

**ANNUAL FINANCIAL REPORT**  
**McKENZIE SPECIAL SCHOOL DISTRICT**



**FOR THE YEAR ENDED JUNE 30, 2007**



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**McKENZIE SPECIAL SCHOOL DISTRICT**  
**FOR THE YEAR ENDED JUNE 30, 2007**

*DEPARTMENT OF AUDIT*  
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*Comptroller of the Treasury*

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This financial report is available at [www.comptroller.state.tn.us](http://www.comptroller.state.tn.us)

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# ***Audit Highlights***

Annual Financial Report  
McKenzie Special School District  
For the Year Ended June 30, 2007

## ***Scope***

We have audited the basic financial statements of the McKenzie Special School District as of and for the year ended June 30, 2007.

## ***Results***

Our report on the McKenzie Special School District's financial statements is unqualified.

Our audit resulted in one finding and recommendation, which we have reviewed with McKenzie Special School District management. The detailed finding and recommendation is included in the Single Audit section of this report.

## ***Finding***

The following is a summary of the audit finding:

- ◆ The School Federal Projects Fund had a cash overdraft of \$8,122 at June 30, 2007.

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## INTRODUCTORY SECTION

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McKenzie Special School District Officials  
June 30, 2007

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**Officials**

James D. Ward, Jr., Director of Schools  
Stan George, Finance Director

**Board of Directors**

John Austin, Chairperson  
Brad Davis, Vice-Chairperson  
Jon Davis, Treasurer  
Greg Barker  
Monte Cunningham  
Jill Holland  
Karen McCaleb

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**FINANCIAL SECTION**

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STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
DEPARTMENT OF AUDIT  
DIVISION OF COUNTY AUDIT  
SUITE 1500  
JAMES K. POLK STATE OFFICE BUILDING  
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INDEPENDENT AUDITOR'S REPORT

March 14, 2008

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 the governmental activities, each major fund, and the aggregate remaining fund information of the McKenzie Special School District, as of and for the year ended June 30, 2007, which collectively comprise the district's basic financial statements as listed in the table of contents. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the McKenzie Special School District as of June 30, 2007, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 14, 2008, 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.

As described in Note V.B., the McKenzie Special School District has implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. For the first time, the financial statements include the government-wide financial statements.

The management of the McKenzie Special School District did not prepare the management’s discussion and analysis. The management’s discussion and analysis section is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United State of America.

The budgetary comparison and pension information on pages 39 through 43 are not required parts of the basic financial statements but they do provide 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 the miscellaneous schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section 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,



John G. Morgan  
Comptroller of the Treasury

JGM/yu

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# **BASIC FINANCIAL STATEMENTS**

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Exhibit A

McKenzie Special School District  
Statement of Net Assets  
June 30, 2007

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Equity in Pooled Cash and Investments	\$ 4,040,392
Inventories	26,188
Accounts Receivable	1,163
Due from Other Governments	287,341
Prepaid Items	75,587
Property Taxes Receivable	1,356,414
Allowance for Uncollectible Property Taxes	(72,413)
Capital Assets:	
Assets Not Depreciated:	
Land	381,441
Construction in Progress	249,602
Assets Net of Accumulated Depreciation:	
Buildings and Improvements	8,332,409
Other Capital Assets	192,361
Total Assets	<u>\$ 14,870,485</u>

<u>LIABILITIES</u>	
Accounts Payable	\$ 37,334
Accrued Payroll	1,478
Payroll Deductions Payable	190,413
Cash Overdraft	8,122
Contracts Payable	168,219
Retainage Payable	22,055
Accrued Interest Payable	104,617
Deferred Revenue - Current Property Taxes	1,233,018
Noncurrent Liabilities:	
Due Within One Year	617,755
Due in More Than One Year	8,708,334
Total Liabilities	<u>\$ 11,091,345</u>

<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	\$ (170,276)
Restricted for:	
School Federal Projects	11,762
Central Cafeteria	254,254
Debt Service	565,400
Other Purposes	156,379
Unrestricted	<u>2,961,621</u>
Total Net Assets	<u>\$ 3,779,140</u>

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

Exhibit B

McKenzie Special School District  
Statement of Activities  
For the Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Total Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instruction	\$ 5,285,340	\$ 5,189	\$ 554,048	\$ 22,061	\$ (4,704,042)
Support Services	2,286,553	218	29,960	0	(2,256,375)
Operation of Non-Instructional Services	870,133	267,866	585,499	0	(16,768)
Interest on Long-term Debt	426,829	0	0	0	(426,829)
Other Debt Service	1,012	0	0	0	(1,012)
Total Governmental Activities	<u>\$ 8,869,867</u>	<u>\$ 273,273</u>	<u>\$ 1,169,507</u>	<u>\$ 22,061</u>	<u>\$ (7,405,026)</u>
General Revenues:					
Taxes:					
Property Taxes Levied for General Purposes					\$ 1,201,597
Property Taxes Levied for Debt Service					114,986
Local Option Sales Taxes					658,774
Other Local Taxes					1,341
Grants and Contributions Not Restricted to Specific Programs					5,472,455
Unrestricted Investment Earnings					151,732
Miscellaneous					18,397
Sale of Property and Equipment					6,937
Total General Revenues					<u>\$ 7,626,219</u>
Change in Net Assets					\$ 221,193
Net Assets, July 1, 2006					<u>3,557,947</u>
Net Assets, June 30, 2007					<u>\$ 3,779,140</u>

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

Exhibit C-1

McKenzie Special School District  
 Balance Sheet - Governmental Funds  
 June 30, 2007

	Major Funds		Nonmajor	Total
	General Purpose School	Education Debt Service	Funds Other Governmental Funds	
<u>ASSETS</u>				
Equity in Pooled Cash and Investments	\$ 3,162,287	\$ 661,123	\$ 216,982	\$ 4,040,392
Inventories	0	0	26,188	26,188
Accounts Receivable	1,163	0	0	1,163
Due from Other Governments	240,689	6,722	39,930	287,341
Property Taxes Receivable	768,183	588,231	0	1,356,414
Allowance for Uncollectible Property Taxes	(41,087)	(31,326)	0	(72,413)
Prepaid Items	75,587	0	0	75,587
Total Assets	<u>\$ 4,206,822</u>	<u>\$ 1,224,750</u>	<u>\$ 283,100</u>	<u>\$ 5,714,672</u>
<u>LIABILITIES AND FUND BALANCES</u>				
<u>Liabilities</u>				
Accounts Payable	\$ 28,372	\$ 0	\$ 8,962	\$ 37,334
Accrued Payroll	1,478	0	0	1,478
Payroll Deductions Payable	190,413	0	0	190,413
Cash Overdraft	0	0	8,122	8,122
Contracts Payable	168,219	0	0	168,219
Retainage Payable	22,055	0	0	22,055
Deferred Revenue - Current Property Taxes	698,106	534,912	0	1,233,018
Deferred Revenue - Delinquent Property Taxes	26,127	19,821	0	45,948
Other Deferred Revenues	55,710	0	0	55,710
Total Liabilities	<u>\$ 1,190,480</u>	<u>\$ 554,733</u>	<u>\$ 17,084</u>	<u>\$ 1,762,297</u>
<u>Fund Balances</u>				
Reserved for Encumbrances	\$ 585,696	\$ 0	\$ 8,418	\$ 594,114
Reserved for Capital Outlay	33,510	0	0	33,510
Reserved for Career Ladder - Extended Contract	113,708	0	0	113,708
Reserved for Career Ladder Program	9,161	0	0	9,161
Reserved for Title I Grants to Local Education Agencies	0	0	966	966
Reserved for Special Education - Grants to States	0	0	2,148	2,148
Other Federal Reserves	0	0	295	295
Unreserved, Reported In:				
General Fund	2,274,267	0	0	2,274,267
Special Revenue Funds	0	0	254,189	254,189
Debt Service Fund	0	670,017	0	670,017
Total Fund Balances	<u>\$ 3,016,342</u>	<u>\$ 670,017</u>	<u>\$ 266,016</u>	<u>\$ 3,952,375</u>
Total Liabilities and Fund Balances	<u>\$ 4,206,822</u>	<u>\$ 1,224,750</u>	<u>\$ 283,100</u>	<u>\$ 5,714,672</u>

