statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation as of the end of the reporting period. The district had no net assets restricted by enabling legislation to disclose as of June 30, 2006. But it is reasonably expected that the district will be required to disclose net assets restricted by enabling legislation in subsequent years.

The provisions of GASB Statement No. 47, Accounting for Termination Benefits became effective for the year ended June 30, 2006. GASB Statement No. 47 provides accounting and reporting guidance for state and local governments that offer benefits such as early retirement incentives or severance to employees who are involuntarily terminated. Statement No. 47 specifies when governments should recognize the cost of termination benefits they offer in accrual basis financial statements. The district was not offering any termination benefits to employees as of June 30, 2006. But it is reasonably expected that the district will offer termination benefits in subsequent years subject to the accounting and reporting requirements of GASB Statement No. 47.

C. Contingent Liabilities

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

D. Change in Administration

Dana Deem left the Office of Finance Director on June 30, 2006, and was succeeded by Stan George effective August 1, 2006.

E. 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 the district participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

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

Funding Policy

The district requires employees to contribute five percent of earnable compensation. The district is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2006, was 5.66 percent of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the district is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ended June 30, 2006, the district's annual pension cost of \$38,204 to TCRS was equal to the district's required and actual contributions. The required contribution was determined as part of the July 1, 2003, 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 three 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. The 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, 2005, was 14 years. An actuarial valuation was performed as of July 1, 2005, which established contribution rates effective July 1, 2006.

Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6-30-06	\$38,204	100%	\$0
6-30-05	34,598	100	0
6-30-04	24,967	100	0

Schedule of Funding Progress

(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)
6-30-05	\$788	\$829	\$41	95.05%	\$549	7.47%
6-30-03	668	712	44	93.82	504	8.73
6-30-01	529	595	66	88.91	458	14.41

SCHOOL TEACHERS

Plan Description

The McKenzie Special School District contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the 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. Copies of footnotes in PDF format can be accessed at <http://www.treasury.state.tn.us/tcrs/Schools/>.

Funding Policy

Most teachers are required by state statute to contribute five percent of their salary to the plan. The employer contribution rate for the district is established at an actuarially determined rate. The employer rate for the fiscal year ended June 30, 2006, was 5.5 percent of annual covered payroll. The employer contribution requirement for the district is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ended June 30, 2006, 2005, and 2004, were \$223,756, \$222,060, and \$115,846, respectively, equal to the required contributions for each year.

F. Purchasing Law

Purchasing procedures for the 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 Directors, through its executive committee (director of schools and chairman of the Board of Directors), to make all purchases. This statute also requires competitive bids to be solicited through newspaper advertisement on all purchases estimated to exceed \$10,000.

**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, 2006

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2005	Add: Encumbrances 6/30/2006	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
<u>Revenues</u>							
Local Taxes	\$ 1,419,707	\$ 0	\$ 0	\$ 1,419,707	\$ 1,211,856	\$ 1,211,856	\$ 207,851
Licenses and Permits	2,716	0	0	2,716	400	400	2,316
Charges for Current Services	2,456	0	0	2,456	2,000	2,000	456
Other Local Revenues	159,981	0	0	159,981	70,000	70,000	89,981
State of Tennessee	5,207,933	0	0	5,207,933	5,089,026	5,221,842	(13,909)
Federal Government	23,384	0	0	23,384	3,500	27,098	(3,714)
Total Revenues	\$ 6,816,177	\$ 0	\$ 0	\$ 6,816,177	\$ 6,376,782	\$ 6,533,196	\$ 282,981
<u>Expenditures</u>							
<u>Instruction</u>							
Regular Instruction Program	\$ 3,726,390	\$ (95,636)	\$ 81,913	\$ 3,712,667	\$ 3,717,348	\$ 3,744,020	\$ 31,353
Alternative Instruction Program	17,485	0	0	17,485	17,500	17,500	15
Special Education Program	344,622	0	0	344,622	344,916	354,686	10,064
Vocational Education Program	138,580	0	0	138,580	138,480	139,079	499
<u>Support Services</u>							
Attendance	4,669	0	0	4,669	12,909	12,909	8,240
Health Services	38,842	0	0	38,842	39,368	39,368	526
Other Student Support	175,253	0	0	175,253	183,583	185,585	10,332
Regular Instruction Program	287,606	(1,527)	0	286,079	291,523	295,140	9,061
Special Education Program	25,917	0	0	25,917	27,520	27,629	1,712
Vocational Education Program	7,542	0	0	7,542	7,540	7,570	28
Board of Education	106,549	0	0	106,549	108,483	108,483	1,934
Director of Schools	117,516	0	0	117,516	125,372	127,135	9,619
Office of the Principal	410,340	0	0	410,340	429,499	430,211	19,871
Fiscal Services	70,635	0	0	70,635	81,358	81,358	10,723
Operation of Plant	470,993	0	0	470,993	461,687	471,687	694

