
ANNUAL FINANCIAL REPORT
McKENZIE SPECIAL SCHOOL DISTRICT



FOR THE YEAR ENDED JUNE 30, 2010



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FOR THE YEAR ENDED JUNE 30, 2010

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This financial report is available at www.tn.gov/comptroller

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Audit Highlights

Annual Financial Report
McKenzie Special School District, Tennessee
For the Year Ended June 30, 2010

Scope

We have audited the basic financial statements of the McKenzie Special School District as of and for the year ended June 30, 2010.

Results

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

Findings and Best Practice

Our audit resulted in no findings.

Best Practice

The McKenzie Special School District does not have an Audit Committee. The Division of County Audit strongly believes that an Audit Committee is a best practice that should be adopted to assist the board of directors by providing independent and objective reviews of the financial reporting process, internal controls, the audit function, and being responsible for monitoring management's plans to address various risks.

INTRODUCTORY SECTION

McKenzie Special School District Officials
June 30, 2010

Officials

Lynn Watkins, Director of Schools
Stan George, Finance Director

Board of Directors

John Austin, Chairperson
Greg Barker
Monte Cunningham
Brad Davis
Jon Davis
Karen McCaleb
Lance Rider

FINANCIAL SECTION



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

February 28, 2011

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, 2010, 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, 2010, 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 February 28, 2011, 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 adopted the provisions of Governmental Accounting Standards Board Statement No. 51, Accounting and Financial Reporting for Intangible Assets; and Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, which became effective for the year ended June 30, 2010.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison, pension, and other postemployment benefits information on pages 41 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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,

A handwritten signature in black ink, appearing to read "Justin P. Wilson". The signature is fluid and cursive, with a prominent initial "J" and "W".

Justin P. Wilson
Comptroller of the Treasury

JPW/yu

BASIC FINANCIAL STATEMENTS

Exhibit A

McKenzie Special School District
Statement of Net Assets
June 30, 2010

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Equity in Pooled Cash and Investments	\$ 3,483,270
Inventories	49,289
Due from Other Governments	264,267
Property Taxes Receivable	1,396,217
Allowance for Uncollectible Property Taxes	(86,950)
Prepaid Items	86,657
Deferred Charges - Debt Issuance Costs	86,245
Capital Assets:	
Assets Not Depreciated:	
Land	381,441
Assets Net of Accumulated Depreciation:	
Buildings and Improvements	7,544,537
Other Capital Assets	455,733
Total Assets	<u>\$ 13,660,706</u>
<u>LIABILITIES</u>	
Accounts Payable	\$ 14,701
Payroll Deductions Payable	141,830
Accrued Interest Payable	72,963
Deferred Revenue - Current Property Taxes	1,253,588
Noncurrent Liabilities:	
Due Within One Year	442,698
Due in More Than One Year (net of deferred amount on refunding and unamortized premiums on debt)	7,200,439
Total Liabilities	<u>\$ 9,126,219</u>
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	\$ 971,086
Restricted for:	
School Federal Projects	7,110
Central Cafeteria	284,768
Debt Service	944,662
Other Purposes	30,513
Unrestricted	<u>2,296,348</u>
Total Net Assets	<u>\$ 4,534,487</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, 2010

Functions/Programs	Program Revenues		Expenses	Net (Expense) Revenue and Changes in Net Assets	
	Charges for Services	Operating Grants and Contributions		Total Governmental Activities	
Governmental Activities:					
Instruction	\$ 6,495,094	\$ 2,380	\$ 834,667	\$ (5,658,047)	
Support Services	2,602,708	8,265	49,181	(2,545,262)	
Operation of Non-Instructional Services	976,335	245,334	704,393	(26,608)	
Interest on Long-term Debt	311,826	2,297	0	(309,529)	
Total Governmental Activities	\$ 10,385,963	\$ 258,276	\$ 1,588,241	\$ (8,539,446)	
General Revenues:					
Taxes:					
Property Taxes Levied for General Purposes				\$ 729,020	
Property Taxes Levied for Debt Service				534,933	
Local Option Sales Taxes				692,495	
Interstate Telecommunications Tax				749	
Grants and Contributions Not Restricted to Specific Programs				6,532,019	
Unrestricted Investment Income				50,054	
Miscellaneous				3,800	
Sale of Equipment				2,801	
Total General Revenues				\$ 8,545,871	
Change in Net Assets				\$ 6,425	
Net Assets, July 1, 2009				4,528,062	
Net Assets, June 30, 2010				\$ 4,534,487	

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, 2010

	Major Funds			Nonmajor	Total Governmental Funds
	General Purpose School	School Federal Projects	Education Debt Service	Fund Central Cafeteria	
<u>ASSETS</u>					
Equity in Pooled Cash and Investments	\$ 2,219,833	\$ 48,625	\$ 974,917	\$ 239,895	\$ 3,483,270
Inventories	0	0	0	49,289	49,289
Due from Other Governments	225,623	9,839	9,156	19,649	264,267
Due from Other Funds	64,672	0	0	0	64,672
Property Taxes Receivable	790,506	0	605,711	0	1,396,217
Allowance for Uncollectible Property Taxes	(49,229)	0	(37,721)	0	(86,950)
Prepaid Items	86,657	0	0	0	86,657
Total Assets	<u>\$ 3,338,062</u>	<u>\$ 58,464</u>	<u>\$ 1,552,063</u>	<u>\$ 308,833</u>	<u>\$ 5,257,422</u>
<u>LIABILITIES AND FUND BALANCES</u>					
<u>Liabilities</u>					
Accounts Payable	\$ 3,954	\$ 2,503	\$ 0	\$ 8,244	\$ 14,701
Payroll Deductions Payable	141,830	0	0	0	141,830
Due to Other Funds	0	48,851	0	15,821	64,672
Deferred Revenue - Current Property Taxes	709,752	0	543,836	0	1,253,588
Deferred Revenue - Delinquent Property Taxes	29,366	0	22,501	0	51,867
Other Deferred Revenues	61,744	0	0	0	61,744
Total Liabilities	<u>\$ 946,646</u>	<u>\$ 51,354</u>	<u>\$ 566,337</u>	<u>\$ 24,065</u>	<u>\$ 1,588,402</u>
<u>Fund Balances</u>					
Reserved for Encumbrances	\$ 86,677	\$ 6,883	\$ 0	\$ 0	\$ 93,560
Reserved for Career Ladder - Extended Contract	24,151	0	0	0	24,151
Reserved for Career Ladder Program	6,362	0	0	0	6,362
Reserved for Title I Grants to Local Education Agencies	0	2,265	0	0	2,265
Reserved for Special Education - Grants to States	0	3,061	0	0	3,061
Unreserved, Reported In:					
General Fund	2,274,226	0	0	0	2,274,226
Special Revenue Funds (Deficit)	0	(5,099)	0	284,768	279,669
Debt Service Fund	0	0	985,726	0	985,726
Total Fund Balances	<u>\$ 2,391,416</u>	<u>\$ 7,110</u>	<u>\$ 985,726</u>	<u>\$ 284,768</u>	<u>\$ 3,669,020</u>
Total Liabilities and Fund Balances	<u>\$ 3,338,062</u>	<u>\$ 58,464</u>	<u>\$ 1,552,063</u>	<u>\$ 308,833</u>	<u>\$ 5,257,422</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, 2010

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)		\$	3,669,020
(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: buildings and improvements net of accumulated depreciation		7,544,537	
Add: other capital assets net of accumulated depreciation		<u>455,733</u>	8,381,711
(2) Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.			
Less: bonds payable	\$	(7,470,000)	
Less: accrued interest on bonds		(72,963)	
Less: other deferred revenue - premium on debt		(26,870)	
Add: deferred charges - debt issuance costs		86,245	
Add: deferred amount on refunding		9,398	
Less: compensated absences payable		(53,949)	
Less: other postemployment benefits liability		<u>(101,716)</u>	(7,629,855)
(3) Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the governmental funds.			<u>113,611</u>
Net assets of governmental activities (Exhibit A)		\$	<u><u>4,534,487</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, 2010