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

Exhibit C-2

McKenzie Special School District  
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets  
June 30, 2007

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

Total fund balances - balance sheet - governmental funds (Exhibit C-1)		\$	3,952,375
(1) Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.			
Add: land	\$	381,441	
Add: construction in progress		249,602	
Add: buildings and improvements net of accumulated depreciation		8,332,409	
Add: other capital assets net of accumulated depreciation		<u>192,361</u>	9,155,813
(2) Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.			
Less: notes payable	\$	(826,089)	
Less: bonds payable		(8,500,000)	
Less: accrued interest on notes and bonds		<u>(104,617)</u>	(9,430,706)
(3) Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the governmental funds.			<u>101,658</u>
Net assets of governmental activities (Exhibit A)		\$	<u><u>3,779,140</u></u>

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

## Exhibit C-3

McKenzie Special School District  
Statement of Revenues, Expenditures,  
and Changes in Fund Balances -  
Governmental Funds  
For the Year Ended June 30, 2007

	Major Funds		Nonmajor	Total Governmental Funds
	General Purpose School	Education Debt Service	Other Govern- mental Funds	
<u>Revenues</u>				
Local Taxes	\$ 1,395,301	\$ 557,011	\$ 0	\$ 1,952,312
Licenses and Permits	674	0	0	674
Charges for Current Services	5,234	0	267,866	273,100
Other Local Revenues	182,703	0	16,435	199,138
State of Tennessee	5,571,688	0	8,878	5,580,566
Federal Government	20,933	0	1,016,509	1,037,442
Total Revenues	<u>\$ 7,176,533</u>	<u>\$ 557,011</u>	<u>\$ 1,309,688</u>	<u>\$ 9,043,232</u>
<u>Expenditures</u>				
Current:				
Instruction	\$ 4,486,316	\$ 0	\$ 548,565	\$ 5,034,881
Support Services	2,014,932	10,826	34,485	2,060,243
Operation of Non-Instructional Services	81,891	0	725,030	806,921
Capital Outlay	275,684	0	0	275,684
Debt Service:				
Principal on Debt	0	325,328	0	325,328
Interest on Debt	0	427,617	0	427,617
Other Debt Service	0	1,012	0	1,012
Total Expenditures	<u>\$ 6,858,823</u>	<u>\$ 764,783</u>	<u>\$ 1,308,080</u>	<u>\$ 8,931,686</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 317,710</u>	<u>\$ (207,772)</u>	<u>\$ 1,608</u>	<u>\$ 111,546</u>
<u>Other Financing Sources (Uses)</u>				
Notes Issued	\$ 800,000	\$ 0	\$ 0	\$ 800,000
Transfers In	0	237,548	0	237,548
Transfers Out	(237,548)	0	0	(237,548)
Total Other Financing Sources (Uses)	<u>\$ 562,452</u>	<u>\$ 237,548</u>	<u>\$ 0</u>	<u>\$ 800,000</u>
Net Change in Fund Balances	\$ 880,162	\$ 29,776	\$ 1,608	\$ 911,546
Fund Balance, July 1, 2006	2,136,180	640,241	264,408	3,040,829
Fund Balance, June 30, 2007	<u>\$ 3,016,342</u>	<u>\$ 670,017</u>	<u>\$ 266,016</u>	<u>\$ 3,952,375</u>

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

Exhibit C-4

McKenzie Special School District  
Reconciliation of the Statement of Revenues, Expenditures, and Changes in  
Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2007

Amounts reported for governmental activities in the statement of activities (Exhibit B) are different because:

Net change in fund balances - total governmental funds (Exhibit C-3)		\$ 911,546
(1) Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their useful lives and reported as depreciation expense. The difference between capital outlays and depreciation is itemized as follows:		
Add: capital assets purchased in the current period	\$ 249,602	
Less: current year depreciation expense	<u>(482,433)</u>	(232,831)
(2) The net effect of various miscellaneous transactions involving capital assets (sales, trade-ins, and donations) is to decrease net assets.		
Add: gain on disposal of capital assets	\$ 6,937	
Less: proceeds received from the disposal of capital assets	<u>(12,000)</u>	(5,063)
(3) Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Add: deferred delinquent property taxes and other deferred June 30, 2007	\$ 101,658	
Less: deferred delinquent property taxes and other deferred June 30, 2006	<u>(80,233)</u>	21,425
(4) The issuance of long-term debt (e.g. notes, bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Less: note proceeds	\$ (800,000)	
Add: principal payments on notes	25,328	
Add: principal payments on bonds	<u>300,000</u>	(474,672)
(5) Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		
Change in accrued interest payable		<u>788</u>
Change in net assets of governmental activities (Exhibit B)		<u>\$ 221,193</u>

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

**MCKENZIE SPECIAL SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The McKenzie Special School District's financial statements are 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 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 McKenzie Special School District. The district has no components units. The district operates a public school system and receives funding from local, state, and federal government sources.

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the district. For the most part, the effect of interfund activity has been removed from these statements. However, when applicable, interfund services provided and used between functions are not eliminated in the process of consolidation in the statement of activities. Governmental activities are normally supported by taxes and intergovernmental revenues. Business-type activities, which rely to a significant extent on fees and charges, are required to be reported separately from governmental activities in government-wide financial statements. However, the McKenzie Special School District does not have any business-type activities to report.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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** – These funds account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government’s policy to use restricted revenues first, then unrestricted resources as they are needed.

**D. Assets, Liabilities, and Net Assets or 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 or statements of net assets as Equity in Pooled Cash and Investments. Income from these pooled investments is assigned to the General Purpose School and Central Cafeteria funds. 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 2.87 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.

Retainage payable in the district's General Purpose School Fund represents amounts withheld from payments made on construction contracts pending completion of the projects. These amounts are held by the district as Equity in Pooled Cash and Investments.

**3. Inventories and Prepaid Items**

Inventories 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.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

**4. Capital Assets**

Governmental funds do not capitalize the cost of capital outlays; these funds report capital outlays as expenditures upon acquisition.

