
ANNUAL FINANCIAL REPORT
McKENZIE SPECIAL SCHOOL DISTRICT



FOR THE YEAR ENDED JUNE 30, 2011



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COMPTROLLER OF THE TREASURY
JUSTIN P. WILSON

DIVISION OF COUNTY AUDIT
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State Auditors

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, 2011

Scope

We have audited the basic financial statements of the McKenzie Special School District as of and for the year ended June 30, 2011.

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, 2011

Officials

Lynn Watkins, Director of Schools
Stan George, Finance Director

Board of Directors

John Austin, Chairperson
Greg Barker
Mary Elaine Brown
Brad Davis
Jon Davis
Norman French
Lance Rider

FINANCIAL SECTION



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

March 8, 2012

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, 2011, 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, 2011, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2012, 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. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which became effective for the year ended June 30, 2011.

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 45 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 financial statements as a whole. 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 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 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements.

The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Very truly yours,

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/sb

BASIC FINANCIAL STATEMENTS

Exhibit A

McKenzie Special School District
Statement of Net Assets
June 30, 2011

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash	\$ 20
Equity in Pooled Cash and Investments	3,690,380
Inventories	77,015
Due from Other Governments	514,630
Property Taxes Receivable	1,337,266
Allowance for Uncollectible Property Taxes	(67,585)
Prepaid Items	10,685
Deferred Charges - Debt Issuance Costs	78,874
Capital Assets:	
Assets Not Depreciated:	
Land	381,441
Assets Net of Accumulated Depreciation:	
Buildings and Improvements	7,115,736
Other Capital Assets	411,025
Total Assets	<u>\$ 13,549,487</u>
<u>LIABILITIES</u>	
Accounts Payable	\$ 160,615
Payroll Deductions Payable	141,882
Retainage Payable	4,953
Accrued Interest Payable	69,113
Deferred Revenue - Current Property Taxes	1,225,379
Noncurrent Liabilities:	
Due Within One Year	462,384
Due in More Than One Year (net of deferred amount on refunding and unamortized premiums on debt)	6,765,498
Total Liabilities	<u>\$ 8,829,824</u>
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	\$ 853,629
Restricted for:	
Central Cafeteria	315,232
Debt Service	940,094
Other Purposes	26,016
Unrestricted	<u>2,584,692</u>
Total Net Assets	<u>\$ 4,719,663</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, 2011

Functions/Programs	Program Revenues		Expenses	Net (Expense) Revenue and Changes in Net Assets
	Charges for Services	Operating Grants and Contributions		
Governmental Activities:				
Instruction	\$ 6,309,357	\$ 9,115	\$ 659,015	\$ (5,641,227)
Support Services	2,645,438	11,048	118,709	(2,515,681)
Operation of Non-Instructional Services	942,905	237,425	720,789	15,309
Interest on Long-term Debt	297,150	2,297	0	(294,853)
Total Governmental Activities	<u>\$ 10,194,850</u>	<u>\$ 259,885</u>	<u>\$ 1,498,513</u>	<u>\$ (8,436,452)</u>
General Revenues:				
Taxes:				
Property Taxes Levied for General Purposes				\$ 734,234
Property Taxes Levied for Debt Service				563,490
Local Option Sales Taxes				686,518
Interstate Telecommunications Tax				583
Grants and Contributions Not Restricted to Specific Programs				6,588,133
Unrestricted Investment Income				43,542
Miscellaneous				5,128
Total General Revenues				<u>\$ 8,621,628</u>
Change in Net Assets				\$ 185,176
Net Assets, July 1, 2010				<u>4,534,487</u>
Net Assets, June 30, 2011				<u>\$ 4,719,663</u>

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

Exhibit C-1

McKenzie Special School District
Balance Sheet - Governmental Funds
June 30, 2011