	Major Funds			Nonmajor	Total Governmental Funds
	General Purpose School	School Federal Projects	Education Debt Service	Fund Central Cafeteria	
<u>Revenues</u>					
Local Taxes	\$ 1,413,471	\$ 0	\$ 553,642	\$ 0	\$ 1,967,113
Licenses and Permits	521	0	0	0	521
Charges for Current Services	9,880	0	0	245,334	255,214
Other Local Revenues	62,895	0	0	2,025	64,920
State of Tennessee	6,398,484	0	0	8,797	6,407,281
Federal Government	25,717	1,089,214	0	597,518	1,712,449
Total Revenues	<u>\$ 7,910,968</u>	<u>\$ 1,089,214</u>	<u>\$ 553,642</u>	<u>\$ 853,674</u>	<u>\$ 10,407,498</u>
<u>Expenditures</u>					
Current:					
Instruction	\$ 5,085,508	\$ 985,006	\$ 0	\$ 0	\$ 6,070,514
Support Services	2,459,898	100,799	10,885	0	2,571,582
Operation of Non-Instructional Services	108,540	0	0	863,501	972,041
Capital Outlay	80,246	0	0	0	80,246
Debt Service:					
Principal on Debt	0	0	410,000	0	410,000
Interest on Debt	0	0	306,200	0	306,200
Other Debt Service	0	0	500	0	500
Total Expenditures	<u>\$ 7,734,192</u>	<u>\$ 1,085,805</u>	<u>\$ 727,585</u>	<u>\$ 863,501</u>	<u>\$ 10,411,083</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 176,776</u>	<u>\$ 3,409</u>	<u>\$ (173,943)</u>	<u>\$ (9,827)</u>	<u>\$ (3,585)</u>
<u>Other Financing Sources (Uses)</u>					
Insurance Recovery	\$ 7,873	\$ 0	\$ 0	\$ 0	\$ 7,873
Transfers In	0	0	402,502	0	402,502
Transfers Out	(402,502)	0	0	0	(402,502)
Total Other Financing Sources (Uses)	<u>\$ (394,629)</u>	<u>\$ 0</u>	<u>\$ 402,502</u>	<u>\$ 0</u>	<u>\$ 7,873</u>
Net Change in Fund Balances	\$ (217,853)	\$ 3,409	\$ 228,559	\$ (9,827)	\$ 4,288
Fund Balance, July 1, 2009	2,609,269	3,701	757,167	294,595	3,664,732
Fund Balance, June 30, 2010	<u>\$ 2,391,416</u>	<u>\$ 7,110</u>	<u>\$ 985,726</u>	<u>\$ 284,768</u>	<u>\$ 3,669,020</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, 2010

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)		\$ 4,288
<p>(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:</p>		
Add: assets purchased and capitalized	\$ 172,612	
Less: current year depreciation expense	<u>(530,567)</u>	(357,955)
<p>(2) Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Add: deferred delinquent property taxes and other deferred June 30, 2010	\$ 113,611	
Less: deferred delinquent property taxes and other deferred June 30, 2009	<u>(131,018)</u>	(17,407)
<p>(3) The issuance of long-term debt (e.g., 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.</p>		
Add: principal payments on bonds	\$ 410,000	
Less: change in premium on debt issuances	2,297	
Add: change in deferred debt issuance costs	(7,371)	
Add: change in deferred amount on refunding debt	<u>(1,342)</u>	403,584
<p>(4) 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.</p>		
Change in accrued interest payable	\$ 3,587	
Change in compensated absences payable	59	
Change in other postemployment benefits liability	<u>(29,731)</u>	<u>(26,085)</u>
Change in net assets of governmental activities (Exhibit B)		<u>\$ 6,425</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, 2010**

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.

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

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.

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; deposit accounts at state and federal chartered banks and savings and loan associations; repurchase agreements; the State Treasurer’s Investment Pool; bonds of any state or political subdivision rated A or higher by any nationally recognized rating service; nonconvertible debt securities of certain federal government sponsored enterprises; and the district’s own legally issued bonds or notes.

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 3.35 percent of total taxes levied.

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

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

Property taxes receivable are also reported as of June 30 for the taxes that are levied, collected, and reported as revenue during the current fiscal year. These property taxes receivable are presented on the balance sheet with offsetting deferred revenue to reflect amounts not available as of June 30. Property taxes collected within 30 days of year-end are considered available and accrued. The allowance for uncollectible taxes represents the estimated amount of the receivable that will be filed in court for collection. Delinquent taxes filed in court for collection are not included in taxes receivable since they are neither measurable nor available.

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

3. Inventories 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>
Buildings 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. This sick leave is accrued when incurred in the government-wide financial statements of the district. A liability for sick leave is reported in the governmental funds only if amounts have matured, for example, as a result of employee retirements.

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, including compensated absences and other postemployment benefits, 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 appropriation 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 with 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 Change 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 County 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. Fund Deficit

The School Federal Projects Fund had a deficit in unreserved fund balance of \$5,099 at June 30, 2010. This deficit resulted from \$6,114 being reserved as an encumbrance for the purchase of vocational instruction equipment. This deficit was liquidated when grant funds were requested and received subsequent to June 30, 2010.

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; deposits at state and federal chartered banks and savings and loan associations; bonds of any state or political subdivision rated A or higher by any nationally recognized rating service; nonconvertible debt securities of certain federal government sponsored enterprises; 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 Comptroller's Office 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 fair value of the securities on the day of purchase.

Investment Balances. As of June 30, 2010, the district had the following investments carried at cost. All investments are in the district's investment pool.

<u>Investment</u>	<u>Maturities</u>	<u>Cost</u>
State Treasurer's Investment Pool	Daily	\$ 940,593

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, 2010, 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, 2010, was as follows:

Governmental Activities:

	Balance 7-1-09	Increases	Decreases	Balance 6-30-10
Capital Assets Not Depreciated:				
Land	\$ 381,441	\$ 0	\$ 0	\$ 381,441
Construction in Progress	69,900	0	(69,900)	0
Total Capital Assets Not Depreciated	\$ 451,341	\$ 0	\$ (69,900)	\$ 381,441
Capital Assets Depreciated:				
Buildings and Improvements	\$ 15,786,864	\$ 139,800	\$ 0	\$ 15,926,664
Other Capital Assets	958,382	102,712	0	1,061,094
Total Capital Assets Depreciated	\$ 16,745,246	\$ 242,512	\$ 0	\$ 16,987,758
Less Accumulated Depreciation For:				
Buildings and Improvements	\$ 7,908,298	\$ 473,829	\$ 0	\$ 8,382,127
Other Capital Assets	548,623	56,738	0	605,361
Total Accumulated Depreciation	\$ 8,456,921	\$ 530,567	\$ 0	\$ 8,987,488
Total Capital Assets Depreciated, Net	\$ 8,288,325	\$ (288,055)	\$ 0	\$ 8,000,270
Governmental Activities Capital Assets, Net	\$ 8,739,666	\$ (288,055)	\$ (69,900)	\$ 8,381,711

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

Governmental Activities:

Instruction	\$ 482,318
Support Services	24,595
Operation of Non-Instructional Services	<u>23,654</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 530,567</u></u>

C. Interfund Receivables, Payable, and Transfers

The composition of interfund balances as of June 30, 2010, was as follows:

Due to/from Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Purpose School	School Federal Projects	\$ 48,851
General Purpose School	Nonmajor governmental	<u>15,821</u>
Total		<u><u>\$ 64,672</u></u>

These balances resulted from the time lag between the dates that interfund expenditures occur and payments between funds are made.