(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 7/1/2005	Add: Encumbrances 6/30/2006	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
<u>Expenditures (Cont.)</u>							
<u>Support Services (Cont.)</u>							
Maintenance of Plant	\$ 159,370	\$ 0	\$ 0	\$ 159,370	\$ 149,644	\$ 159,489	\$ 119
<u>Operation of Non-Instructional Services</u>							
Community Services	4,250	0	0	4,250	2,500	6,750	2,500
Early Childhood Education	84,258	0	0	84,258	0	88,180	3,922
<u>Capital Outlay</u>							
Regular Capital Outlay	27,616	0	0	27,616	0	27,617	1
Total Expenditures	\$ 6,218,433	\$ (97,163)	\$ 81,913	\$ 6,203,183	\$ 6,139,230	\$ 6,324,396	\$ 121,213
Excess (Deficiency) of Revenues							
Over Expenditures	\$ 597,744	\$ 97,163	\$ (81,913)	\$ 612,994	\$ 237,552	\$ 208,800	\$ 404,194
<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							
Fund Balance, July 1, 2005	\$ 360,196	\$ 97,163	\$ (81,913)	\$ 375,446	\$ 4	\$ (28,748)	\$ 404,194
Prior Period Adjustment	1,588,977	(97,163)	0	1,491,814	1,278,434	1,278,434	213,380
	187,007	0	0	187,007	0	0	187,007
Fund Balance, June 30, 2006	\$ 2,136,180	\$ 0	\$ (81,913)	\$ 2,054,267	\$ 1,278,438	\$ 1,249,686	\$ 804,581

MCKENZIE SPECIAL SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2006

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 Directors 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, Vocational Education Program, Attendance, etc.). Management may make revisions within major categories, but only the Board of Directors 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 schedule.

**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.

Exhibit D-1

McKenzie Special School District
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2006

	<u>Special Revenue Funds</u>		Total
	School Federal Projects	Central Cafeteria	Nonmajor Governmental Funds
<u>ASSETS</u>			
Equity in Pooled Cash and Investments	\$ 0	\$ 217,427	\$ 217,427
Inventories	0	23,926	23,926
Due from Other Governments	102,369	18,986	121,355
Total Assets	<u>\$ 102,369</u>	<u>\$ 260,339</u>	<u>\$ 362,708</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>Liabilities</u>			
Accounts Payable	\$ 0	\$ 12,191	\$ 12,191
Cash Overdraft	85,260	0	85,260
Other Deferred Revenues	0	849	849
Total Liabilities	<u>\$ 85,260</u>	<u>\$ 13,040</u>	<u>\$ 98,300</u>
<u>Fund Balances</u>			
Reserved for Encumbrances	\$ 98	\$ 0	\$ 98
Reserved for Title I Grants to Local Education Agencies	2,335	0	2,335
Reserved for Special Education - Grants to States	13,077	0	13,077
Other Federal Reserves	1,599	0	1,599
Unreserved	0	247,299	247,299
Total Fund Balances	<u>\$ 17,109</u>	<u>\$ 247,299</u>	<u>\$ 264,408</u>
Total Liabilities and Fund Balances	<u>\$ 102,369</u>	<u>\$ 260,339</u>	<u>\$ 362,708</u>

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, 2006

	<u>Special Revenue Funds</u>		Total Nonmajor Governmental Funds
	School Federal Projects	Central Cafeteria	
<u>Revenues</u>			
Charges for Current Services	\$ 0	\$ 267,785	\$ 267,785
Other Local Revenues	0	114	114
State of Tennessee	0	8,787	8,787
Federal Government	593,510	404,137	997,647
Total Revenues	<u>\$ 593,510</u>	<u>\$ 680,823</u>	<u>\$ 1,274,333</u>
<u>Expenditures</u>			
Current:			
Instruction	\$ 566,544	\$ 0	\$ 566,544
Support Services	19,792	0	19,792
Operation of Non-Instructional Services	0	672,831	672,831
Total Expenditures	<u>\$ 586,336</u>	<u>\$ 672,831</u>	<u>\$ 1,259,167</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 7,174</u>	<u>\$ 7,992</u>	<u>\$ 15,166</u>
Net Change in Fund Balances	\$ 7,174	\$ 7,992	\$ 15,166
Fund Balance, July 1, 2005	<u>9,935</u>	<u>239,307</u>	<u>249,242</u>
Fund Balance, June 30, 2006	<u>\$ 17,109</u>	<u>\$ 247,299</u>	<u>\$ 264,408</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, 2006