	<u>Major Funds</u>		<u>Nonmajor</u>	<u>Total</u>
	<u>General</u>	<u>Education</u>	<u>Funds</u>	
	<u>Purpose</u>	<u>Debt</u>	<u>Other</u>	
	<u>School</u>	<u>Service</u>	<u>Governmental</u>	<u>Governmental</u>
			<u>Funds</u>	<u>Funds</u>
<u>ASSETS</u>				
Cash	\$ 0	\$ 0	\$ 20	\$ 20
Equity in Pooled Cash and Investments	2,454,314	970,688	265,378	3,690,380
Inventories	0	0	77,015	77,015
Due from Other Governments	448,155	11,181	55,294	514,630
Due from Other Funds	58,791	0	0	58,791
Property Taxes Receivable	759,653	577,613	0	1,337,266
Allowance for Uncollectible Property Taxes	(38,332)	(29,253)	0	(67,585)
Prepaid Items	10,685	0	0	10,685
Total Assets	\$ 3,693,266	\$ 1,530,229	\$ 397,707	\$ 5,621,202
<u>LIABILITIES AND FUND BALANCES</u>				
<u>Liabilities</u>				
Accounts Payable	\$ 147,021	\$ 0	\$ 13,594	\$ 160,615
Payroll Deductions Payable	141,882	0	0	141,882
Retainage Payable	4,953	0	0	4,953
Due to Other Funds	0	0	58,791	58,791
Deferred Revenue - Current Property Taxes	696,238	529,141	0	1,225,379
Deferred Revenue - Delinquent Property Taxes	21,297	16,318	0	37,615
Other Deferred Revenues	60,112	0	0	60,112
Total Liabilities	\$ 1,071,503	\$ 545,459	\$ 72,385	\$ 1,689,347
<u>Fund Balances</u>				
Nonspendable:				
Inventory	\$ 0	\$ 0	\$ 77,015	\$ 77,015
Prepaid Expenses	10,685	0	0	10,685
Restricted:				
Restricted for Education	15,926	0	10,090	26,016
Restricted for Operation of Non-Instructional Services	0	0	238,217	238,217
Restricted for Debt Service	0	984,770	0	984,770
Assigned for Education	41,782	0	0	41,782
Unassigned	2,553,370	0	0	2,553,370
Total Fund Balances	\$ 2,621,763	\$ 984,770	\$ 325,322	\$ 3,931,855
Total Liabilities and Fund Balances	\$ 3,693,266	\$ 1,530,229	\$ 397,707	\$ 5,621,202

Exhibit C-2

McKenzie Special School District
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
June 30, 2011

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)		\$ 3,931,855	
(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	7,115,736		
Add: other capital assets net of accumulated depreciation	<u>411,025</u>	7,908,202	
(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	\$ (7,030,000)		
Less: accrued interest on bonds	(69,113)		
Less: other deferred revenue - premium on debt	(24,573)		
Add: deferred charges - debt issuance costs	78,874		
Add: deferred amount on refunding	8,119		
Less: compensated absences payable	(47,657)		
Less: other postemployment benefits liability	<u>(133,771)</u>	(7,218,121)	
(3) Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the governmental funds.			<u>97,727</u>
Net assets of governmental activities (Exhibit A)			<u>\$ 4,719,663</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, 2011

	Major Funds		Nonmajor Funds	Total Governmental Funds
	General Purpose School	Education Debt Service	Other Govern- mental Funds	
<u>Revenues</u>				
Local Taxes	\$ 1,431,035	\$ 569,673	\$ 0	\$ 2,000,708
Licenses and Permits	595	0	0	595
Charges for Current Services	9,115	0	237,425	246,540
Other Local Revenues	57,758	0	1,960	59,718
State of Tennessee	6,589,298	0	8,611	6,597,909
Federal Government	43,053	0	1,445,090	1,488,143
Total Revenues	<u>\$ 8,130,854</u>	<u>\$ 569,673</u>	<u>\$ 1,693,086</u>	<u>\$ 10,393,613</u>
<u>Expenditures</u>				
Current:				
Instruction	\$ 4,971,204	\$ 0	\$ 730,834	\$ 5,702,038
Support Services	2,496,336	11,167	109,870	2,617,373
Operation of Non-Instructional Services	97,247	0	818,938	916,185
Capital Outlay	165,952	0	0	165,952
Debt Service:				
Principal on Debt	0	440,000	0	440,000
Interest on Debt	0	291,850	0	291,850
Other Debt Service	0	500	0	500
Total Expenditures	<u>\$ 7,730,739</u>	<u>\$ 743,517</u>	<u>\$ 1,659,642</u>	<u>\$ 10,133,898</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 400,115</u>	<u>\$ (173,844)</u>	<u>\$ 33,444</u>	<u>\$ 259,715</u>
<u>Other Financing Sources (Uses)</u>				
Insurance Recovery	\$ 3,120	\$ 0	\$ 0	\$ 3,120
Transfers In	0	172,888	0	172,888
Transfers Out	(172,888)	0	0	(172,888)
Total Other Financing Sources (Uses)	<u>\$ (169,768)</u>	<u>\$ 172,888</u>	<u>\$ 0</u>	<u>\$ 3,120</u>
Net Change in Fund Balances	\$ 230,347	\$ (956)	\$ 33,444	\$ 262,835
Fund Balance, July 1, 2010	<u>2,391,416</u>	<u>985,726</u>	<u>291,878</u>	<u>3,669,020</u>
Fund Balance, June 30, 2011	<u>\$ 2,621,763</u>	<u>\$ 984,770</u>	<u>\$ 325,322</u>	<u>\$ 3,931,855</u>