Interfund Transfers:

Interfund transfers for the year ended June 30, 2010, consisted of the following amount:

<u>Transfer Out</u>	<u>Transfer In</u>
	Education Debt Service Fund
General Purpose School	\$ 402,502

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.

D. Long-term Debt

General Obligation Bonds

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.

General obligation bonds are direct obligations and pledge the full faith and credit of the district. General obligation bonds outstanding were issued for original terms of up to 14 years. Repayment terms are generally structured with increasing amounts of principal maturing as interest requirements decrease over the term of the debt. All bonds included in long-term debt as of June 30, 2010, will be retired from the Education Debt Service Fund.

General obligation bonds outstanding as of June 30, 2010, for governmental activities are as follows:

Type	Interest Rates	Original Amount of Issue	Balance 6-30-10
G.O. Bonds - Refunding	3.5 to 4%	\$ 8,255,000	\$ 7,470,000

The annual requirements to amortize all general obligation bonds outstanding as of June 30, 2010, including interest payments, are presented in the following table:

Year Ending June 30	Bonds		
	Principal	Interest	Total
2011	\$ 440,000	\$ 291,850	\$ 731,850
2012	460,000	276,450	736,450
2013	490,000	260,350	750,350
2014	520,000	243,200	763,200
2015	550,000	222,400	772,400
2016-2020	3,360,000	750,200	4,110,200
2021-2022	1,650,000	100,000	1,750,000
Total	\$ 7,470,000	\$ 2,144,450	\$ 9,614,450

There is \$985,726 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, 2010, was as follows:

Governmental Activities:	Bonds	Compensated Absences
Balance, July 1, 2009	\$ 7,880,000	\$ 54,008
Additions	0	3,757
Deductions	(410,000)	(3,816)
Balance, June 30, 2010	<u>\$ 7,470,000</u>	<u>\$ 53,949</u>
Balance Due Within One Year	<u>\$ 440,000</u>	<u>\$ 2,698</u>

	Other Postemployment Benefits
Balance, July 1, 2009	\$ 71,985
Additions	77,171
Deductions	(47,440)
Balance, June 30, 2010	<u>\$ 101,716</u>
Balance Due Within One Year	<u>\$ 0</u>

Analysis of Noncurrent Liabilities Presented on Exhibit A:

Total Noncurrent Liabilities, June 30, 2010	\$ 7,625,665
Less: Deferred Amount on Refunding	(9,398)
Add: Unamortized Premium on Debt	26,870
Less: Due Within One Year	<u>(442,698)</u>
Noncurrent Liabilities - Due in More Than One Year - Exhibit A	<u>\$ 7,200,439</u>

E. On-Behalf Payments

The State of Tennessee pays health insurance premiums for retired teachers on-behalf of the McKenzie Special School District. These payments are made by the state to the Local Education Group Insurance Plan and the Medicare Supplement Plan. Both of these plans are administered by the State of Tennessee and reported in the state's Comprehensive Annual Financial Report. Payments by the state to the Local Education Group Insurance Plan and the Medicare Supplement Plan for the year ended June 30, 2010, were \$42,838 and \$15,678, respectively. The district has recognized these on-behalf payments as revenues and expenditures in the General Purpose School Fund.

V. OTHER INFORMATION

A. Risk Management

Employee Health Insurance

Employees of the district participate 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 8-27-301, 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 participates in 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 Changes

Provisions of Governmental Accounting Standards Board (GASB) Statement No. 51, Accounting and Financial Reporting for Intangible Assets; and Statement No. 53, Accounting and Financial Reporting for Derivative Instruments became effective for the year ended June 30, 2010.

GASB Statement No. 51 establishes accounting and financial reporting requirements for intangible assets. Intangible assets have three characteristics: lack of physical substance, nonfinancial in nature, and a useful life that extends beyond a single reporting period. Assets that have these characteristics and are identifiable to the government should be recorded as capital assets and amortized over their useful lives. Easements, water rights, patents, and computer software are examples of intangible assets that should be recognized under GASB Statement No. 51. The McKenzie Special School District had no assets that met the definition of intangible assets at June 30, 2010. However, it is reasonably expected that the district may acquire intangible assets in subsequent years.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by county governments. Derivative instruments are financial arrangements used by governments as investments; hedges against identified financial

risks; or to lower the costs of borrowings. Interest rate swaps and locks, options, swaptions, forward contracts, and futures contracts are among the commonly used types of derivatives mentioned in GASB Statement No. 53. Derivative instruments associated with fluctuating financial and commodity prices result in changing cash flows and fair values that can be used as effective risk management or investment tools. For the same reasons, derivative instruments can expose governments to significant risks and liabilities. The requirements of GASB Statement No. 53 are intended to help users of financial information evaluate the effectiveness and associated risks involved with the McKenzie Special School District's derivative transactions. GASB Statement No. 53 requires most derivatives to be reported at fair value in the Statement of Net Assets. Changes in fair value for derivative instruments that are intended for investment purposes or that are reported like investment derivative instruments because of ineffectiveness are reported as investment revenues in the Statement of Activities. Alternatively, the changes in fair value of derivative instruments that are classified as hedging (i.e., effective) derivative instruments are reported in the Statement of Net Assets as deferrals. The McKenzie Special School District had not participated in derivative transactions as of June 30, 2010. However, it is reasonably expected that the district may enter into derivative transactions in subsequent years.

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 www.tn.gov/treasury/tcrs/PS/.

Funding Policy

The district requires employees to contribute five percent of their earnable compensation. The district is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2010, was 8.35 percent of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the district is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ended June 30, 2010, the district's annual pension cost of \$67,604 to TCRS was equal to the district's required and actual contributions. The required contribution was determined as part of the July 1, 2007, 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 postretirement 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, 2007, was 12 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6-30-10	\$67,604	100%	\$0
6-30-09	69,484	100	0
6-30-08	55,193	100	0

Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the plan was 84.49 percent funded. The actuarial accrued liability for benefits was \$1.43 million, and the actuarial value of assets was \$1.21 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$.22 million. The covered payroll (annual payroll of active employees covered by the plan) was \$.84 million, and the ratio of the UAAL to the covered payroll was 26.55 percent.

The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The TCRS uses the frozen entry age actuarial cost method to calculate the annual required contribution. Effective July 1, 2009, the TCRS reestablished the unfunded accrued liabilities for all groups.

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 SETHEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor, Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.tn.gov/treasury/tcrs/Schools.

Funding Policy

Most teachers are required by state statute to contribute five percent of their salary to the plan. The employer contribution rate for the district is established at an actuarially determined rate. The employer rate for the fiscal year ended June 30, 2010, was 6.42 percent of annual covered payroll. The employer contribution requirement for the district is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ended June 30, 2010, 2009, and 2008, were \$305,402, \$293,770, and \$278,780, respectively, equal to the required contributions for each year.

E. Other Postemployment Benefits (OPEB)

Plan Description

The district participates in the state-administered Local Education Group Insurance Plan for healthcare benefits. For accounting purposes, the plan is an agent multiple-employer defined benefit OPEB plan. Benefits are established and amended by an insurance committee created by Section 8-27-302, Tennessee Code Annotated for local education employees. Prior to reaching the age of 65, all members have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state administered Medicare Supplement Plan that does not include pharmacy. The plans are reported in the State of Tennessee Comprehensive Annual Financial Report (CAFR). The CAFR is available on the state's website at <http://tn.gov/finance/act/cafr.html>.

Funding Policy

The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. The employers in each plan develop a contribution policy in terms of subsidizing active employees or retired employees' premiums since the committee is not prescriptive on that issue. The state does provide a partial subsidy to Local Education Agency pre-65 teachers and a full subsidy based on years of service for post-65 teachers in the Medicare Supplement Plan. During the year ended June 30, 2010, the district contributed \$47,440 for postemployment health care.