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2005	Add: Encumbrances 6/30/2006	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
<u>Revenues</u>							
Federal Government	\$ 593,510	\$ 0	\$ 0	\$ 593,510	\$ 635,769	\$ 663,174	\$ (69,664)
Total Revenues	\$ 593,510	\$ 0	\$ 0	\$ 593,510	\$ 635,769	\$ 663,174	\$ (69,664)
<u>Expenditures</u>							
<u>Instruction</u>							
Regular Instruction Program	\$ 246,939	\$ (4,398)	\$ 0	\$ 242,541	\$ 269,070	\$ 267,070	\$ 24,529
Special Education Program	292,707	(5,622)	98	287,183	340,494	340,494	53,311
Vocational Education Program	26,898	(220)	0	26,678	0	30,543	3,865
<u>Support Services</u>							
Other Student Support	706	0	0	706	0	706	0
Regular Instruction Program	14,608	(550)	0	14,058	20,423	18,579	4,521
Special Education Program	4,478	0	0	4,478	7,150	7,150	2,672
Total Expenditures	\$ 586,336	\$ (10,790)	\$ 98	\$ 575,644	\$ 637,137	\$ 664,542	\$ 88,898
Excess (Deficiency) of Revenues Over Expenditures	\$ 7,174	\$ 10,790	\$ (98)	\$ 17,866	\$ (1,368)	\$ (1,368)	\$ 19,234
Net Change in Fund Balance	\$ 7,174	\$ 10,790	\$ (98)	\$ 17,866	\$ (1,368)	\$ (1,368)	\$ 19,234
Fund Balance, July 1, 2005	9,935	(10,790)	0	(855)	1,368	1,368	(2,223)
Fund Balance, June 30, 2006	\$ 17,109	\$ 0	\$ (98)	\$ 17,011	\$ 0	\$ 0	\$ 17,011

Exhibit D-4

McKenzie Special School District
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
Central Cafeteria Fund
For the Year Ended June 30, 2006

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Charges for Current Services	\$ 267,785	\$ 248,000	\$ 248,000	\$ 19,785
Other Local Revenues	114	750	750	(636)
State of Tennessee	8,787	8,000	8,000	787
Federal Government	404,137	374,000	374,000	30,137
Total Revenues	<u>\$ 680,823</u>	<u>\$ 630,750</u>	<u>\$ 630,750</u>	<u>\$ 50,073</u>
<u>Expenditures</u>				
<u>Operation of Non-Instructional Services</u>				
Food Service	\$ 672,831	\$ 630,750	\$ 678,750	\$ 5,919
Total Expenditures	<u>\$ 672,831</u>	<u>\$ 630,750</u>	<u>\$ 678,750</u>	<u>\$ 5,919</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 7,992</u>	<u>\$ 0</u>	<u>\$ (48,000)</u>	<u>\$ 55,992</u>
Net Change in Fund Balance	\$ 7,992	\$ 0	\$ (48,000)	\$ 55,992
Fund Balance, July 1, 2005	<u>239,307</u>	<u>0</u>	<u>48,000</u>	<u>191,307</u>
Fund Balance, June 30, 2006	<u>\$ 247,299</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 247,299</u>

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, 2006

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 521,366	\$ 526,981	\$ 526,981	\$ (5,615)
Total Revenues	\$ 521,366	\$ 526,981	\$ 526,981	\$ (5,615)
<u>Expenditures</u>				
<u>Support Services</u>				
Board of Education	\$ 11,150	\$ 15,510	\$ 15,510	\$ 4,360
<u>Principal on Debt</u>				
Education	299,591	299,591	299,591	0
<u>Interest on Debt</u>				
Education	447,427	447,428	447,428	1
<u>Other Debt Service</u>				
Education	1,014	2,000	2,000	986
Total Expenditures	\$ 759,182	\$ 764,529	\$ 764,529	\$ 5,347
Excess (Deficiency) of Revenues Over Expenditures	\$ (237,816)	\$ (237,548)	\$ (237,548)	\$ (268)
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 237,548	\$ 237,548	\$ 237,548	\$ 0
Total Other Financing Sources (Uses)	\$ 237,548	\$ 237,548	\$ 237,548	\$ 0
Net Change in Fund Balance	\$ (268)	\$ 0	\$ 0	\$ (268)
Fund Balance, July 1, 2005	827,516	756,196	756,196	71,320
Prior Period Adjustment	(187,007)	0	0	(187,007)
Fund Balance, June 30, 2006	\$ 640,241	\$ 756,196	\$ 756,196	\$ (115,955)

MISCELLANEOUS SCHEDULES

Exhibit F-1

McKenzie Special School District
Schedule of Changes in Long-term Note and Bonds
For the Year Ended June 30, 2006

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding 7-1-05	Paid and/or Matured During Period	Outstanding 6-30-06
<u>NOTE PAYABLE</u>							
<u>Payable through Education Debt Service Fund</u>							
Energy Efficiency Capital Outlay	\$ 167,413	3 %	12-4-00	2-1-08	\$ 76,008	\$ 24,591	\$ 51,417
<u>BONDS PAYABLE</u>							
<u>Payable through Education Debt Service Fund</u>							
School Construction - Series 1996	9,495,000	4.55 to 7.38	7-28-1996	4-1-07	\$ 495,000	\$ 235,000	\$ 260,000
School Refunding - Series 1998	8,990,000	4.1 to 5	8-1-1998	4-1-22	8,580,000	40,000	8,540,000
Total Bonds Payable					\$ 9,075,000	\$ 275,000	\$ 8,800,000