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, 2011

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)		\$ 262,835
<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	\$ 63,291	
Less: current-year depreciation expense	<u>(536,800)</u>	(473,509)
<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, 2011	\$ 97,727	
Less: deferred delinquent property taxes and other deferred June 30, 2010	<u>(113,611)</u>	(15,884)
<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	\$ 440,000	
Add: change in premium on debt issuances	2,297	
Less: change in deferred debt issuance costs	(7,371)	
Less: change in deferred amount on refunding debt	<u>(1,279)</u>	433,647
<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	\$ 3,850	
Change in compensated absences payable	6,292	
Change in other postemployment benefits liability	<u>(32,055)</u>	(21,913)
Change in net assets of governmental activities (Exhibit B)		<u>\$ 185,176</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, 2011**

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 component units. The district operates a public school system and receives funding from local, state, and federal government sources.

B. Government-wide and Fund Financial Statements

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

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

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

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

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they become both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the district considers revenues other than grants to be available if they are collected within 30 days after year-end. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and the revenues are available. The district considers grants and similar revenues to be available if they are collected within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Principal and interest on long-term debt are recognized as fund liabilities when due or when amounts have been accumulated in the Education Debt Service Fund for payments to be made early in the following year.

Property taxes for the period levied, in-lieu-of tax payments, sales taxes, interest, and miscellaneous taxes are all considered to be susceptible to accrual and have been recognized as revenues of the current period. Applicable state-shared excise taxes are not susceptible to accrual since they are not measurable (reasonably estimable). All other revenue items are considered to be measurable and available only when the district receives cash.

The district reports the following major governmental funds:

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

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

Additionally, the district reports the following fund type:

Special Revenue Funds – These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

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.

It is the district’s policy that restricted amounts would be reduced first followed by unrestricted amounts when expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available. Also, it is the district’s policy that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of these unrestricted fund balance classifications could be used.

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

Activity between funds for unremitted current collections outstanding at the end of the fiscal year is referred to as due to/from other funds.

Property taxes receivable are shown with an allowance for uncollectibles. The allowance for uncollectible property taxes is equal to 2.66 percent of total taxes levied.

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

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

Property taxes receivable are also reported as of June 30 for the taxes that are levied, collected, and reported as revenue during the current fiscal year. These property taxes receivable are presented on the

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

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

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

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. Inventories are offset in the nonspendable fund balance account in governmental funds.

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. Prepaids are offset in the nonspendable fund balance account in governmental funds.

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 fund balance in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in these funds can be spent. These classifications may consist of the following:

Nonspendable Fund Balance – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted Fund Balance – includes amounts that have constraints placed on the use of the resources that are either (a) externally imposed by creditors, grantors, contributors or laws and regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal resolutions of the Board of Directors, the School Department’s highest level of decision-making authority.

Assigned Fund Balance – includes amounts that are constrained by the district’s intent to be used for specific purposes, but are neither restricted nor committed (excluding stabilization arrangements). The Board of Directors is the authorized body to make assignments.

Unassigned Fund Balance – the residual classification of the General Purpose School Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Purpose School Fund.

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

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.