Annual OPEB Cost and Net OPEB Obligation

	Local Education Group Plan
	<hr/>
ARC	\$ 77,000
Interest on the NPO	3,239
Adjustment to the ARC	(3,068)
Annual OPEB cost	<hr/> \$ 77,171
Less: Amount of contribution	(47,440)
Increase/decrease in NPO	<hr/> \$ 29,731
Net OPEB obligation, 7-1-09	<hr/> 71,985
Net OPEB obligation, 6-30-10	<hr/> <hr/> \$ 101,716

Fiscal Year Ended	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End
<hr/>				
6-30-08	Local Education Group	\$ 56,268	59%	\$ 22,954
6-30-09	"	76,894	36	71,985
6-30-10	"	77,171	61	101,716

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2010, was as follows:

	<u>Local Education Group Plan</u>
Actuarial valuation date	7-1-09
Actuarial accrued liability (AAL)	\$ 738,000
Actuarial value of plan assets	\$ 0
Unfunded actuarial accrued liability (UAAL)	\$ 738,000
Actuarial value of assets as a % of the AAL	0%
Covered payroll (active plan members)	\$ 3,572,460
UAAL as a % of covered payroll	21%

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

Actuarial Methods and Assumptions

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2009, actuarial valuation for the Local Education Plan, the projected unit credit actuarial cost method was used and the actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of four percent for fiscal year 2010. The trend will rise to ten percent in fiscal year 2011 and then will be reduced by decrements to an ultimate rate of five percent by fiscal year 2021. The rate includes a three percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level of percentage of payroll on a closed basis over a 30-year period beginning with June 30, 2008.

F. Purchasing Law

Purchasing procedures for the district are governed by purchasing laws applicable to schools as set forth in Section 49-2-203, Tennessee Code Annotated, which provides for the board of directors, through its executive committee (director of schools and chairman of the board of directors), to make all purchases. This statute also requires competitive bids to be solicited through newspaper advertisement on all purchases estimated to exceed \$10,000.

**REQUIRED SUPPLEMENTARY
INFORMATION**

Exhibit 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, 2010

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2009	Add: Encumbrances 6/30/2010	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
<u>Revenues</u>							
Local Taxes	\$ 1,413,471	\$ 0	\$ 0	\$ 1,413,471	\$ 1,239,122	\$ 1,239,122	\$ 174,349
Licenses and Permits	521	0	0	521	300	300	221
Charges for Current Services	9,880	0	0	9,880	10,000	10,000	(120)
Other Local Revenues	62,895	0	0	62,895	57,558	57,558	5,337
State of Tennessee	6,398,484	0	0	6,398,484	6,289,055	6,410,423	(11,939)
Federal Government	25,717	0	0	25,717	2,000	26,082	(365)
Total Revenues	\$ 7,910,968	\$ 0	\$ 0	\$ 7,910,968	\$ 7,598,035	\$ 7,743,485	\$ 167,483
<u>Expenditures</u>							
<u>Instruction</u>							
Regular Instruction Program	\$ 4,582,841	\$ (142,213)	\$ 17,887	\$ 4,458,515	\$ 4,553,488	\$ 4,533,293	\$ 74,778
Alternative Instruction Program	19,518	0	0	19,518	18,000	19,518	0
Special Education Program	263,153	0	0	263,153	254,294	283,938	20,785
Vocational Education Program	219,996	(589)	0	219,407	211,943	222,807	3,400
<u>Support Services</u>							
Health Services	71,650	0	0	71,650	73,194	73,194	1,544
Other Student Support	231,500	(150)	0	231,350	241,255	241,255	9,905
Regular Instruction Program	472,403	0	18	472,421	419,414	476,306	3,885
Special Education Program	45,363	0	0	45,363	46,274	55,356	9,993
Vocational Education Program	8,264	0	0	8,264	8,383	8,833	569
Other Programs	58,516	0	0	58,516	0	58,516	0
Board of Education	81,168	(48)	60	81,180	105,265	105,265	24,085
Director of Schools	135,897	(261)	0	135,636	138,737	138,737	3,101
Office of the Principal	469,620	(897)	0	468,723	476,593	480,795	12,072

(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 7/1/2009	Add: Encumbrances 6/30/2010	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
<u>Expenditures (Cont.)</u>							
<u>Support Services (Cont.)</u>							
Fiscal Services	\$ 101,647	\$ 0	\$ 0	\$ 101,647	\$ 104,588	\$ 104,588	\$ 2,941
Operation of Plant	551,862	(310)	0	551,552	596,672	586,672	35,120
Maintenance of Plant	232,008	(8,434)	6,817	230,391	214,542	248,065	17,674
<u>Operation of Non-Instructional Services</u>							
Early Childhood Education	108,540	(11,574)	0	96,966	81,481	99,559	2,593
Capital Outlay	80,246	0	61,895	142,141	0	149,821	7,680
Regular Capital Outlay	\$ 7,734,192	\$ (164,476)	\$ 86,677	\$ 7,656,393	\$ 7,544,123	\$ 7,886,518	\$ 230,125
Total Expenditures	\$ 176,776	\$ 164,476	\$ (86,677)	\$ 254,575	\$ 53,912	\$ (143,033)	\$ 397,608
Excess (Deficiency) of Revenues Over Expenditures	\$ 7,873	\$ 0	\$ 0	\$ 7,873	\$ 0	\$ 7,023	\$ 850
<u>Other Financing Sources (Uses)</u>							
Insurance Recovery	(402,502)	0	0	(402,502)	(172,888)	(402,502)	0
Transfers Out	(394,629)	0	0	(394,629)	(172,888)	(395,479)	850
Total Other Financing Sources (Uses)	\$ (217,853)	\$ 164,476	\$ (86,677)	\$ (140,054)	\$ (118,976)	\$ (538,512)	\$ 398,458
Net Change in Fund Balance Fund Balance, July 1, 2009	2,609,269	(164,476)	0	2,444,793	2,061,574	2,061,574	383,219
Fund Balance, June 30, 2010	\$ 2,391,416	\$ 0	\$ (86,677)	\$ 2,304,739	\$ 1,942,598	\$ 1,523,062	\$ 781,677

Exhibit D-2

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, 2010

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2009	Add: Encumbrances 6/30/2010	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
<u>Revenues</u>							
Federal Government	\$ 1,089,214	\$ 0	\$ 0	\$ 1,089,214	\$ 1,177,752	\$ 1,321,257	\$ (232,043)
Total Revenues	\$ 1,089,214	\$ 0	\$ 0	\$ 1,089,214	\$ 1,177,752	\$ 1,321,257	\$ (232,043)
<u>Expenditures</u>							
<u>Instruction</u>							
Regular Instruction Program	\$ 456,935	\$ 0	\$ 650	\$ 457,585	\$ 462,206	\$ 535,655	\$ 78,070
Special Education Program	519,179	(64)	0	519,115	599,163	669,647	150,532
Vocational Education Program	8,892	0	5,820	14,712	13,762	14,635	(77)
<u>Support Services</u>							
Other Student Support	6,193	0	294	6,487	6,730	6,486	(1)
Regular Instruction Program	59,887	(111)	119	59,895	63,186	63,326	3,431
Special Education Program	34,436	0	0	34,436	32,205	34,754	318
Vocational Education Program	283	0	0	283	500	282	(1)
Total Expenditures	\$ 1,085,805	\$ (175)	\$ 6,883	\$ 1,092,513	\$ 1,177,752	\$ 1,324,785	\$ 232,272
<u>Excess (Deficiency) of Revenues Over Expenditures</u>	\$ 3,409	\$ 175	\$ (6,883)	\$ (3,299)	\$ 0	\$ (3,528)	\$ 229
<u>Net Change in Fund Balance Fund Balance, July 1, 2009</u>	\$ 3,409	\$ 175	\$ (6,883)	\$ (3,299)	\$ 0	\$ (3,528)	\$ 229
	3,701	(175)	0	3,526	0	3,528	(2)
<u>Fund Balance, June 30, 2010</u>	\$ 7,110	\$ 0	\$ (6,883)	\$ 227	\$ 0	\$ 0	\$ 227

Exhibit D-3

McKenzie Special School District
Schedule of Funding Progress – Pension Plan
June 30, 2010

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7-1-09	\$ 1,210	\$ 1,432	\$ 222	84.49 %	\$ 836	26.55 %
7-1-07	1,001	1,220	219	82.05	725	30.21

The Governmental Accounting Standards Board requires the plan to prepare the Schedule of Funding Progress using the frozen entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the frozen entry age actuarial cost method went into effect during the year of the 2007 actuarial valuation; therefore, only the two most recent valuations are presented.