Exhibit F-2

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

Year Ending June 30	Bond Requirements	Interest Requirements	Total Requirements
2007	\$ 300,000	\$ 426,075	\$ 726,075
2008	325,000	410,425	735,425
2009	350,000	396,125	746,125
2010	375,000	380,550	755,550
2011	410,000	363,488	773,488
2012	435,000	344,627	779,627
2013	470,000	324,618	794,618
2014	505,000	302,528	807,528
2015	540,000	278,540	818,540
2016	585,000	252,620	837,620
2017	625,000	223,955	848,955
2018	670,000	193,330	863,330
2019	725,000	160,500	885,500
2020	775,000	124,250	899,250
2021	825,000	85,500	910,500
2022	885,000	44,250	929,250
Total	\$ 8,800,000	\$ 4,311,381	\$ 13,111,381

Exhibit F-3

McKenzie Special School District
Schedule of Investments
June 30, 2006

<u>Fund and Type</u>	<u>Amount</u>
<u>General Purpose School Fund</u>	
State Treasurer's Investment Pool	<u>\$ 1,732,505</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>\$ 63,242</u>
Total Investments	<u>\$ 1,852,444</u>

Exhibit F-4

McKenzie Special School District
Schedule of Transfers
For the Year Ended June 30, 2006

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</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, 2006

<u>Official</u>	<u>Authorization for Salary</u>	<u>Salary Paid During Period</u>	<u>Bond</u>	<u>Surety</u>
Director of Schools	State Board of Education and McKenzie Special School District Board of Directors	\$ 77,863 (1) \$	214,000	The Ohio Casualty Insurance Company
Finance Director	McKenzie Special School District Board of Directors	41,895	150,000	Tennessee School Boards Risk Management Trust
Employees' Blanket Bond			150,000	"

(1) Includes chief executive officer training supplement of \$1,131.

Exhibit F-6

McKenzie Special School District
 Schedule of Detailed Revenues -
 All Governmental Fund Types
 For the Year Ended June 30, 2006

	General Purpose School	School Federal Projects	Central Cafeteria	Education Debt Service	Total
<u>Local Taxes</u>					
<u>County Local Option Taxes</u>					
Local Option Sales Tax	\$ 632,314	\$ 0	\$ 0	\$ 0	\$ 632,314
<u>Statutory Local Taxes</u>					
Interstate Telecommunications Tax	1,366	0	0	0	1,366
<u>City/School District Property Taxes</u>					
Current Property Tax	703,852	0	0	459,027	1,162,879
Prior Year Property Tax	69,396	0	0	52,645	122,041
Interest and Penalty	4,377	0	0	2,832	7,209
Payments in-Lieu-of Taxes	8,402	0	0	6,862	15,264
Total Local Taxes	\$ 1,419,707	\$ 0	\$ 0	\$ 521,366	\$ 1,941,073
<u>Licenses and Permits</u>					
<u>Licenses</u>					
Marriage Licenses	\$ 2,716	\$ 0	\$ 0	\$ 0	\$ 2,716
Total Licenses and Permits	\$ 2,716	\$ 0	\$ 0	\$ 0	\$ 2,716
<u>Charges for Current Services</u>					
<u>Fees</u>					
Copy Fees	\$ 36	\$ 0	\$ 0	\$ 0	\$ 36
<u>Education Charges</u>					
Tuition - Other	2,420	0	0	0	2,420
Lunch Payments - Children	0	0	132,833	0	132,833
Lunch Payments - Adults	0	0	18,086	0	18,086
Income from Breakfast	0	0	14,738	0	14,738
A la carte Sales	0	0	92,131	0	92,131
<u>Other Charges for Services</u>					
Other Charges for Services	0	0	9,997	0	9,997
Total Charges for Current Services	\$ 2,456	\$ 0	\$ 267,785	\$ 0	\$ 270,241
<u>Other Local Revenues</u>					
<u>Recurring Items</u>					
Investment Income	\$ 100,353	\$ 0	\$ 114	\$ 0	\$ 100,467
Lease/Rentals	39,996	0	0	0	39,996
Miscellaneous Refunds	18,912	0	0	0	18,912
<u>Nonrecurring Items</u>					
Sale of Property	720	0	0	0	720
Total Other Local Revenues	\$ 159,981	\$ 0	\$ 114	\$ 0	\$ 160,095
<u>State of Tennessee</u>					
<u>State Education Funds</u>					
Basic Education Program	\$ 4,936,931	\$ 0	\$ 0	\$ 0	\$ 4,936,931
Early Childhood Education	88,204	0	0	0	88,204
School Food Service	0	0	8,787	0	8,787
Driver Education	5,555	0	0	0	5,555
Other State Education Funds	21,211	0	0	0	21,211
Career Ladder Program	93,777	0	0	0	93,777