At June 30, 2011, the McKenzie Special School District reported the following significant encumbrances in the General Purpose School Fund:

<u>Description</u>	<u>Amount</u>
Textbooks	\$ 21,440

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, 2011, 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	\$ 1,206,326

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, 2011, 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, 2011, was as follows:

Governmental Activities:

	Balance 7-1-10	Increases	Balance 6-30-11
Capital Assets Not Depreciated:			
Land	\$ 381,441	\$ 0	\$ 381,441
Total Capital Assets Not Depreciated	<u>\$ 381,441</u>	<u>\$ 0</u>	<u>\$ 381,441</u>
Capital Assets Depreciated:			
Buildings and Improvements	\$ 15,926,664	\$ 48,241	\$ 15,974,905
Other Capital Assets	1,061,094	15,050	1,076,144
Total Capital Assets Depreciated	<u>\$ 16,987,758</u>	<u>\$ 63,291</u>	<u>\$ 17,051,049</u>
Less Accumulated Depreciation For:			
Buildings and Improvements	\$ 8,382,127	\$ 477,042	\$ 8,859,169
Other Capital Assets	605,361	59,758	665,119
Total Accumulated Depreciation	<u>\$ 8,987,488</u>	<u>\$ 536,800</u>	<u>\$ 9,524,288</u>
Total Capital Assets Depreciated, Net	<u>\$ 8,000,270</u>	<u>\$ (473,509)</u>	<u>\$ 7,526,761</u>
Governmental Activities Capital Assets, Net	<u>\$ 8,381,711</u>	<u>\$ (473,509)</u>	<u>\$ 7,908,202</u>

The district had no decreases in capital assets during the year. Depreciation expense was charged to functions of the district as follows:

Governmental Activities:

Instruction	\$ 487,565
Support Services	24,595
Operation of Non-Instructional Services	<u>24,640</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 536,800</u>

C. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of June 30, 2011, was as follows:

Due to/from Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Purpose School	Nonmajor governmental	\$ 58,791

This balance resulted from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur and payments between funds are made.

Interfund Transfers:

Interfund transfers for the year ended June 30, 2011, consisted of the following amount:

<u>Transfer Out</u>	<u>Transfer In</u>
	Education Debt Service Fund
General Purpose School Fund	\$ 172,888

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, 2011, will be retired from the Education Debt Service Fund.

General obligation bonds outstanding as of June 30, 2011, for governmental activities are as follows:

Type	Interest Rates	Original Amount of Issue	Balance 6-30-11
G.O. Bonds - Refunding	3.5 to 4%	\$ 8,255,000	\$ 7,030,000

The annual requirements to amortize all general obligation bonds outstanding as of June 30, 2011, including interest payments, are presented in the following table:

Year Ending June 30	Bonds		
	Principal	Interest	Total
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
2017-2021	3,570,000	615,800	4,185,800
2022	850,000	34,000	884,000
Total	\$ 7,030,000	\$ 1,852,600	\$ 8,882,600

There is \$984,770 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, 2011, was as follows:

Governmental Activities:

	Bonds	Compensated Absences
Balance, July 1, 2010	\$ 7,470,000	\$ 53,949
Additions	0	13,564
Deductions	(440,000)	(19,856)
Balance, June 30, 2011	\$ 7,030,000	\$ 47,657
Balance Due Within One Year	\$ 460,000	\$ 2,384

Governmental Activities (Cont.):

	Other Postemployment Benefits
Balance, July 1, 2010	\$ 101,716
Additions	80,241
Deductions	<u>(48,186)</u>
Balance, June 30, 2011	<u>\$ 133,771</u>
Balance Due Within One Year	<u>\$ 0</u>

Analysis of Noncurrent Liabilities Presented on Exhibit A:

Total Noncurrent Liabilities, June 30, 2011	\$ 7,211,428
Less: Deferred Amount on Refunding	(8,119)
Add: Unamortized Premium on Debt	24,573
Less: Due Within One Year	<u>(462,384)</u>
Noncurrent Liabilities - Due in More Than One Year - Exhibit A	<u>\$ 6,765,498</u>

Compensated absences and other postemployment benefits will be paid from the employing funds, primarily the General Purpose School Fund.

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, 2011, were \$44,765 and \$940, 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 Change

Provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* became effective for the year ended June 30, 2011.

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. These classifications include nonspendable, restricted, committed, assigned, and unassigned and are based on the relative strength of the constraints that control how specific amounts can be spent. Also, Statement No. 54 clarified the definitions of the General Fund and the special revenue, capital projects, debt service, and permanent fund types. The McKenzie Special School District has implemented provisions of this statement in the financial statements of this report for its governmental funds.