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the district as assets with an initial, individual cost of \$15,000 or more and an estimated useful life of more than three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, equipment, and infrastructure of the district are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buiding and Improvements	15 - 30
Other Capital Assets	5 - 10
Infrastructure	15

**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**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Debt premiums and discounts, as well as issuance costs are deferred and amortized over the life of the debt using the straight-line method. Debt issuance costs are reported as deferred charges and amortized over the term of the related debt. In refunding transactions, the difference between the reacquisition price and the net carrying amount of the old debt is netted against the new debt and amortized over the remaining life of the refunded debt or the life of the new debt issued, whichever is shorter.

In the fund financial statements, 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.

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.

## 7. Net Assets and Fund Equity

In the government-wide financial statements, equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriations or are legally restricted by outside parties for use for a specific purpose.

## II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

### A. **Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets**

Exhibit C-2 includes explanations of the nature of individual elements of items required to reconcile the balance sheet of governmental funds to the government-wide statement of net assets.

### B. **Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**

Exhibit C-4 includes explanations of the nature of individual elements of items required to reconcile the net change in fund balances – total governmental funds with the changes in net assets of governmental activities reported in the government-wide statement of activities.

### III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

#### A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for all governmental 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, Alternative Instruction Program, Special Education Program, Vocational Education Program, 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 Fund had a cash overdraft of \$8,122 at June 30, 2007. This cash overdraft resulted from issuing checks that exceeded available funds. This cash overdraft was liquidated subsequent to June 30, 2007.

### IV. 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 or statements of net assets 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, 2007, the district had the following investments carried at cost. All investments are in the district's investment pool.

Investment	Maturities	Cost
State Treasurer's Investment Pool	Daily	\$ 3,393,800

**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, 2007, the district's investment in the State Treasurer's Investment Pool was unrated.

**B. Capital Assets**

Capital assets activity for the year ended June 30, 2007, was as follows:

**Governmental Activities:**

	Balance 7-1-06	Increases	Decreases	Balance 6-30-07
Capital Assets Not Depreciated:				
Land	\$ 386,504	\$ 0	\$ (5,063)	\$ 381,441
Construction in Progress	0	249,602	0	249,602
Total Capital Assets Not Depreciated	\$ 386,504	\$ 249,602	\$ (5,063)	\$ 631,043
Capital Assets Depreciated:				
Buildings and Improvements	\$ 15,316,912	\$ 0	\$ 0	\$ 15,316,912
Other Capital Assets	642,360	0	0	642,360
Total Capital Assets Depreciated	\$ 15,959,272	\$ 0	\$ 0	\$ 15,959,272

**Governmental Activities (Cont.):**

	Balance 7-1-06	Increases	Decreases	Balance 6-30-07
Less Accumulated Depreciation For:				
Buildings and Improvements	\$ 6,535,660	\$ 448,843	\$ 0	\$ 6,984,503
Other Capital Assets	416,409	33,590	0	449,999
Total Accumulated Depreciation	<u>\$ 6,952,069</u>	<u>\$ 482,433</u>	<u>\$ 0</u>	<u>\$ 7,434,502</u>
Total Capital Assets Depreciated, Net	<u>\$ 9,007,203</u>	<u>\$ (482,433)</u>	<u>\$ 0</u>	<u>\$ 8,524,770</u>
Governmental Activities Capital Assets, Net	<u>\$ 9,393,707</u>	<u>\$ (232,831)</u>	<u>\$ (5,063)</u>	<u>\$ 9,155,813</u>

Depreciation expense was charged to functions of the district as follows:

**Governmental Activities:**

Instruction	\$ 429,685
Support Services	24,595
Operation of Non-Instructional Services	<u>28,153</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 482,433</u>

**C. Construction Commitments**

At June 30, 2007, the General Purpose School Fund had uncompleted construction contracts of \$509,553 for the construction of a football stadium and field house. Funding has been received for these future expenditures.

**D. Interfund Transfers**

Interfund transfers for the year ended June 30, 2007, consisted of the following amounts:

Transfers Out	Transfers In Education Debt Service Fund
General Purpose School Fund	\$ 237,548

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.

**E. Long-term Debt**

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, 2007, will be retired from the Education Debt Service Fund.

General obligation bonds and capital outlay notes outstanding as of June 30, 2007, are as follows:

Type	Interest Rates	Original Amount of Issue	Balance 6-30-07
General Obligation Bonds - Refunding	4.1 to 5 %	\$ 8,990,000	\$ 8,500,000
Capital Outlay Notes	3 to 4.06	967,413	826,089

The annual requirements to amortize all general obligation bonds and notes outstanding as of June 30, 2007, including interest payments, are presented in the following table:

Year Ending June 30	Bonds		Note	
	Principal	Interest	Principal	Interest
2008	\$ 325,000	\$ 410,425	\$ 292,755	\$ 30,637
2009	350,000	396,125	266,667	18,954
2010	375,000	380,550	266,667	8,127
2011	410,000	363,488	0	0
2012	435,000	344,627	0	0
2013-2017	2,725,000	1,382,261	0	0
2018-2022	3,880,000	607,830	0	0
Total	\$ 8,500,000	\$ 3,885,306	\$ 826,089	\$ 57,718

There is \$670,017 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, 2007, was as follows:

	Bonds	Notes
Governmental Activities:		
Balance, July 1, 2006	\$ 8,800,000	\$ 51,417
Additions	0	800,000
Deductions	(300,000)	(25,328)
Balance, June 30, 2007	\$ 8,500,000	\$ 826,089
Balance Due Within One Year	\$ 325,000	\$ 292,755

## V. 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 Risk Management Trust (TN-RMT), which is a public entity risk pool created under the auspices of the Tennessee Governmental Tort Liability Act to provide governmental insurance coverage. The district pays annual premiums to the TN-RMT for its general liability, property, casualty, and workers' compensation insurance coverage. The creation of the TN-RMT provides for it to be self-sustaining through member premiums.

### **B. Accounting Change**

At the beginning of the year, the McKenzie Special School District implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. In the prior year, the McKenzie Special School District had elected only to implement the provisions of Statement No. 34 that related to the fund financial statements.

### **C. Contingent Liabilities**

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

### **D. Retirement Commitments**

#### **Employees**

#### **Plan Description**

Employees of the 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 <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 ending June 30, 2007, was 7.09 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 ending June 30, 2007, the district's annual pension cost of \$50,193 to TCRS was equal to the district's required and actual contributions. The required contribution was determined as part of the July 1, 2005, 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
6-30-07	\$50,193	100%	\$0
6-30-06	38,204	100	0
6-30-05	34,598	100	0

## **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 <http://www.treasury.state.tn.us>.

### **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 ending June 30, 2007, was 6.13 percent of annual covered payroll. The employer contribution requirement for the district is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ending June 30, 2007, 2006, and 2005, were \$260,887, \$223,756, and \$222,060, respectively, equal to the required contributions for each year.