Exhibit D-4

McKenzie Special School District
Schedule of Funding Progress – Other Postemployment Benefits Plan
June 30, 2010

(Dollar amounts in thousands)

Plan	Actuarial Valuation Date *	Actuarial Value of Assets		Actuarial Accrued Liability (AAL)		Unfunded AAL (UAAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a Percentage of Covered Payroll ((b-a)/c)
		(a)	(a)	(b)	(b)				
Local Education Group	7-1-07	\$ 0	\$ 0	\$ 424	\$ 424	424	0%	\$ 3,094	14%
"	7-1-09	0	0	738	738	738	0	3,572	21

* Data only available for two actuarial valuations.

MCKENZIE SPECIAL SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2010

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 County 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.

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

Nonmajor Governmental Funds

Special Revenue Fund

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.

Central Cafeteria Fund – The Central Cafeteria Fund is used to account for the cafeteria operations in each of the schools.

Exhibit E

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, 2010

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2009	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
				Original	Final	
<u>Revenues</u>						
Charges for Current Services	\$ 245,334	\$ 0	\$ 245,334	\$ 267,500	\$ 267,500	\$ (22,166)
Other Local Revenues	2,025	0	2,025	2,700	2,700	(675)
State of Tennessee	8,797	0	8,797	9,000	9,000	(203)
Federal Government	597,518	0	597,518	514,500	569,529	27,989
Total Revenues	\$ 853,674	\$ 0	\$ 853,674	\$ 793,700	\$ 848,729	\$ 4,945
<u>Expenditures</u>						
<u>Operation of Non-Instructional Services</u>						
Food Service	\$ 863,501	(18,477)	\$ 845,024	\$ 794,860	\$ 865,758	\$ 20,734
Total Expenditures	\$ 863,501	(18,477)	\$ 845,024	\$ 794,860	\$ 865,758	\$ 20,734
Excess (Deficiency) of Revenues Over Expenditures	\$ (9,827)	18,477	\$ 8,650	(1,160)	\$ (17,029)	\$ 25,679
Net Change in Fund Balance Fund Balance, July 1, 2009	\$ (9,827)	18,477	\$ 8,650	(1,160)	\$ (17,029)	\$ 25,679
	294,595	(18,477)	276,118	216,322	216,322	59,796
Fund Balance, June 30, 2010	\$ 284,768	0	\$ 284,768	\$ 215,162	\$ 199,293	\$ 85,475

Major Governmental Fund

Education Debt Service Fund

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

Exhibit 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, 2010

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 553,642	\$ 553,314	\$ 553,314	\$ 328
Total Revenues	\$ 553,642	\$ 553,314	\$ 553,314	\$ 328
<u>Expenditures</u>				
<u>Support Services</u>				
Board of Education	\$ 10,885	\$ 12,000	\$ 12,000	\$ 1,115
<u>Principal on Debt</u>				
Education	410,000	410,000	410,000	0
<u>Interest on Debt</u>				
Education	306,200	306,200	306,200	0
<u>Other Debt Service</u>				
Education	500	1,500	1,500	1,000
Total Expenditures	\$ 727,585	\$ 729,700	\$ 729,700	\$ 2,115
Excess (Deficiency) of Revenues Over Expenditures	\$ (173,943)	\$ (176,386)	\$ (176,386)	\$ 2,443
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 402,502	\$ 172,888	\$ 402,502	\$ 0
Total Other Financing Sources (Uses)	\$ 402,502	\$ 172,888	\$ 402,502	\$ 0
Net Change in Fund Balance	\$ 228,559	\$ (3,498)	\$ 226,116	\$ 2,443
Fund Balance, July 1, 2009	757,167	977,645	977,645	(220,478)
Fund Balance, June 30, 2010	\$ 985,726	\$ 974,147	\$ 1,203,761	\$ (218,035)

MISCELLANEOUS SCHEDULES

Exhibit G-1

McKenzie Special School District
Schedule of Changes in Long-term Bonds
For the Year Ended June 30, 2010

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding 7-1-09	Paid and/or	
						Matured During Period	Outstanding 6-30-10
BONDS PAYABLE							
<u>Payable through Education Debt Service Fund</u>							
School Refunding - Series 2008	\$ 8,255,000	3.5 to 4 %	9-18-08	4-1-22	\$ 7,880,000	\$ 410,000	\$ 7,470,000
Total Bonds Payable					\$ 7,880,000	\$ 410,000	\$ 7,470,000

Exhibit G-2

McKenzie Special School District
Schedule of Long-term Debt Requirements by Year

Year Ending June 30	Bonds		Total
	Principal	Interest	
2011	\$ 440,000	\$ 291,850	\$ 731,850
2012	460,000	276,450	736,450
2013	490,000	260,350	750,350
2014	520,000	243,200	763,200
2015	550,000	222,400	772,400
2016	590,000	200,400	790,400
2017	630,000	176,800	806,800
2018	665,000	151,600	816,600
2019	715,000	125,000	840,000
2020	760,000	96,400	856,400
2021	800,000	66,000	866,000
2022	850,000	34,000	884,000
Total	\$ 7,470,000	\$ 2,144,450	\$ 9,614,450

Exhibit G-3

McKenzie Special School District
Schedule of Transfers
For the Year Ended June 30, 2010

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Purpose School	Education Debt Service	Debt payments	\$ 402,502
Total Transfers			\$ 402,502

Exhibit G-4

McKenzie Special School District
Schedule of Salaries and Official Bonds of Principal Officials
For the Year Ended June 30, 2010

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	\$ 81,000	\$ 269,560	Western Surety Company
Finance Director	McKenzie Special School District Board of Directors	59,968	150,000	Tennessee Risk Management Trust
Employees' Blanket Bond			150,000	"

Exhibit G-5

McKenzie Special School District
Schedule of Detailed Revenues -
All Governmental Fund Types
For the Year Ended June 30, 2010