C. Contingent Liabilities

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

D. Retirement Commitments

Plan Description

Employees of McKenzie Special School District are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979, become vested after five years of service, and members joining prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly. Political subdivisions such as McKenzie Special School District participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

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

Funding Policy

McKenzie Special School District requires employees to contribute five percent of their earnable compensation to the plan. The district is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2011, was 7.27 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, 2011, the district's annual pension cost of \$55,518 to TCRS was equal to the county's required and actual contributions. The required contribution was determined as part of the July 1, 2009, actuarial valuation using the 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 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. 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, 2009, was 10 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
6-30-11	\$55,518	100%	\$0
6-30-10	67,604	100	0
6-30-09	69,484	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 million, and the actuarial value of assets was \$1 million, resulting in an unfunded actuarial accrued liability (UAAL) of zero. The covered payroll (annual payroll of active employees covered by the plan) was \$1 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 annual required contribution was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

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. Cost of living adjustments (COLA) are provided to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent. The annual COLA is capped at three percent.

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

Funding Policy

Most teachers are required by state statute to contribute five percent of their salaries 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, 2011, was 9.05 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, 2011, 2010, and 2009, were \$424,159, \$305,402, and \$293,770, 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. In previous fiscal years, prior to reaching age 65, all members had the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. However, as of January 1, 2010, the insurance plan structure was changed, and as a result all members now have the option of choosing between the standard or partnership preferred provider organization (PPO) 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, 2011, the district contributed \$48,186 for postemployment health care.

Annual OPEB Cost and Net OPEB Obligation

	Local Education Group Plan
	<hr/>
ARC	\$ 80,000
Interest on the NPO	4,577
Adjustment to the ARC	(4,336)
	<hr/>
Annual OPEB cost	\$ 80,241
Less: Amount of contribution	(48,186)
	<hr/>
Increase/decrease in NPO	\$ 32,055
Net OPEB obligation, 7-1-10	<hr/>
	101,716
	<hr/>
Net OPEB obligation, 6-30-11	<u>\$ 133,771</u>

Fiscal Year Ended	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End
6-30-09	Local Education Group	\$ 76,894	36%	\$ 71,985
6-30-10	"	77,171	61	101,716
6-30-11	"	80,241	60	133,771

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2010, was as follows:

	Local Education Group Plan
	<hr/>
Actuarial valuation date	7-1-10
Actuarial accrued liability (AAL)	\$ 763,000
Actuarial value of plan assets	\$ 0
Unfunded actuarial accrued liability (UAAL)	\$ 763,000
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, 2010, actuarial valuation for the Local Education Group 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 ten percent for fiscal year 2011. The trend will decrease to 9.5 percent in fiscal year 2012 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, 2011

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2010	Add: Encumbrances 6/30/2011	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
Revenues							
Local Taxes	\$ 1,431,035	\$ 0	\$ 0	\$ 1,431,035	\$ 1,217,070	\$ 1,217,070	\$ 213,965
Licenses and Permits	595	0	0	595	300	300	295
Charges for Current Services	9,115	0	0	9,115	10,000	10,000	(885)
Other Local Revenues	57,758	0	0	57,758	45,000	45,000	12,758
State of Tennessee	6,589,298	0	0	6,589,298	6,385,860	6,610,442	(21,144)
Federal Government	43,053	0	0	43,053	19,500	41,042	2,011
Total Revenues	\$ 8,130,854	\$ 0	\$ 0	\$ 8,130,854	\$ 7,677,730	\$ 7,923,854	\$ 207,000
Expenditures							
Instruction							
Regular Instruction Program	\$ 4,342,334	\$ (17,887)	\$ 34,745	\$ 4,359,192	\$ 4,380,481	\$ 4,506,956	\$ 147,764
Alternative Instruction Program	19,035	0	0	19,035	21,000	21,000	1,965
Special Education Program	392,188	0	0	392,188	406,285	410,372	18,184
Vocational Education Program	217,647	0	322	217,969	216,837	219,537	1,568
Support Services							
Health Services	72,251	0	0	72,251	71,297	73,297	1,046
Other Student Support	241,244	0	0	241,244	243,523	245,949	4,705
Regular Instruction Program	459,674	(18)	0	459,656	457,621	466,905	7,249
Special Education Program	42,966	0	0	42,966	46,643	53,130	10,164
Vocational Education Program	8,106	0	0	8,106	8,656	8,656	550
Other Programs	45,705	0	0	45,705	0	45,705	0
Board of Education	98,991	(60)	0	98,931	101,116	103,311	4,380
Director of Schools	138,670	0	0	138,670	142,443	142,443	3,773
Office of the Principal	480,726	0	0	480,726	485,218	488,287	7,561