**E. 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.

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**REQUIRED SUPPLEMENTARY  
INFORMATION**

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Exhibit D-1

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, 2007

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2006	Add: Encumbrances 6/30/2007	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
<u>Revenues</u>							
Local Taxes	\$ 1,395,301	\$ 0	\$ 0	\$ 1,395,301	\$ 1,211,857	\$ 1,211,857	\$ 183,444
Licenses and Permits	674	0	0	674	400	400	274
Charges for Current Services	5,234	0	0	5,234	2,000	2,000	3,234
Other Local Revenues	182,703	0	0	182,703	70,750	70,750	111,953
State of Tennessee	5,571,688	0	0	5,571,688	5,373,250	5,553,275	18,413
Federal Government	20,933	0	0	20,933	3,500	19,559	1,374
Total Revenues	\$ 7,176,533	\$ 0	\$ 0	\$ 7,176,533	\$ 6,661,757	\$ 6,857,841	\$ 318,692
<u>Expenditures</u>							
<u>Instruction</u>							
Regular Instruction Program	\$ 3,968,849	\$ (81,913)	\$ 57,426	\$ 3,944,362	\$ 3,804,695	\$ 4,001,078	\$ 56,716
Alternative Instruction Program	18,194	0	0	18,194	17,850	18,195	1
Special Education Program	355,019	0	0	355,019	342,363	371,680	16,661
Vocational Education Program	144,254	0	0	144,254	145,848	148,596	4,342
<u>Support Services</u>							
Attendance	0	0	0	0	300	300	300
Health Services	42,936	0	0	42,936	41,770	43,543	607
Other Student Support	195,326	0	0	195,326	190,311	196,904	1,578
Regular Instruction Program	323,215	0	0	323,215	312,821	327,375	4,160
Special Education Program	27,399	0	0	27,399	28,176	28,477	1,078
Vocational Education Program	7,767	0	0	7,767	7,726	7,813	46
Board of Education	110,526	0	0	110,526	121,111	121,111	10,585
Director of Schools	126,607	0	225	126,832	129,632	130,780	3,948
Office of the Principal	440,368	0	0	440,368	440,746	447,927	7,559
Fiscal Services	87,242	0	0	87,242	85,953	88,013	771
Operation of Plant	479,249	0	0	479,249	507,535	512,217	32,968

(Continued)

Exhibit D-1

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 7/1/2006	Add: Encumbrances 6/30/2007	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	\$ 174,297	\$ 0	\$ 7,050	\$ 181,347	\$ 156,498	\$ 191,816	\$ 10,469
<u>Operation of Non-Instructional Services</u>							
Community Services	2,500	0	0	2,500	2,500	2,500	0
Early Childhood Education	79,391	0	11,442	90,833	88,374	92,761	1,928
<u>Capital Outlay</u>							
Regular Capital Outlay	275,684	0	509,553	785,237	0	822,000	36,763
Total Expenditures	\$ 6,858,823	\$ (81,913)	\$ 585,696	\$ 7,362,606	\$ 6,424,209	\$ 7,553,086	\$ 190,480
Excess (Deficiency) of Revenues							
Over Expenditures	\$ 317,710	\$ 81,913	\$ (585,696)	\$ (186,073)	\$ 237,548	\$ (695,245)	\$ 509,172
<u>Other Financing Sources (Uses)</u>							
Notes Issued	\$ 800,000	\$ 0	\$ 0	\$ 800,000	\$ 0	\$ 800,000	\$ 0
Transfers Out	(237,548)	0	0	(237,548)	(237,548)	(237,548)	0
Total Other Financing Sources (Uses)	\$ 562,452	\$ 0	\$ 0	\$ 562,452	\$ (237,548)	\$ 562,452	\$ 0
Net Change in Fund Balance							
Fund Balance, July 1, 2006	\$ 2,136,180	\$ (81,913)	\$ 0	\$ 2,054,267	\$ 1,100,000	\$ 1,100,000	\$ 954,267
Fund Balance, June 30, 2007							
	\$ 3,016,342	\$ 0	\$ (585,696)	\$ 2,430,646	\$ 1,100,000	\$ 967,207	\$ 1,463,439

Exhibit D-2

McKinzie Special School District  
Schedule of Funding Progress – Pension Plan  
June 30, 2007

(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	95.08 %	\$ 549	7.42 %
6-30-03	668	712	44	93.82	50	8.73
6-30-01	529	595	66	88.91	458	14.41

**MCKENZIE SPECIAL SCHOOL DISTRICT**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**For the Year Ended June 30, 2007**

**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, Alternative Instruction Program, Special Education Program, Vocational Education Program, 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.

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

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# Nonmajor Governmental Funds

## Special Revenue Funds

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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.

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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 E-1

McKenzie Special School District  
Combining Balance Sheet - Nonmajor Governmental Funds  
June 30, 2007

	<u>Special Revenue Funds</u>		Total Nonmajor Governmental Funds
	School Federal Projects	Central Cafeteria	
<u>ASSETS</u>			
Cash	\$ 0	\$ 216,982	\$ 216,982
Inventories	0	26,188	26,188
Due from Other Governments	19,884	20,046	39,930
Total Assets	<u>\$ 19,884</u>	<u>\$ 263,216</u>	<u>\$ 283,100</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>Liabilities</u>			
Accounts Payable	\$ 0	\$ 8,962	\$ 8,962
Cash Overdraft	8,122	0	8,122
Total Liabilities	<u>\$ 8,122</u>	<u>\$ 8,962</u>	<u>\$ 17,084</u>
<u>Fund Balances</u>			
Reserved for Encumbrances	\$ 8,353	\$ 65	\$ 8,418
Reserved for Title I Grants to Local Education Agencies	966	0	966
Reserved for Special Education - Grants to States	2,148	0	2,148
Other Federal Reserves	295	0	295
Unreserved	0	254,189	254,189
Total Fund Balances	<u>\$ 11,762</u>	<u>\$ 254,254</u>	<u>\$ 266,016</u>
Total Liabilities and Fund Balances	<u>\$ 19,884</u>	<u>\$ 263,216</u>	<u>\$ 283,100</u>

Exhibit E-2

McKenzie Special School District  
Combining Statement of Revenues, Expenditures,  
and Changes in Fund Balances -  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2007

	<u>Special Revenue Funds</u>		Total
	School Federal Projects	Central Cafeteria	Nonmajor Governmental Funds
<u>Revenues</u>			
Charges for Current Services	\$ 0	\$ 267,866	\$ 267,866
Other Local Revenues	0	16,435	16,435
State of Tennessee	0	8,878	8,878
Federal Government	577,703	438,806	1,016,509
Total Revenues	<u>\$ 577,703</u>	<u>\$ 731,985</u>	<u>\$ 1,309,688</u>
<u>Expenditures</u>			
Current:			
Instruction	\$ 548,565	\$ 0	\$ 548,565
Support Services	34,485	0	34,485
Operation of Non-Instructional Services	0	725,030	725,030
Total Expenditures	<u>\$ 583,050</u>	<u>\$ 725,030</u>	<u>\$ 1,308,080</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (5,347)</u>	<u>\$ 6,955</u>	<u>\$ 1,608</u>
Net Change in Fund Balances	\$ (5,347)	\$ 6,955	\$ 1,608
Fund Balance, July 1, 2006	17,109	247,299	264,408
Fund Balance, June 30, 2007	<u>\$ 11,762</u>	<u>\$ 254,254</u>	<u>\$ 266,016</u>