(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>State of Tennessee (Cont.)</u>					
<u>State Education Funds (Cont.)</u>					
Career Ladder - Extended Contract	\$ 52,914	\$ 0	\$ 0	\$ 0	\$ 52,914
<u>Other State Revenues</u>					
Mixed Drink Tax	647	0	0	0	647
Other State Grants	8,694	0	0	0	8,694
Total State of Tennessee	\$ 5,207,933	\$ 0	\$ 8,787	\$ 0	\$ 5,216,720
<u>Federal Government</u>					
<u>Federal Through State</u>					
USDA School Lunch Program	\$ 0	\$ 0	\$ 280,034	\$ 0	\$ 280,034
Breakfast	0	0	119,380	0	119,380
USDA - Other	0	0	4,723	0	4,723
Vocational Education - Basic Grants to States	0	27,404	0	0	27,404
Title I Grants to Local Education Agencies	0	193,414	0	0	193,414
Innovative Education Program Strategies	0	5,232	0	0	5,232
Special Education - Grants to States	8,508	284,033	0	0	292,541
Special Education Preschool Grants	0	20,248	0	0	20,248
Eisenhower Professional Development State Grants	0	56,694	0	0	56,694
Other Federal through State	12,965	6,485	0	0	19,450
<u>Direct Federal Revenue</u>					
Public Law 874 - Maintenance and Operation	1,911	0	0	0	1,911
Total Federal Government	\$ 23,384	\$ 593,510	\$ 404,137	\$ 0	\$ 1,021,031
Total	\$ 6,816,177	\$ 593,510	\$ 680,823	\$ 521,366	\$ 8,611,876

Exhibit F-7

McKenzie Special School District
Schedule of Detailed Expenditures -
All Governmental Fund Types
For the Year Ended June 30, 2006

General Purpose School Fund

Instruction

Regular Instruction Program

Teachers	\$ 2,734,194	
Career Ladder Program	57,803	
Career Ladder Extended Contracts	30,141	
Homebound Teachers	3,618	
Educational Assistants	9,457	
Certified Substitute Teachers	38,770	
Social Security	167,570	
State Retirement	155,264	
Medical Insurance	230,571	
Unemployment Compensation	3,186	
Employer Medicare	38,449	
Data Processing Services	368	
Evaluation and Testing	8,545	
Maintenance Agreements	1,624	
Maintenance & Repair Services - Equipment	2,508	
Medical and Dental Services	1,059	
Printing, Stationery, and Forms	486	
Other Contracted Services	2,150	
Instructional Supplies and Materials	55,415	
Textbooks	82,874	
Fee Waivers	7,051	
Other Charges	23,896	
Regular Instruction Equipment	71,391	
Total Regular Instruction Program		\$ 3,726,390

Alternative Instruction Program

Contracts with Other School Systems	\$ 17,000	
Instructional Supplies and Materials	485	
Total Alternative Instruction Program		17,485

Special Education Program

Teachers	\$ 224,172
Career Ladder Program	9,000
Educational Assistants	20,056
Social Security	14,796
State Retirement	14,322
Medical Insurance	16,622
Unemployment Compensation	302
Employer Medicare	3,460

(Continued)

Exhibit F-7

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

General Purpose School Fund (Cont.)

Instruction (Cont.)

Special Education Program (Cont.)

Contracts with Other School Systems	\$	32,000	
Other Contracted Services		9,782	
Instructional Supplies and Materials		110	
Total Special Education Program			\$ 344,622

Vocational Education Program

Teachers	\$	106,347	
Career Ladder Program		3,000	
Social Security		5,890	
State Retirement		6,014	
Medical Insurance		12,829	
Unemployment Compensation		118	
Employer Medicare		1,378	
Travel		88	
Tuition		2,916	
Total Vocational Education Program			138,580

Support Services

Attendance

Clerical Personnel	\$	1,859	
Social Security		115	
State Retirement		106	
Unemployment Compensation		10	
Employer Medicare		27	
Data Processing Services		2,282	
Travel		170	
In Service/Staff Development		100	
Total Attendance			4,669

Health Services

Medical Personnel	\$	33,600	
Social Security		2,048	
State Retirement		1,909	
Unemployment Compensation		39	
Employer Medicare		479	
Travel		250	
Drugs and Medical Supplies		362	
In Service/Staff Development		155	
Total Health Services			38,842

(Continued)