(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 7/1/2010	Add: Encumbrances 6/30/2011	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	\$ 100,016	\$ 0	\$ 315	\$ 100,331	\$ 101,847	\$ 101,847	\$ 1,516
Operation of Plant	592,035	0	0	592,035	630,111	620,521	28,486
Maintenance of Plant	215,952	(6,817)	5,400	214,535	211,190	227,890	13,355
<u>Operation of Non-Instructional Services</u>							
Early Childhood Education	97,247	0	1,000	98,247	100,572	101,890	3,643
<u>Capital Outlay</u>							
Regular Capital Outlay	165,952	(61,895)	0	104,057	0	105,500	1,443
Total Expenditures	\$ 7,730,739	\$ (86,677)	\$ 41,782	\$ 7,685,844	\$ 7,624,840	\$ 7,943,196	\$ 257,352
<u>Excess (Deficiency) of Revenues</u>							
Over Expenditures	\$ 400,115	\$ 86,677	\$ (41,782)	\$ 445,010	\$ 52,890	\$ (19,342)	\$ 464,352
<u>Other Financing Sources (Uses)</u>							
Insurance Recovery	\$ 3,120	\$ 0	\$ 0	\$ 3,120	\$ 0	\$ 0	\$ 3,120
Transfers Out	(172,888)	0	0	(172,888)	(172,888)	(172,888)	0
Total Other Financing Sources (Uses)	\$ (169,768)	\$ 0	\$ 0	\$ (169,768)	\$ (172,888)	\$ (172,888)	\$ 3,120
Net Change in Fund Balance	\$ 230,347	\$ 86,677	\$ (41,782)	\$ 275,242	\$ (119,998)	\$ (192,230)	\$ 467,472
Fund Balance, July 1, 2010	2,391,416	(86,677)	0	2,304,739	2,391,104	2,391,104	(86,365)
Fund Balance, June 30, 2011	\$ 2,621,763	\$ 0	\$ (41,782)	\$ 2,579,981	\$ 2,271,106	\$ 2,198,874	\$ 381,107

Exhibit D-2

McKenzie Special School District
Schedule of Funding Progress – Pension Plan
June 30, 2011

(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 entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the 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-3

McKenzie Special School District
Schedule of Funding Progress – Other Postemployment Benefits Plan
June 30, 2011

(Dollar amounts in thousands)

Plan	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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)
Local Education Group	7-1-07	\$ 0	\$ 424	\$ 424	0%	\$ 3,094	14%
"	7-1-09	0	738	738	0	3,184	23
"	7-1-10	0	763	763	0	3,572	21

**MCKENZIE SPECIAL SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2011**

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.

At June 30, 2011, the McKenzie Special School District reported the following significant encumbrances in the General Purpose School Fund:

<u>Description</u>	<u>Amount</u>
Textbooks	\$ 21,440

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

Nonmajor Governmental Funds

Special Revenue Fund

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

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

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

Exhibit E-1

McKenzie Special School District
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2011

	<u>Special Revenue Funds</u>		Total
	School	Central	Nonmajor
	Federal	Cafeteria	Governmental
	Projects		Funds
<u>ASSETS</u>			
Cash	\$ 0	\$ 20	\$ 20
Equity in Pooled Cash and Investments	22,291	243,087	265,378
Inventories	0	77,015	77,015
Due from Other Governments	31,176	24,118	55,294
	<hr/>		
Total Assets	\$ 53,467	\$ 344,240	\$ 397,707
<u>LIABILITIES AND FUND BALANCES</u>			
<u>Liabilities</u>			
Accounts Payable	\$ 4,254	\$ 9,340	\$ 13,594
Due to Other Funds	39,123	19,668	58,791
Total Liabilities	<hr/>		<hr/>
	\$ 43,377	\$ 29,008	\$ 72,385
<u>Fund Balances</u>			
Nonspendable:			
Inventory	\$ 0	\$ 77,015	\$ 77,015
Restricted:			
Restricted for Education	10,090	0	10,090
Restricted for Operation of Non-Instructional Services	0	238,217	238,217
Total Fund Balances	<hr/>		<hr/>
	\$ 10,090	\$ 315,232	\$ 325,322
Total Liabilities and Fund Balances	<hr/>		<hr/>
	\$ 53,467	\$ 344,240	\$ 397,707