Exhibit E-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, 2007

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2006	Add: Encumbrances 6/30/2007	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
<u>Revenues</u>							
Federal Government	\$ 577,703	\$ 0	\$ 0	\$ 577,703	\$ 550,731	\$ 625,447	\$ (47,744)
Total Revenues	\$ 577,703	\$ 0	\$ 0	\$ 577,703	\$ 550,731	\$ 625,447	\$ (47,744)
<u>Expenditures</u>							
<u>Instruction</u>							
Regular Instruction Program	\$ 244,738	\$ 0	\$ 220	\$ 244,958	\$ 224,034	\$ 257,235	\$ 12,277
Special Education Program	294,967	(98)	0	294,869	272,730	326,149	31,280
Vocational Education Program	8,860	0	7,029	15,889	16,573	15,769	(120)
<u>Support Services</u>							
Other Student Support	3,942	0	0	3,942	3,138	3,942	0
Regular Instruction Program	14,019	0	954	14,973	19,024	22,247	7,274
Special Education Program	16,524	0	150	16,674	15,232	16,995	321
Total Expenditures	\$ 583,050	\$ (98)	\$ 8,353	\$ 591,305	\$ 550,731	\$ 642,337	\$ 51,032
Excess (Deficiency) of Revenues Over Expenditures	\$ (5,347)	\$ 98	\$ (8,353)	\$ (13,602)	\$ 0	\$ (16,890)	\$ 3,288
Net Change in Fund Balance	\$ (5,347)	\$ 98	\$ (8,353)	\$ (13,602)	\$ 0	\$ (16,890)	\$ 3,288
Fund Balance, July 1, 2006	17,109	(98)	0	17,011	0	16,890	121
Fund Balance, June 30, 2007	\$ 11,762	\$ 0	\$ (8,353)	\$ 3,409	\$ 0	\$ 0	\$ 3,409

Exhibit E-4

McKenzie Special School District  
Schedule of Revenues, Expenditures, and Changes  
in Fund Balance - Actual (Budgetary Basis) and Budget  
Central Cafeteria Fund  
For the Year Ended June 30, 2007

	Actual (GAAP Basis)	Add: Encumbrances 6/30/2007	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
				Original	Final	
<u>Revenues</u>						
Charges for Current Services	\$ 267,866	\$ 0	\$ 267,866	\$ 258,000	\$ 267,500	\$ 366
Other Local Revenues	16,435	0	16,435	750	8,750	7,685
State of Tennessee	8,878	0	8,878	8,700	8,700	178
Federal Government	438,806	0	438,806	386,000	432,000	6,806
Total Revenues	<u>\$ 731,985</u>	<u>\$ 0</u>	<u>\$ 731,985</u>	<u>\$ 653,450</u>	<u>\$ 716,950</u>	<u>\$ 15,035</u>
<u>Expenditures</u>						
<u>Operation of Non-Instructional Services</u>						
Food Service	\$ 725,030	\$ 65	\$ 725,095	\$ 653,450	\$ 736,883	\$ 11,788
Total Expenditures	<u>\$ 725,030</u>	<u>\$ 65</u>	<u>\$ 725,095</u>	<u>\$ 653,450</u>	<u>\$ 736,883</u>	<u>\$ 11,788</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ 6,955	\$ (65)	\$ 6,890	\$ 0	\$ (19,933)	\$ 26,823
Net Change in Fund Balance	\$ 6,955	\$ (65)	\$ 6,890	\$ 0	\$ (19,933)	\$ 26,823
Fund Balance, July 1, 2006	247,299	0	247,299	0	19,933	227,366
Fund Balance, June 30, 2007	<u>\$ 254,254</u>	<u>\$ (65)</u>	<u>\$ 254,189</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 254,189</u>

# **Major Governmental Fund**

## **Education Debt Service Fund**

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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.

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Exhibit F

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, 2007

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 557,011	\$ 526,981	\$ 526,981	\$ 30,030
Total Revenues	\$ 557,011	\$ 526,981	\$ 526,981	\$ 30,030
<u>Expenditures</u>				
<u>Support Services</u>				
Board of Education	\$ 10,826	\$ 15,510	\$ 15,510	\$ 4,684
<u>Principal on Debt</u>				
Education	325,328	325,329	325,329	1
<u>Interest on Debt</u>				
Education	427,617	427,618	427,618	1
<u>Other Debt Service</u>				
Education	1,012	2,000	2,000	988
Total Expenditures	\$ 764,783	\$ 770,457	\$ 770,457	\$ 5,674
Excess (Deficiency) of Revenues Over Expenditures	\$ (207,772)	\$ (243,476)	\$ (243,476)	\$ 35,704
<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	\$ 29,776	\$ (5,928)	\$ (5,928)	\$ 35,704
Fund Balance, July 1, 2006	640,241	750,000	750,000	(109,759)
Fund Balance, June 30, 2007	\$ 670,017	\$ 744,072	\$ 744,072	\$ (74,055)

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## MISCELLANEOUS SCHEDULES

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Exhibit G-1

McKenzie Special School District  
Schedule of Changes in Long-term Notes and Bonds  
For the Year Ended June 30, 2007

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding 7-1-06	Issued During Period	Paid and/or Matured During Period	Outstanding 6-30-07
<u>NOTES PAYABLE</u>								
<u>Payable through Education Debt Service Fund</u>								
Energy Efficiency Capital Outlay	\$ 167,413	3 %	12-4-00	2-1-08	\$ 51,417	\$ 0	\$ 25,328	\$ 26,089
Football Stadium and Fieldhouse	800,000	4.06	6-11-07	6-11-10	0	800,000	0	800,000
Total Notes Payable					<u>\$ 51,417</u>	<u>\$ 800,000</u>	<u>\$ 25,328</u>	<u>\$ 826,089</u>
<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	\$ 260,000	\$ 0	\$ 260,000	\$ 0
School Refunding - Series 1998	8,990,000	4.1 to 5	8-1-1998	4-1-22	8,540,000	0	40,000	8,500,000
Total Bonds Payable					<u>\$ 8,800,000</u>	<u>\$ 0</u>	<u>\$ 300,000</u>	<u>\$ 8,500,000</u>

Exhibit G-2

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

Year Ending June 30	Bond Requirements	Interest Requirements	Total Requirements
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	\$ 8,500,000	\$ 3,885,306	\$ 12,385,306

Exhibit G-3

McKenzie Special School District  
Schedule of Transfers  
For the Year Ended June 30, 2007

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

Exhibit G-4

McKenzie Special School District  
Schedule of Salaries and Official Bonds of Principal Officials  
For the Year Ended June 30, 2007

Official	Authorization for Salary	Salary Paid During Period	Bond	Surety
Director of Schools	State Board of Education and McKenzie Special School District Board of Directors	\$ 81,015 (1)	\$ 248,000	The Ohio Casualty Insurance Company
Finance Director	McKenzie Special School District Board of Directors	48,167	150,000	Tennessee Risk Management Trust
Employees' Blanket Bond			150,000	"

(1) Includes chief executive officer training supplement of \$1,000.