Exhibit F-7

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Other Student Support

Career Ladder Program	\$	3,000	
Guidance Personnel		122,482	
Career Ladder Extended Contracts		1,260	
Other Salaries & Wages		13,109	
Social Security		7,932	
State Retirement		7,857	
Medical Insurance		15,679	
Unemployment Compensation		120	
Employer Medicare		1,879	
Communication		1,068	
Travel		603	
Instructional Supplies and Materials		114	
In Service/Staff Development		150	
Total Other Student Support			\$ 175,253

Regular Instruction Program

Supervisor/Director	\$	36,267	
Career Ladder Program		5,000	
Career Ladder Extended Contracts		2,763	
Librarians		117,186	
Instructional Computer Personnel		38,000	
Educational Assistants		20,000	
Social Security		12,881	
State Retirement		12,161	
Medical Insurance		14,363	
Unemployment Compensation		222	
Employer Medicare		3,012	
Communication		516	
Data Processing Services		12,989	
Dues and Memberships		20	
Travel		1,387	
Instructional Supplies and Materials		58	
Library Books/Media		8,590	
Periodicals		1,863	
In Service/Staff Development		328	
Total Regular Instruction Program			287,606

Special Education Program

Supervisor/Director	\$	19,528	
---------------------	----	--------	--

(Continued)

Exhibit F-7

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.)

Social Security	\$	1,134	
State Retirement		1,074	
Medical Insurance		3,902	
Unemployment Compensation		14	
Employer Medicare		265	
Total Special Education Program			\$ 25,917

Vocational Education Program

Supervisor/Director	\$	5,509	
Social Security		338	
State Retirement		303	
Medical Insurance		1,309	
Unemployment Compensation		4	
Employer Medicare		79	
Total Vocational Education Program			7,542

Board of Education

Election Commission	\$	350	
Social Security		95	
Audit Services		17,962	
Dues and Memberships		4,363	
Postal Charges		91	
Travel		23	
Maintenance and Repair Services - Records		1,250	
Office Supplies		246	
Liability Insurance		27,525	
Premiums on Corporate Surety Bonds		1,320	
Trustee's Commission		20,415	
Workers' Compensation Insurance		29,448	
In Service/Staff Development		475	
Refund to Applicant for Criminal Investigation		240	
Other Charges		2,746	
Total Board of Education			106,549

Director of Schools

County Official/Administrative Officer	\$	76,732	
Career Ladder Program		1,131	
Secretary(ies)		10,771	
Social Security		5,457	

(Continued)

Exhibit F-7

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.)

State Retirement	\$	4,894	
Medical Insurance		7,764	
Unemployment Compensation		53	
Employer Medicare		1,276	
Advertising		614	
Communication		2,736	
Dues and Memberships		275	
Legal Notices, Recording, and Court Costs		278	
Maintenance & Repair Services - Office Equipment		420	
Postal Charges		1,043	
Printing, Stationery, and Forms		150	
Rentals		2,394	
Travel		106	
Office Supplies		711	
Periodicals		18	
In Service/Staff Development		250	
Other Charges		443	
Total Director of Schools			\$ 117,516

Office of the Principal

Principals	\$	177,489	
Career Ladder Program		4,000	
Accountants/Bookkeepers		45,301	
Assistant Principals		49,578	
Secretary(ies)		32,671	
Social Security		18,862	
State Retirement		17,138	
Medical Insurance		42,977	
Unemployment Compensation		388	
Employer Medicare		4,411	
Communication		7,386	
Dues and Memberships		69	
Rentals		7,182	
Travel		670	
Office Supplies		582	
Periodicals		27	
In Service/Staff Development		1,291	
Other Charges		56	
Administration Equipment		262	
Total Office of the Principal			410,340

(Continued)

Exhibit F-7

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	\$	41,895	
Purchasing Personnel		10,158	
Clerical Personnel		1,859	
Social Security		3,301	
State Retirement		3,062	
Medical Insurance		3,856	
Unemployment Compensation		59	
Employer Medicare		772	
Data Processing Services		4,011	
Postal Charges		6	
Printing, Stationery, and Forms		682	
Travel		176	
Office Supplies		588	
In Service/Staff Development		210	
Total Fiscal Services			\$ 70,635

Operation of Plant

Custodial Personnel	\$	135,389	
Social Security		8,376	
State Retirement		4,944	
Unemployment Compensation		505	
Employer Medicare		1,959	
Communication		1,270	
Disposal Fees		3,391	
Custodial Supplies		26,380	
Electricity		155,577	
Natural Gas		52,234	
Water and Sewer		20,838	
Boiler Insurance		2,287	
Building and Contents Insurance		41,680	
Other Charges		10,663	
Plant Operation Equipment		5,500	
Total Operation of Plant			470,993

Maintenance of Plant

Maintenance Personnel	\$	62,857	
Other Salaries & Wages		2,929	
Social Security		4,020	
State Retirement		2,974	

(Continued)

Exhibit F-7

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Maintenance of Plant (Cont.)