	General Purpose School	School Federal Projects	Central Cafeteria	Education Debt Service	Total
<u>Local Taxes</u>					
<u>County Property Taxes</u>					
Trustee's Collections - Bankruptcy	\$ 663	\$ 0	\$ 0	\$ 508	\$ 1,171
Circuit/Clerk & Master Collections - Prior Years	18,854	0	0	12,384	31,238
<u>County Local Option Taxes</u>					
Local Option Sales Tax	689,005	0	0	0	689,005
<u>Statutory Local Taxes</u>					
Interstate Telecommunications Tax	747	0	0	0	747
<u>City/School District Property Taxes</u>					
Current Property Tax	678,570	0	0	519,681	1,198,251
Prior Year Property Tax	13,366	0	0	11,672	25,038
Interest and Penalty	3,927	0	0	3,007	6,934
Payments in-Lieu-of Taxes	8,339	0	0	6,390	14,729
Total Local Taxes	\$ 1,413,471	\$ 0	\$ 0	\$ 553,642	\$ 1,967,113
<u>Licenses and Permits</u>					
<u>Licenses</u>					
Marriage Licenses	\$ 521	\$ 0	\$ 0	\$ 0	\$ 521
Total Licenses and Permits	\$ 521	\$ 0	\$ 0	\$ 0	\$ 521
<u>Charges for Current Services</u>					
<u>Fees</u>					
Vending Machine Collections	\$ 7,500	\$ 0	\$ 0	\$ 0	\$ 7,500
<u>Education Charges</u>					
Tuition - Other	2,380	0	0	0	2,380
Lunch Payments - Children	0	0	119,107	0	119,107
Lunch Payments - Adults	0	0	17,465	0	17,465
Income from Breakfast	0	0	14,025	0	14,025
A la carte Sales	0	0	84,859	0	84,859
<u>Other Charges for Services</u>					
Other Charges for Services	0	0	9,878	0	9,878
Total Charges for Current Services	\$ 9,880	\$ 0	\$ 245,334	\$ 0	\$ 255,214
<u>Other Local Revenues</u>					
<u>Recurring Items</u>					
Investment Income	\$ 49,082	\$ 0	\$ 972	\$ 0	\$ 50,054
Lease/Rentals	1,058	0	0	0	1,058
Refund of Telecommunication & Internet Fees (E-Rate)	7,207	0	0	0	7,207
Miscellaneous Refunds	1,508	0	1,053	0	2,561
<u>Nonrecurring Items</u>					
Sale of Equipment	2,801	0	0	0	2,801
Damages Recovered from Individuals	739	0	0	0	739
Contributions and Gifts	500	0	0	0	500
Total Other Local Revenues	\$ 62,895	\$ 0	\$ 2,025	\$ 0	\$ 64,920
<u>State of Tennessee</u>					
<u>General Government Grants</u>					
On-Behalf Contributions for OPEB	\$ 58,516	\$ 0	\$ 0	\$ 0	\$ 58,516
<u>State Education Funds</u>					
Basic Education Program	5,866,728	0	0	0	5,866,728

(Continued)

Exhibit G-5

McKenzie Special School District
Schedule of Detailed Revenues -
All Governmental Fund Types

	General Purpose School	School Federal Projects	Central Cafeteria	Education Debt Service	Total
<u>State of Tennessee (Cont.)</u>					
<u>State Education Funds (Cont.)</u>					
Basic Education Program - ARRA	\$ 251,400	\$ 0	\$ 0	\$ 0	\$ 251,400
Early Childhood Education	98,078	0	0	0	98,078
School Food Service	0	0	8,797	0	8,797
Driver Education	6,180	0	0	0	6,180
Other State Education Funds	2,350	0	0	0	2,350
Internet Connectivity - ARRA	4,025	0	0	0	4,025
Statewide Student Management System (SSMS) - ARRA	3,450	0	0	0	3,450
Career Ladder Program	69,781	0	0	0	69,781
Career Ladder - Extended Contract - ARRA	32,800	0	0	0	32,800
<u>Other State Revenues</u>					
Mixed Drink Tax	676	0	0	0	676
Safe Schools - ARRA	4,500	0	0	0	4,500
Total State of Tennessee	\$ 6,398,484	\$ 0	\$ 8,797	\$ 0	\$ 6,407,281
<u>Federal Government</u>					
<u>Federal Through State</u>					
USDA School Lunch Program	\$ 0	\$ 0	\$ 381,063	\$ 0	\$ 381,063
USDA - Commodities	0	0	38,029	0	38,029
Breakfast	0	0	159,298	0	159,298
USDA - Other	0	0	2,128	0	2,128
USDA Food Service Equipment Grant - ARRA	0	0	17,000	0	17,000
Vocational Education - Basic Grants to States	0	14,725	0	0	14,725
Title I Grants to Local Education Agencies	0	411,059	0	0	411,059
Special Education - Grants to States	24,082	541,280	0	0	565,362
Special Education Preschool Grants	0	15,334	0	0	15,334
Safe and Drug-free Schools - State Grants	0	4,242	0	0	4,242
Rural Education	0	37,532	0	0	37,532
Eisenhower Professional Development State Grants	0	48,175	0	0	48,175
Other Federal through State	0	16,867	0	0	16,867
<u>Direct Federal Revenue</u>					
Public Law 874 - Maintenance and Operation	1,635	0	0	0	1,635
Total Federal Government	\$ 25,717	\$ 1,089,214	\$ 597,518	\$ 0	\$ 1,712,449
Total	\$ 7,910,968	\$ 1,089,214	\$ 853,674	\$ 553,642	\$ 10,407,498

Exhibit G-6

McKenzie Special School District
Schedule of Detailed Expenditures -
All Governmental Fund Types
For the Year Ended June 30, 2010

General Purpose School Fund

Instruction

Regular Instruction Program

Teachers	\$ 3,107,488	
Career Ladder Program	38,970	
Career Ladder Extended Contracts	29,025	
Homebound Teachers	4,895	
Educational Assistants	12,378	
Other Salaries and Wages	2,639	
Certified Substitute Teachers	37,878	
Non-certified Substitute Teachers	19,475	
Social Security	186,320	
State Retirement	204,149	
Medical Insurance	316,159	
Unemployment Compensation	3,786	
Employer Medicare	43,702	
Evaluation and Testing	14,204	
Maintenance Agreements	1,096	
Maintenance and Repair Services - Equipment	1,641	
Medical and Dental Services	274	
Printing, Stationery, and Forms	658	
Other Contracted Services	675	
Instructional Supplies and Materials	75,860	
Textbooks	187,455	
Fee Waivers	7,449	
Other Charges	24,232	
Furniture and Fixtures	15,233	
Motor Vehicles	16,193	
Regular Instruction Equipment	231,007	
Total Regular Instruction Program		\$ 4,582,841

Alternative Instruction Program

Contracts with Other School Systems	\$ 19,518	
Total Alternative Instruction Program		19,518

Special Education Program

Teachers	\$ 130,519
Career Ladder Program	8,000
Career Ladder Extended Contracts	9,338
Educational Assistants	20,588
Speech Pathologist	32,742
Social Security	11,808

(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.)

State Retirement	\$	12,751	
Medical Insurance		9,877	
Unemployment Compensation		257	
Employer Medicare		2,764	
Contracts with Other School Systems		23,000	
Instructional Supplies and Materials		1,509	
Total Special Education Program			\$ 263,153

Vocational Education Program

Teachers	\$	164,649	
Career Ladder Program		3,000	
Career Ladder Extended Contracts		1,281	
Social Security		9,531	
State Retirement		10,845	
Medical Insurance		15,835	
Unemployment Compensation		173	
Employer Medicare		2,229	
Instructional Supplies and Materials		1,000	
Vocational Instruction Equipment		11,453	
Total Vocational Education Program			219,996

Support Services

Health Services

Medical Personnel	\$	60,865	
Social Security		3,755	
State Retirement		5,082	
Unemployment Compensation		88	
Employer Medicare		878	
Drugs and Medical Supplies		96	
Office Supplies		198	
In Service/Staff Development		688	
Total Health Services			71,650

Other Student Support

Career Ladder Program	\$	3,000	
Guidance Personnel		144,635	
Other Salaries and Wages		14,807	
Social Security		9,050	
State Retirement		10,459	

(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.)

Medical Insurance	\$	23,931	
Unemployment Compensation		137	
Employer Medicare		2,116	
Communication		769	
Contracts with Government Agencies		20,353	
Office Supplies		1,143	
In Service/Staff Development		911	
Furniture and Fixtures		39	
Other Equipment		150	
Total Other Student Support			\$ 231,500

Regular Instruction Program

Supervisor/Director	\$	56,120	
Career Ladder Program		3,000	
Career Ladder Extended Contracts		6,262	
Librarians		128,577	
Instructional Computer Personnel		60,855	
Educational Assistants		29,928	
Social Security		16,484	
State Retirement		18,783	
Medical Insurance		25,549	
Unemployment Compensation		253	
Employer Medicare		3,852	
Communication		501	
Data Processing Services		44,266	
Dues and Memberships		89	
Licenses		19,500	
Travel		1,160	
Other Contracted Services		319	
Library Books/Media		9,199	
Office Supplies		1,435	
Periodicals		363	
Other Supplies and Materials		977	
In Service/Staff Development		7,478	
Other Charges		16	
Administration Equipment		3,910	
Furniture and Fixtures		10,997	
Regular Instruction Equipment		22,075	
Other Equipment		455	
Total Regular Instruction Program			472,403

(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.)