Exhibit G-5

McKenzie Special School District  
Schedule of Detailed Revenues -  
All Governmental Fund Types  
For the Year Ended June 30, 2007

	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	\$ 659,687	\$ 0	\$ 0	\$ 0	\$ 659,687
<u>Statutory Local Taxes</u>					
Interstate Telecommunications Tax	1,368	0	0	0	1,368
<u>City/School District Property Taxes</u>					
Current Property Tax	666,129	0	0	503,271	1,169,400
Prior Year Property Tax	55,920	0	0	44,491	100,411
Interest and Penalty	3,581	0	0	2,713	6,294
Payments in-Lieu-of Taxes	8,616	0	0	6,536	15,152
Total Local Taxes	\$ 1,395,301	\$ 0	\$ 0	\$ 557,011	\$ 1,952,312
<u>Licenses and Permits</u>					
<u>Licenses</u>					
Marriage Licenses	\$ 674	\$ 0	\$ 0	\$ 0	\$ 674
Total Licenses and Permits	\$ 674	\$ 0	\$ 0	\$ 0	\$ 674
<u>Charges for Current Services</u>					
<u>Fees</u>					
Copy Fees	\$ 45	\$ 0	\$ 0	\$ 0	\$ 45
Vending Machine Collections	3,964	0	0	0	3,964
<u>Education Charges</u>					
Tuition - Other	1,225	0	0	0	1,225
Lunch Payments - Children	0	0	133,462	0	133,462
Lunch Payments - Adults	0	0	16,652	0	16,652
Income from Breakfast	0	0	16,602	0	16,602
A la carte Sales	0	0	92,410	0	92,410
<u>Other Charges for Services</u>					
Other Charges for Services	0	0	8,740	0	8,740
Total Charges for Current Services	\$ 5,234	\$ 0	\$ 267,866	\$ 0	\$ 273,100
<u>Other Local Revenues</u>					
<u>Recurring Items</u>					
Investment Income	\$ 151,732	\$ 0	\$ 15,836	\$ 0	\$ 167,568
Lease/Rentals	218	0	0	0	218
Miscellaneous Refunds	17,382	0	599	0	17,981
<u>Nonrecurring Items</u>					
Sale of Property	12,000	0	0	0	12,000
Damages Recovered from Individuals	371	0	0	0	371
Contributions and Gifts	1,000	0	0	0	1,000
Total Other Local Revenues	\$ 182,703	\$ 0	\$ 16,435	\$ 0	\$ 199,138
<u>State of Tennessee</u>					
<u>State Education Funds</u>					
Basic Education Program	\$ 5,271,374	\$ 0	\$ 0	\$ 0	\$ 5,271,374
Early Childhood Education	91,362	0	0	0	91,362
School Food Service	0	0	8,878	0	8,878
Driver Education	5,530	0	0	0	5,530
Other State Education Funds	29,583	0	0	0	29,583
Career Ladder Program	89,972	0	0	0	89,972

(Continued)

Exhibit G-5

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	\$ 52,892	\$ 0	\$ 0	\$ 0	\$ 52,892
<u>Other State Revenues</u>					
Mixed Drink Tax	903	0	0	0	903
Other State Grants	8,011	0	0	0	8,011
Other State Revenues	22,061	0	0	0	22,061
Total State of Tennessee	\$ 5,571,688	\$ 0	\$ 8,878	\$ 0	\$ 5,580,566
<u>Federal Government</u>					
<u>Federal Through State</u>					
USDA School Lunch Program	\$ 0	\$ 0	\$ 305,216	\$ 0	\$ 305,216
Breakfast	0	0	131,838	0	131,838
USDA - Other	0	0	1,752	0	1,752
Vocational Education - Basic Grants to States	0	19,711	0	0	19,711
Title I Grants to Local Education Agencies	0	194,736	0	0	194,736
Innovative Education Program Strategies	0	2,066	0	0	2,066
Special Education - Grants to States	12,110	280,650	0	0	292,760
Special Education Preschool Grants	0	19,965	0	0	19,965
Eisenhower Professional Development State Grants	0	57,383	0	0	57,383
Other Federal through State	6,134	3,192	0	0	9,326
<u>Direct Federal Revenue</u>					
Public Law 874 - Maintenance and Operation	2,689	0	0	0	2,689
Total Federal Government	\$ 20,933	\$ 577,703	\$ 438,806	\$ 0	\$ 1,037,442
Total	\$ 7,176,533	\$ 577,703	\$ 731,985	\$ 557,011	\$ 9,043,232

Exhibit G-6

McKenzie Special School District  
Schedule of Detailed Expenditures -  
All Governmental Fund Types  
For the Year Ended June 30, 2007

General Purpose School Fund

Instruction

Regular Instruction Program

Teachers	\$ 2,835,678	
Career Ladder Program	51,996	
Career Ladder Extended Contracts	49,979	
Homebound Teachers	1,690	
Educational Assistants	24,719	
Other Salaries and Wages	2,330	
Certified Substitute Teachers	23,059	
Non-certified Substitute Teachers	24,582	
Social Security	174,033	
State Retirement	180,386	
Medical Insurance	233,348	
Unemployment Compensation	3,013	
Employer Medicare	40,845	
Data Processing Services	334	
Evaluation and Testing	9,209	
Maintenance and Repair Services - Equipment	2,180	
Medical and Dental Services	229	
Printing, Stationery, and Forms	477	
Other Contracted Services	3,900	
Instructional Supplies and Materials	79,086	
Textbooks	98,992	
Fee Waivers	6,164	
Other Charges	24,210	
Furniture and Fixtures	4,290	
Regular Instruction Equipment	94,120	
Total Regular Instruction Program		\$ 3,968,849

Alternative Instruction Program

Contracts with Other School Systems	\$ 18,194	
Total Alternative Instruction Program		18,194

Special Education Program

Teachers	\$ 200,658
Career Ladder Program	8,000
Career Ladder Extended Contracts	3,981
Educational Assistants	25,859
Speech Pathologist	24,968
Social Security	15,129
State Retirement	16,418

(Continued)

Exhibit G-6

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

General Purpose School Fund (Cont.)

Instruction (Cont.)

Special Education Program (Cont.)

Medical Insurance	\$	21,501	
Unemployment Compensation		274	
Employer Medicare		3,538	
Contracts with Other School Systems		34,096	
Instructional Supplies and Materials		597	
Total Special Education Program			\$ 355,019

Vocational Education Program

Teachers	\$	111,805	
Career Ladder Program		3,000	
Social Security		6,301	
State Retirement		7,028	
Medical Insurance		14,247	
Unemployment Compensation		109	
Employer Medicare		1,474	
Instructional Supplies and Materials		290	
Total Vocational Education Program			144,254

Support Services

Health Services

Medical Personnel	\$	35,780	
Social Security		2,188	
State Retirement		2,537	
Unemployment Compensation		36	
Employer Medicare		512	
Postal Charges		2	
Drugs and Medical Supplies		455	
In Service/Staff Development		1,426	
Total Health Services			42,936

Other Student Support

Career Ladder Program	\$	2,500	
Guidance Personnel		138,869	
Career Ladder Extended Contracts		1,750	
Other Salaries and Wages		11,989	
Social Security		8,774	
State Retirement		9,518	
Medical Insurance		17,685	
Unemployment Compensation		113	

(Continued)

Exhibit G-6

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Other Student Support (Cont.)