Unemployment Compensation	\$	95	
Employer Medicare		940	
Maintenance & Repair Services - Buildings		67,281	
Maintenance & Repair Services - Equipment		526	
Maintenance & Repair Services - Vehicles		1,577	
Pest Control		1,739	
Gasoline		3,486	
Other Charges		58	
Maintenance Equipment		913	
Other Equipment		9,975	
Total Maintenance of Plant			\$ 159,370

Operation of Non-Instructional Services

Community Services

Contracts with Government Agencies	\$	4,250	
Total Community Services			4,250

Early Childhood Education

Teachers	\$	32,901	
Educational Assistants		9,663	
Social Security		2,596	
State Retirement		2,081	
Unemployment Compensation		78	
Employer Medicare		607	
Travel		62	
Other Contracted Services		1,957	
Instructional Supplies and Materials		32,203	
Other Charges		210	
Regular Instruction Equipment		1,900	
Total Early Childhood Education			84,258

Capital Outlay

Regular Capital Outlay

Building Improvements	\$	17,616	
Heating and Air Conditioning Equipment		10,000	
Total Regular Capital Outlay			27,616

Total General Purpose School Fund \$ 6,218,433

(Continued)

Exhibit F-7

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

School Federal Projects Fund

Instruction

Regular Instruction Program

Teachers	\$	165,101	
Educational Assistants		15,831	
Social Security		9,534	
State Retirement		9,892	
Medical Insurance		22,002	
Unemployment Compensation		244	
Employer Medicare		2,230	
Instructional Supplies and Materials		18,105	
Regular Instruction Equipment		4,000	
Total Regular Instruction Program			\$ 246,939

Special Education Program

Teachers	\$	77,645	
Clerical Personnel		10,141	
Educational Assistants		80,772	
Social Security		10,009	
State Retirement		9,215	
Medical Insurance		253	
Unemployment Compensation		403	
Employer Medicare		2,341	
Contracts with Other School Systems		45,033	
Contracts with Private Agencies		5,498	
Other Contracted Services		16,094	
Instructional Supplies and Materials		32,315	
Special Education Equipment		2,988	
Total Special Education Program			292,707

Vocational Education Program

Travel	\$	300	
Instructional Supplies and Materials		4,337	
Other Charges		329	
Vocational Instruction Equipment		21,932	
Total Vocational Education Program			26,898

Support Services

Other Student Support

Travel	\$	706	
Total Other Student Support			706

(Continued)

Exhibit F-7

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

School Federal Projects Fund (Cont.)

Support Services (Cont.)

Regular Instruction Program

In Service/Staff Development	\$ 14,608	
Total Regular Instruction Program		\$ 14,608

Special Education Program

Travel	\$ 2,150	
In Service/Staff Development	2,328	
Total Special Education Program		<u>4,478</u>

Total School Federal Projects Fund		\$ 586,336
------------------------------------	--	------------

Central Cafeteria Fund

Operation of Non-Instructional Services

Food Service

Supervisor/Director	\$ 25,215
Cafeteria Personnel	165,468
Other Salaries & Wages	273
Social Security	11,654
State Retirement	8,942
Medical Insurance	2,067
Unemployment Compensation	720
Employer Medicare	2,726
Advertising	273
Audit Services	500
Communication	1,904
Data Processing Services	1,350
Dues and Memberships	234
Maintenance & Repair Services - Equipment	13,718
Pest Control	1,000
Postal Charges	140
Printing, Stationery, and Forms	180
Travel	3,248
Disposal Fees	5,422
Permits	240
Other Contracted Services	855
Custodial Supplies	3,104
Food Preparation Supplies	23,293
Food Supplies	305,042
Office Supplies	710
Uniforms	2,215

(Continued)

Exhibit F-7

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.)

Utilities	\$	47,000	
Other Supplies and Materials		76	
Refunds		302	
Workers' Compensation Insurance		4,500	
In Service/Staff Development		1,010	
Other Charges		1,007	
Food Service Equipment		<u>38,443</u>	
Total Food Service			<u>\$ 672,831</u>

Total Central Cafeteria Fund \$ 672,831

Education Debt Service Fund

Support Services

Board of Education

Trustee's Commission	\$	<u>11,150</u>	
Total Board of Education			\$ 11,150

Principal on Debt

Education

Principal on Bonds	\$	275,000	
Principal on Notes		<u>24,591</u>	
Total Education			299,591

Interest on Debt

Education

Interest on Bonds	\$	445,147	
Interest on Notes		<u>2,280</u>	
Total Education			447,427

Other Debt Service

Education

Other Debt Service	\$	<u>1,014</u>	
Total Education			<u>1,014</u>

Total Education Debt Service Fund 759,182

Total Governmental Funds - McKenzie Special School District \$ 8,236,782

SINGLE AUDIT SECTION



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

March 16, 2007

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 each major fund and the aggregate remaining fund information of the McKenzie Special School District as of and for the year ended June 30, 2006, which collectively comprise a portion of the McKenzie Special School District's basic financial statements and have issued our report thereon dated March 16, 2007. 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 auditing standards generally accepted in the United States of America and the auditing standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the McKenzie Special School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 the McKenzie Special School District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 06.02.