Special Education Program

Supervisor/Director	\$	22,924	
Social Security		1,302	
State Retirement		1,449	
Medical Insurance		4,817	
Unemployment Compensation		13	
Employer Medicare		305	
Travel		12,549	
In Service/Staff Development		2,004	
Total Special Education Program			\$ 45,363

Vocational Education Program

Supervisor/Director	\$	6,278	
Social Security		349	
State Retirement		397	
Medical Insurance		704	
Unemployment Compensation		4	
Employer Medicare		82	
In Service/Staff Development		450	
Total Vocational Education Program			8,264

Other Programs

On-Behalf Payments to OPEB	\$	58,516	
Total Other Programs			58,516

Board of Education

Election Commission	\$	416	
Unemployment Compensation		22	
Employer Medicare		51	
Payments to Retirees		3,545	
Advertising		49	
Audit Services		11,789	
Dues and Memberships		4,113	
Legal Services		346	
Licenses		250	
Postal Charges		132	
Maintenance and Repair Services - Records		2,000	
Office Supplies		310	
Liability Insurance		19,165	
Premiums on Corporate Surety Bonds		944	

(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.)

Board of Education (Cont.)

Trustee's Commission	\$	21,325	
Workers' Compensation Insurance		10,602	
In Service/Staff Development		1,359	
Refund to Applicant for Criminal Investigation		768	
Other Charges		3,982	
Total Board of Education			\$ 81,168

Director of Schools

County Official/Administrative Officer	\$	81,000	
Career Ladder Program		1,000	
Secretary(ies)		14,608	
Social Security		5,853	
State Retirement		6,420	
Medical Insurance		15,205	
Unemployment Compensation		59	
Employer Medicare		1,383	
Advertising		537	
Communication		2,253	
Dues and Memberships		2,041	
Legal Notices, Recording, and Court Costs		323	
Postal Charges		1,204	
Printing, Stationery, and Forms		90	
Rentals		2,100	
Office Supplies		482	
In Service/Staff Development		722	
Other Charges		617	
Total Director of Schools			135,897

Office of the Principal

Principals	\$	203,183	
Career Ladder Program		4,000	
Accountants/Bookkeepers		58,891	
Assistant Principals		56,580	
Secretary(ies)		33,468	
Social Security		21,309	
State Retirement		24,556	
Medical Insurance		45,398	
Unemployment Compensation		384	
Employer Medicare		5,005	

(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.)

Office of the Principal (Cont.)

Communication	\$	2,729	
Data Processing Services		897	
Dues and Memberships		625	
Rentals		5,580	
Office Supplies		484	
In Service/Staff Development		2,418	
Other Charges		66	
Administration Equipment		4,047	
Total Office of the Principal			\$ 469,620

Fiscal Services

Supervisor/Director	\$	59,968	
Purchasing Personnel		14,608	
Social Security		4,541	
State Retirement		6,227	
Medical Insurance		6,959	
Unemployment Compensation		55	
Employer Medicare		1,062	
Data Processing Services		5,223	
Printing, Stationery, and Forms		178	
Office Supplies		961	
Periodicals		57	
In Service/Staff Development		634	
Administration Equipment		1,174	
Total Fiscal Services			101,647

Operation of Plant

Custodial Personnel	\$	110,577	
Social Security		6,772	
State Retirement		6,994	
Unemployment Compensation		343	
Employer Medicare		1,584	
Communication		263	
Janitorial Services		102,019	
Disposal Fees		6,540	
Custodial Supplies		6,784	
Electricity		204,262	
Natural Gas		44,620	
Water and Sewer		30,927	

(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.)

Operation of Plant (Cont.)

Boiler Insurance	\$	1,570	
Building and Contents Insurance		28,607	
Total Operation of Plant			\$ 551,862

Maintenance of Plant

Maintenance Personnel	\$	89,208	
Social Security		5,450	
State Retirement		6,334	
Unemployment Compensation		125	
Employer Medicare		1,275	
Communication		518	
Maintenance and Repair Services - Buildings		109,052	
Maintenance and Repair Services - Equipment		269	
Maintenance and Repair Services - Vehicles		2,935	
Pest Control		3,124	
Gasoline		4,106	
In Service/Staff Development		225	
Other Charges		140	
Heating and Air Conditioning Equipment		4,000	
Other Equipment		5,247	
Total Maintenance of Plant			232,008

Operation of Non-Instructional Services

Early Childhood Education

Teachers	\$	41,484	
Educational Assistants		24,010	
Social Security		4,058	
State Retirement		4,668	
Unemployment Compensation		132	
Employer Medicare		949	
Other Contracted Services		180	
Food Supplies		821	
Instructional Supplies and Materials		20,356	
Other Supplies and Materials		234	
In Service/Staff Development		1,540	
Regular Instruction Equipment		10,108	
Total Early Childhood Education			108,540

(Continued)

Exhibit G-6

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

General Purpose School Fund (Cont.)

Capital Outlay

Regular Capital Outlay

Architects	\$	1,855	
Other Capital Outlay		78,391	
Total Regular Capital Outlay			\$ 80,246

Total General Purpose School Fund

\$ 7,734,192

School Federal Projects Fund

Instruction

Regular Instruction Program

Teachers	\$	171,949	
Educational Assistants		26,486	
Social Security		11,160	
State Retirement		13,251	
Medical Insurance		23,105	
Unemployment Compensation		265	
Employer Medicare		2,610	
Instructional Supplies and Materials		39,092	
Regular Instruction Equipment		169,017	
Total Regular Instruction Program			\$ 456,935

Special Education Program

Teachers	\$	168,555	
Educational Assistants		108,413	
Speech Pathologist		14,510	
Social Security		17,404	
State Retirement		19,459	
Medical Insurance		12,317	
Unemployment Compensation		577	
Employer Medicare		4,070	
Contracts with Other School Systems		51,951	
Other Contracted Services		33,694	
Instructional Supplies and Materials		39,288	
Special Education Equipment		48,941	
Total Special Education Program			519,179

Vocational Education Program

Teachers	\$	5,930	
Social Security		367	
State Retirement		381	

(Continued)

Exhibit G-6

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

School Federal Projects Fund (Cont.)

Instruction (Cont.)

Vocational Education Program (Cont.)