Employer Medicare	\$	2,051	
Communication		1,248	
In Service/Staff Development		829	
Total Other Student Support			\$ 195,326

Regular Instruction Program

Supervisor/Director	\$	37,623	
Career Ladder Program		5,000	
Career Ladder Extended Contracts		6,294	
Librarians		126,269	
Instructional Computer Personnel		40,450	
Educational Assistants		21,500	
Social Security		13,616	
State Retirement		15,119	
Medical Insurance		22,302	
Unemployment Compensation		207	
Employer Medicare		3,184	
Communication		603	
Data Processing Services		15,487	
Dues and Memberships		124	
Travel		1,667	
Instructional Supplies and Materials		110	
Library Books/Media		6,631	
Periodicals		2,289	
In Service/Staff Development		2,080	
Administration Equipment		2,222	
Furniture and Fixtures		389	
Other Equipment		49	
Total Regular Instruction Program			323,215

Special Education Program

Supervisor/Director	\$	20,223	
Social Security		1,186	
State Retirement		1,240	
Medical Insurance		4,377	
Unemployment Compensation		13	
Employer Medicare		277	
Postal Charges		12	
In Service/Staff Development		71	
Total Special Education Program			27,399

(Continued)

Exhibit G-6

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Vocational Education Program

Supervisor/Director	\$	5,707	
Social Security		349	
State Retirement		350	
Medical Insurance		1,250	
Unemployment Compensation		4	
Employer Medicare		82	
In Service/Staff Development		25	
Total Vocational Education Program			\$ 7,767

Board of Education

Election Commission	\$	350	
Audit Services		15,172	
Dues and Memberships		3,796	
Maintenance and Repair Services - Records		1,250	
Other Contracted Services		947	
Office Supplies		313	
Liability Insurance		29,466	
Premiums on Corporate Surety Bonds		1,490	
Refunds		585	
Trustee's Commission		20,887	
Workers' Compensation Insurance		32,191	
In Service/Staff Development		1,180	
Refund to Applicant for Criminal Investigation		432	
Other Charges		2,467	
Total Board of Education			110,526

Director of Schools

County Official/Administrative Officer	\$	80,015	
Career Ladder Program		1,000	
Secretary(ies)		10,587	
Social Security		5,636	
State Retirement		5,714	
Medical Insurance		12,706	
Unemployment Compensation		51	
Employer Medicare		1,318	
Advertising		353	
Communication		3,123	
Dues and Memberships		968	
Legal Notices, Recording, and Court Costs		394	

(Continued)

Exhibit G-6

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.)

Postal Charges	\$	1,797	
Printing, Stationery, and Forms		70	
Rentals		2,253	
Office Supplies		317	
In Service/Staff Development		305	
Total Director of Schools			\$ 126,607

Office of the Principal

Principals	\$	190,362	
Career Ladder Program		4,000	
Accountants/Bookkeepers		45,718	
Assistant Principals		51,415	
Secretary(ies)		35,453	
Social Security		19,808	
State Retirement		20,300	
Medical Insurance		48,513	
Unemployment Compensation		405	
Employer Medicare		4,667	
Communication		8,192	
Dues and Memberships		810	
Rentals		6,411	
Office Supplies		355	
Periodicals		48	
Other Supplies and Materials		378	
In Service/Staff Development		2,336	
Administration Equipment		1,197	
Total Office of the Principal			440,368

Fiscal Services

Supervisor/Director	\$	48,167
Purchasing Personnel		10,587
Social Security		3,632
State Retirement		4,166
Medical Insurance		4,271
Unemployment Compensation		48
Employer Medicare		850
Data Processing Services		3,912
Maintenance and Repair Services - Office Equipment		192
Printing, Stationery, and Forms		769

(Continued)

Exhibit G-6

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Fiscal Services (Cont.)

Office Supplies	\$	1,417	
Other Supplies and Materials		1,130	
Administration Equipment		7,842	
Furniture and Fixtures		259	
Total Fiscal Services			\$ 87,242

Operation of Plant

Custodial Personnel	\$	132,916	
Social Security		8,184	
State Retirement		4,655	
Unemployment Compensation		484	
Employer Medicare		1,918	
Communication		1,389	
Rentals		80	
Disposal Fees		3,333	
Other Contracted Services		20,953	
Custodial Supplies		22,905	
Electricity		171,546	
Natural Gas		42,491	
Water and Sewer		20,835	
Boiler Insurance		2,543	
Building and Contents Insurance		43,977	
Other Charges		1,040	
Total Operation of Plant			479,249

Maintenance of Plant

Maintenance Personnel	\$	66,800
Other Salaries and Wages		1,602
Social Security		4,204
State Retirement		4,776
Unemployment Compensation		82
Employer Medicare		980
Communication		536
Maintenance and Repair Services - Buildings		56,960
Maintenance and Repair Services - Equipment		1,787
Maintenance and Repair Services - Vehicles		2,576
Pest Control		2,107
Other Contracted Services		775
Gasoline		3,773

(Continued)

Exhibit G-6

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.)

Maintenance Equipment	\$	169	
Other Equipment		9,170	
Other Capital Outlay		18,000	
Total Maintenance of Plant			\$ 174,297

Operation of Non-Instructional Services

Community Services

Contracts with Government Agencies	\$	2,500	
Total Community Services			2,500

Early Childhood Education

Teachers	\$	36,613	
Educational Assistants		10,083	
Social Security		2,878	
State Retirement		2,577	
Unemployment Compensation		73	
Employer Medicare		673	
Advertising		276	
Other Contracted Services		1,084	
Instructional Supplies and Materials		16,680	
In Service/Staff Development		1,035	
Other Equipment		7,419	
Total Early Childhood Education			79,391

Capital Outlay

Regular Capital Outlay

Architects	\$	30,722	
Building Construction		185,247	
Building Improvements		20,410	
Other Capital Outlay		39,305	
Total Regular Capital Outlay			<u>275,684</u>

Total General Purpose School Fund \$ 6,858,823

School Federal Projects Fund

Instruction

Regular Instruction Program

Teachers	\$	168,420	
Educational Assistants		18,304	

(Continued)

Exhibit G-6

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

School Federal Projects Fund (Cont.)

Instruction (Cont.)

Regular Instruction Program (Cont.)

Social Security	\$	10,918	
State Retirement		11,622	
Medical Insurance		10,410	
Unemployment Compensation		255	
Employer Medicare		2,553	
Instructional Supplies and Materials		22,256	
Total Regular Instruction Program			\$ 244,738

Special Education Program

Teachers	\$	84,760	
Homebound Teachers		375	
Educational Assistants		83,815	
Social Security		10,013	
State Retirement		10,808	
Medical Insurance		9,404	
Unemployment Compensation		387	
Employer Medicare		2,342	
Contracts with Other School Systems		43,169	
Contracts with Private Agencies		6,440	
Other Contracted Services		35,722	
Instructional Supplies and Materials		7,520	
Special Education Equipment		212	
Total Special Education Program			294,967

Vocational Education Program

Travel	\$	423	
Instructional Supplies and Materials		1,521	
Other Charges		50	
Vocational Instruction Equipment		6,866	
Total Vocational Education Program			8,860

Support Services

Other Student Support

Travel	\$	3,942	
Total Other Student Support			3,942

Regular Instruction Program

Other Supplies and Materials	\$	414	
In Service/Staff Development		12,755	

(Continued)

Exhibit G-6

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

School Federal Projects Fund (Cont.)