A material weakness is a reportable 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 caused by error or fraud 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 believe that the reportable condition described above is not a material weakness.

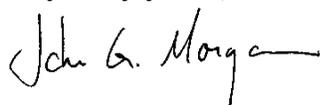
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and is described in the accompanying Schedule of Findings and Questioned Costs as item 06.01.

We also noted certain other matters that we reported to the management of the McKenzie Special School District 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.

Very truly yours,



John G. Morgan
Comptroller of the Treasury

JGM/sb



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

March 16, 2007

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, 2006. The 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 the McKenzie Special School District's management. Our responsibility is to express an opinion on the McKenzie Special School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United State of America, 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 the 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 the McKenzie Special School District's compliance with those requirements.

In our opinion, the 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, 2006.

Internal Control Over Compliance

The management of the 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 the 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 the 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 reportable 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 caused by error or fraud 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.

Schedule of Federal Awards

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, 2006, and have issued our report thereon dated March 16, 2007. 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 opinions on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards 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.

Very truly yours,



John G. Morgan
Comptroller of the Treasury

JGM/sb

McKenzie Special School District
Schedule of Expenditures of Federal Awards (1)
For the Year Ended June 30, 2006

Federal/Pass-through Agency/State Grantor Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. Department of Agriculture:			
Passed-through State Department of Agriculture:			
Food Donation (Noncash Assistance)	10.550	N/A	\$ 29,829
Passed-through State Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program	10.553	N/A	119,380
National School Lunch Program	10.555	N/A	284,757
Total U.S. Department of Agriculture			<u>\$ 433,966</u>
U.S. Department of Education:			
Direct Program:			
Impact Aid	84.041	N/A	\$ 1,911
Passed-through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	N/A	191,098
Special Education Cluster:			
Special Education - Grants to States	84.027	N/A	284,368
Special Education - Preschool Grants	84.173	N/A	22,005
Vocational Education - Basic Grants to States	84.048	N/A	27,604
Safe and Drug-Free Schools and Communities - State Grants	84.186	(2)	17,352
State Grants for Innovative Programs	84.298	N/A	4,240
Improving Teacher Quality State Grants	84.367	N/A	58,997
Hurricane Education Recovery	84.938	N/A	10,840
Total U.S. Department of Education			<u>\$ 618,415</u>
Total Expenditures of Federal Awards			<u>\$ 1,052,381</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) Information not available.

McKenzie Special School District
Schedule of Audit Findings Not Corrected
June 30, 2006

Government Auditing Standards require auditors to report the status of uncorrected findings from prior audits. Presented below are the findings from the Annual Financial Report for the McKenzie Special School District for the year ended June 30, 2005, which have not been corrected.

OFFICE OF DIRECTOR OF SCHOOLS

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
05.01	84	Government-wide financial statements were not presented in accordance with generally accepted accounting principles
05.02	85	The School Federal Projects Fund had a cash overdraft

MCKENZIE SPECIAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2006

PART I, SUMMARY OF AUDITOR'S RESULTS

1. An adverse opinion was issued on the financial statements of the McKenzie Special School District.
2. The audit of the financial statements of the McKenzie Special School District disclosed one reportable condition in internal control. This reportable 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. The audit disclosed no reportable conditions in internal control over major programs.
5. An unqualified opinion was issued on compliance for major programs.
6. The audit revealed no findings that are required to be reported under Section 510(a) of OMB Circular A-133.
7. The Child Nutrition Cluster: School Breakfast Program and National School Lunch Program (CFDA Nos. 10.553 and 10.555), and the Special Education Cluster: Special Education – Grants to States and Special Education – Preschool Grants (CFDA Nos. 84.027 and 84.173) were determined to be major programs.
8. A \$300,000 threshold 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 reviewed these findings and recommendations with management to provide an opportunity for their response. The written response of the finance director is quoted in this report.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 06.01 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 special school districts 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 costs 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.

MANAGEMENT’S RESPONSE – FINANCE DIRECTOR (DIRECT QUOTE)

We concur and are in the process of implementing the provisions of GASB 34 for presentation in the FY 2006-07 audit report.

FINDING 06.02

THE SCHOOL FEDERAL PROJECTS FUND HAD A CASH OVERDRAFT

(Internal Control – Reportable Condition Under Government Auditing Standards)

The School Federal Projects Fund had a cash overdraft of \$85,260 at June 30, 2006. The cash overdraft resulted from the office issuing checks that exceeded cash on deposit in the bank. This cash overdraft was liquidated subsequent to June 30, 2006, when proceeds from federal entitlement programs and federal grants were received.

RECOMMENDATION

Checks should not be issued in excess of cash on deposit in the bank.

**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, 2006**

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