Employer Medicare	\$	86	
Vocational Instruction Equipment		2,128	
Total Vocational Education Program			\$ 8,892

Support Services

Other Student Support

Travel	\$	4,546	
Other Contracted Services		1,647	
Total Other Student Support			6,193

Regular Instruction Program

Supervisor/Director	\$	33,919	
Social Security		1,993	
State Retirement		2,178	
Medical Insurance		1,553	
Unemployment Compensation		24	
Employer Medicare		466	
Data Processing Services		1,875	
In Service/Staff Development		17,679	
Other Charges		200	
Total Regular Instruction Program			59,887

Special Education Program

Supervisor/Director	\$	15,418	
Clerical Personnel		7,304	
Social Security		1,321	
State Retirement		1,600	
Medical Insurance		1,325	
Unemployment Compensation		19	
Employer Medicare		309	
In Service/Staff Development		7,140	
Total Special Education Program			34,436

Vocational Education Program

Travel	\$	283	
Total Vocational Education Program			283

Total School Federal Projects Fund \$ 1,085,805

(Continued)

Exhibit G-6

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

Central Cafeteria Fund

Operation of Non-Instructional Services

Food Service

Supervisor/Director	\$	32,144	
Cafeteria Personnel		213,311	
Social Security		14,959	
State Retirement		16,494	
Medical Insurance		3,172	
Unemployment Compensation		939	
Employer Medicare		3,498	
Advertising		245	
Audit Services		1,019	
Communication		1,090	
Data Processing Services		1,260	
Dues and Memberships		193	
Maintenance and Repair Services - Equipment		10,767	
Medical and Dental Services		91	
Pest Control		750	
Postal Charges		120	
Printing, Stationery, and Forms		204	
Travel		1,701	
Disposal Fees		9,274	
Permits		240	
Custodial Supplies		4,446	
Food Preparation Supplies		27,226	
Food Supplies		376,219	
Office Supplies		1,197	
Uniforms		1,539	
Utilities		43,422	
USDA - Commodities		38,029	
Refunds		265	
Workers' Compensation Insurance		5,195	
In Service/Staff Development		1,618	
Refund to Applicant for Criminal Investigation		144	
Other Charges		810	
Food Service Equipment		51,232	
Other Equipment		688	
Total Food Service			\$ 863,501
Total Central Cafeteria Fund			\$ 863,501

(Continued)

Exhibit G-6

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

<u>Education Debt Service Fund</u>		
<u>Support Services</u>		
<u>Board of Education</u>		
Trustee's Commission	\$ 10,885	
Total Board of Education		\$ 10,885
<u>Principal on Debt</u>		
<u>Education</u>		
Principal on Bonds	\$ 410,000	
Total Education		410,000
<u>Interest on Debt</u>		
<u>Education</u>		
Interest on Bonds	\$ 306,200	
Total Education		306,200
<u>Other Debt Service</u>		
<u>Education</u>		
Other Debt Service	\$ 500	
Total Education		<u>500</u>
Total Education Debt Service Fund		<u>\$ 727,585</u>
Total Governmental Funds - McKenzie Special School District		<u><u>\$ 10,411,083</u></u>

SINGLE AUDIT SECTION



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF COUNTY AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
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

February 28, 2011

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, 2010, which collectively comprise the McKenzie Special School District's basic financial statements and have issued our report thereon dated February 28, 2011. 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.

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 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.

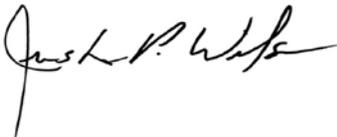
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose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

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 instance of noncompliance or other matters that is required to be reported under Government Auditing Standards.

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,



Justin P. Wilson
Comptroller of the Treasury

JPW/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 37243-1402
PHONE (615) 401-7841

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

February 28, 2011

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, 2010. 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, 2010.

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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the McKenzie Special School District's internal control over compliance.

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

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.

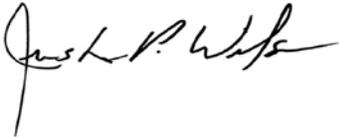
Schedule of Expenditures of Federal Awards

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, 2010, and have issued our report thereon dated February 28, 2011. 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, appearing to read "Justin P. Wilson". The signature is fluid and cursive, with a long vertical stroke extending downwards from the end.

Justin P. Wilson
Comptroller of the Treasury

JPW/yu

McKenzie Special School District
Schedule of Expenditures of Federal Awards (1)
For the Year Ended June 30, 2010

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 Education:			
Child Nutrition Cluster:			
School Breakfast Program	10.553	N/A	\$ 159,298
National School Lunch Program	10.555	N/A	381,063 (3)
Public School Snacks	10.555	N/A	2,128 (3)
Child Nutrition Discretionary Grants, Limited Availability	10.579	N/A	17,000
Passed-through State Department of Agriculture:			
National School Lunch Program (Commodities - Noncash Assistance)	10.555	N/A	38,029 (3)
Total U.S. Department of Agriculture			<u>\$ 597,518</u>
U.S. Department of Education:			
Direct Program:			
Impact Aid	84.041	N/A	\$ 1,635
Passed-through State Department of Education:			
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	N/A	248,857
Title I Grants to Local Educational Agencies, Recovery Act	84.389	N/A	159,288
Special Education Cluster:			
Special Education - Grants to States	84.027	N/A	296,430
Special Education - Preschool Grants	84.173	N/A	13,482
Special Education - Grants to States, Recovery Act	84.391	N/A	265,935
Special Education - Preschool Grants, Recovery Act	84.392	N/A	1,851
Vocational Education - Basic Grants to States	84.048	N/A	13,720
Safe and Drug-free Schools and Communities - State Grants	84.186	(2)	4,194
Education Technology State Grants Cluster:			
Education Technology State Grants	84.318	N/A	2,439
Education Technology State Grants, Recovery Act	84.386	(2)	14,428
Rural Education	84.358	N/A	37,562
Improving Teacher Quality State Grants	84.367	N/A	51,701
State Fiscal Stabilization Fund Cluster:			
State Fiscal Stabilization Fund - Education State Grants, Recovery Act	84.394	N/A	251,400
State Fiscal Stabilization Fund - Government Services, Recovery Act	84.397	N/A	44,775
Total U.S. Department of Education			<u>\$ 1,407,697</u>
Total Expenditures of Federal Awards			<u>\$ 2,005,215</u>
State Grants:			
Early Childhood Education - State Department of Education	N/A	<u>(2)</u>	\$ 98,078
ConnecTenn - State Department of Education	N/A	<u>(2)</u>	<u>2,350</u>
Total State Grants			<u>\$ 100,428</u>

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

- (1) Presented in conformity with generally accepted accounting principles using the modified accrual basis of accounting.
(2) Information not available.
(3) Total for CFDA No. 10.555 is \$421,220.

McKenzie Special School District
Schedule of Audit Findings Not Corrected
June 30, 2010

Government Auditing Standards require auditors to report the status of uncorrected findings from prior audits. There are no findings from the Annual Financial Report for the McKenzie Special School District, for the year ended June 30, 2009, which have not been corrected.

MCKENZIE SPECIAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2010

PART I, SUMMARY OF AUDITOR'S RESULTS

1. Our report on the financial statements of the McKenzie Special School District is unqualified.
2. The audit of the financial statements of the McKenzie Special School District disclosed no significant deficiencies in internal control.
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 Title I Cluster: Title I Grants to Local Educational Agencies and Title I Grants to Local Educational Agencies, Recovery Act (CFDA Nos. 84.010 and 84.389); the Special Education Cluster: Special Education – Grants to States, Special Education – Preschool Grants, Special Education – Grants to States, Recovery Act, and Special Education – Preschool Grants, Recovery Act (CFDA Nos. 84.027, 84.173, 84.391, and 84.392); and the State Fiscal Stabilization Fund Cluster: State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act and State Fiscal Stabilization Fund (SFSF) – Government Services, Recovery Act (CFDA Nos. 84.394 and 84.397) 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 qualify as a low-risk auditee.

PART II, FINDINGS RELATING TO THE FINANCIAL STATEMENTS

There are no findings relating to the financial statements of the McKenzie Special School District, as a result of our examination, for the year ended June 30, 2010.

BEST PRACTICE

McKENZIE SPECIAL SCHOOL DISTRICT SHOULD ESTABLISH AN AUDIT COMMITTEE

The McKenzie Special School District does not have an Audit Committee. Sound business practices dictate that establishing an Audit Committee would significantly improve management oversight and accountability. The absence of an Audit Committee has been a management decision by the board of directors. The Division of County Audit strongly believes that an Audit Committee is a best practice that should be adopted to assist the board of directors by providing independent and objective reviews of the financial reporting process, internal controls, the audit function, and being responsible for monitoring management's plans to address various risks.

**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, 2010**

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