Support Services (Cont.)

Regular Instruction Program (Cont.)

Administration Equipment	\$ 850	
Total Regular Instruction Program		\$ 14,019

Special Education Program

Clerical Personnel	\$ 10,650	
Social Security	654	
State Retirement	755	
Unemployment Compensation	13	
Employer Medicare	153	
Travel	263	
Other Supplies and Materials	265	
In Service/Staff Development	3,771	
Total Special Education Program		<u>16,524</u>

Total School Federal Projects Fund		\$ 583,050
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Central Cafeteria Fund

Operation of Non-Instructional Services

Food Service

Supervisor/Director	\$ 27,464
Cafeteria Personnel	186,866
Social Security	13,102
State Retirement	13,058
Medical Insurance	2,813
Unemployment Compensation	712
Employer Medicare	3,064
Advertising	138
Audit Services	500
Communication	2,313
Data Processing Services	1,630
Dues and Memberships	241
Maintenance and Repair Services - Equipment	8,874
Medical and Dental Services	774
Postal Charges	395
Printing, Stationery, and Forms	180
Travel	1,813
Disposal Fees	5,865
Permits	240
Custodial Supplies	4,245

(Continued)

Exhibit G-6

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.)

Food Preparation Supplies	\$	28,322	
Food Supplies		359,160	
Office Supplies		1,072	
Uniforms		1,079	
Utilities		40,000	
Refunds		153	
Workers' Compensation Insurance		5,860	
In Service/Staff Development		479	
Refund to Applicant for Criminal Investigation		96	
Other Charges		941	
Food Service Equipment		13,581	
Total Food Service			\$ 725,030

Total Central Cafeteria Fund \$ 725,030

Education Debt Service Fund

Support Services

Board of Education

Trustee's Commission	\$	10,826	
Total Board of Education			\$ 10,826

Principal on Debt

Education

Principal on Bonds	\$	300,000	
Principal on Notes		25,328	
Total Education			325,328

Interest on Debt

Education

Interest on Bonds	\$	426,075	
Interest on Notes		1,542	
Total Education			427,617

Other Debt Service

Education

Other Debt Service	\$	1,012	
Total Education			1,012

Total Education Debt Service Fund 764,783

Total Governmental Funds - McKenzie Special School District \$ 8,931,686

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**SINGLE AUDIT SECTION**

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

REPORT ON 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 14, 2008

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

To the Director of Schools and Board of Directors:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the McKenzie Special School District as of and for the year ended June 30, 2007, which collectively comprise the McKenzie Special School District's basic financial statements and have issued our report thereon dated March 14, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the McKenzie Special School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the McKenzie Special School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A significant deficiency in internal control over financial reporting is described in the accompanying Schedule of Findings and Questioned Costs as item 07.01.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the McKenzie Special School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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

This report is intended solely for the information and use of management, the director of schools, Board of Directors, others within the McKenzie Special School District, 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,

A handwritten signature in black ink that reads "John G. Morgan" with a long horizontal flourish extending to the right.

John G. Morgan  
Comptroller of the Treasury

JGM/yu



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
DEPARTMENT OF AUDIT  
DIVISION OF COUNTY AUDIT  
SUITE 1500  
JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37243-0269  
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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

March 14, 2008

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, 2007. 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 States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 of 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, 2007.

#### Internal Control Over Compliance

The management of the McKenzie Special School District is responsible for establishing and maintaining effective internal control over compliance with the 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 the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the McKenzie Special School District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

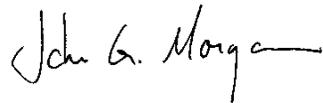
#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the McKenzie Special School District as of and for the year ended June 30, 2007, and have issued our report thereon dated March 14, 2008. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the McKenzie Special School District's basic

financial statements. 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 management, the director of schools, Board of Directors, others within the McKenzie Special School District, 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.

Yours very truly,

A handwritten signature in black ink that reads "John G. Morgan" with a long horizontal flourish extending to the right.

John G. Morgan  
Comptroller of the Treasury

JGM/yu

McKenzie Special School District  
Schedule of Expenditures of Federal Awards (1)  
For the Year Ended June 30, 2007

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	\$ 31,466
Passed-through State Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program	10.553	N/A	131,838
National School Lunch Program	10.555	N/A	306,968
Total U.S. Department of Agriculture			\$ 470,272
U.S. Department of Education:			
Direct Program:			
Impact Aid	84.041	N/A	\$ 2,689
Passed-through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	N/A	195,885
Special Education Cluster:			
Special Education - Grants to States	84.027	N/A	303,636
Special Education - Preschool Grants	84.173	N/A	19,965
Vocational Education - Basic Grants to States	84.048	N/A	12,802
Safe and Drug-Free Schools and Communities - State Grants	84.186	(2)	11,827
State Grants for Innovative Programs	84.298	N/A	3,130
Education Technology State Grants	84.318	(2)	5,113
English Language Acquisition Grants	84.365	N/A	1,504
Improving Teacher Quality State Grants	84.367	N/A	51,433
Hurricane Education Recovery	84.938	N/A	4,010
Total U.S. Department of Education			\$ 611,994
Total Expenditures of Federal Awards			\$ 1,082,266

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, 2007

Government Auditing Standards require auditors to report the status of uncorrected findings from prior audits. Presented below is the finding from the Annual Financial Report for the McKenzie Special School District for the year ended June 30, 2006, which has not been corrected.

**OFFICE OF DIRECTOR OF SCHOOLS**

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
06.02	83	The School Federal Projects Fund had a cash overdraft

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**MCKENZIE SPECIAL SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended June 30, 2007**

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**PART I, SUMMARY OF AUDITOR'S RESULTS**

1. An unqualified 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 significant deficiency in internal control. This significant deficiency was not considered to be a material weakness.
3. The audit disclosed no instances of noncompliance that were material to the financial statements of the McKenzie Special School District.
4. The audit disclosed no significant deficiencies 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, FINDING RELATING TO THE FINANCIAL STATEMENTS**

The finding and recommendation, as a result of our examination, is presented below. We reviewed this finding and recommendation with management to provide an opportunity for their response. Officials offered an oral response to the finding and recommendation; however, this oral response has not been included in this report.

### **OFFICE OF DIRECTOR OF SCHOOLS**

#### **FINDING 07.01      **THE SCHOOL FEDERAL PROJECTS FUND HAD A CASH OVERDRAFT****

(Internal Control – Significant Deficiency Under Government Auditing Standards)

The School Federal Projects Fund had a cash overdraft of \$8,122 at June 30, 2007. This cash overdraft resulted from the office issuing checks that exceeded cash on deposit with the bank. The cash overdraft was liquidated subsequent to June 30, 2007, when proceeds from federal entitlement programs and federal grants were received.

#### **RECOMMENDATION**

Checks should not be issued in excess of cash on deposit with 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, 2007**

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