Exhibit E-2

McKenzie Special School District
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances -
Nonmajor Governmental Funds
For the Year Ended June 30, 2011

	<u>Special Revenue Funds</u>		Total Nonmajor Governmental Funds
	School Federal Projects	Central Cafeteria	
<u>Revenues</u>			
Charges for Current Services	\$ 0	\$ 237,425	\$ 237,425
Other Local Revenues	0	1,960	1,960
State of Tennessee	0	8,611	8,611
Federal Government	843,684	601,406	1,445,090
Total Revenues	<u>\$ 843,684</u>	<u>\$ 849,402</u>	<u>\$ 1,693,086</u>
<u>Expenditures</u>			
Current:			
Instruction	\$ 730,834	\$ 0	\$ 730,834
Support Services	109,870	0	109,870
Operation of Non-Instructional Services	0	818,938	818,938
Total Expenditures	<u>\$ 840,704</u>	<u>\$ 818,938</u>	<u>\$ 1,659,642</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 2,980</u>	<u>\$ 30,464</u>	<u>\$ 33,444</u>
Net Change in Fund Balances	\$ 2,980	\$ 30,464	\$ 33,444
Fund Balance, July 1, 2010	7,110	284,768	291,878
Fund Balance, June 30, 2011	<u>\$ 10,090</u>	<u>\$ 315,232</u>	<u>\$ 325,322</u>

Exhibit E-3

McKenzie Special School District
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
School Federal Projects Fund
For the Year Ended June 30, 2011

	Actual (GAAP Basis)	Less:		Add: Encumbrances 6/30/2011	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		7/1/2010	Encumbrances 6/30/2011			Original	Final	
<u>Revenues</u>								
Federal Government	\$ 843,684	\$ 0	\$ 0	\$ 0	\$ 843,684	\$ 794,422	\$ 1,086,739	\$ (243,055)
Total Revenues	\$ 843,684	\$ 0	\$ 0	\$ 0	\$ 843,684	\$ 794,422	\$ 1,086,739	\$ (243,055)
<u>Expenditures</u>								
<u>Instruction</u>								
Regular Instruction Program	\$ 414,797	\$ (650)	\$ 0	\$ 0	\$ 414,147	\$ 394,414	\$ 505,468	\$ 91,321
Special Education Program	302,685	0	121	302,806	297,343	447,876	145,070	860
Vocational Education Program	13,352	(5,820)	3,973	11,505	12,479	12,365	860	
<u>Support Services</u>								
Health Services	13,744	0	0	13,744	0	13,748	4	
Other Student Support	6,950	(294)	396	7,052	4,276	7,210	158	
Regular Instruction Program	63,581	(119)	155	63,617	66,908	78,895	15,278	
Special Education Program	17,944	0	0	17,944	18,652	18,965	1,021	
Vocational Education Program	378	0	0	378	350	378	0	
Office of the Principal	717	0	0	717	0	720	3	
Maintenance of Plant	6,556	0	0	6,556	0	6,824	268	
Total Expenditures	\$ 840,704	\$ (6,883)	\$ 4,645	\$ 838,466	\$ 794,422	\$ 1,092,449	\$ 253,983	
Excess (Deficiency) of Revenues Over Expenditures	\$ 2,980	\$ 6,883	\$ (4,645)	\$ 5,218	\$ 0	\$ (5,710)	\$ 10,928	
<u>Other Financing Sources (Uses)</u>								
Transfers In	\$ 0	\$ 0	\$ 0	\$ 0	\$ 50,262	\$ 0	\$ 0	\$ 0
Transfers Out	0	0	0	0	(50,262)	0	0	0
Total Other Financing Sources (Uses)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Net Change in Fund Balance Fund Balance, July 1, 2010	\$ 2,980	\$ 6,883	\$ (4,645)	\$ 5,218	\$ 0	\$ (5,710)	\$ 10,928	
Fund Balance, July 1, 2010	7,110	(6,883)	0	227	0	5,710	(5,483)	
Fund Balance, June 30, 2011	\$ 10,090	\$ 0	\$ (4,645)	\$ 5,445	\$ 0	\$ 0	\$ 5,445	

Exhibit E-4

McKenzie Special School District
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
Central Cafeteria Fund
For the Year Ended June 30, 2011

	Actual (GAAP Basis)	Add: Encumbrances 6/30/2011	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
				Original	Final	
<u>Revenues</u>						
Charges for Current Services	\$ 237,425	\$ 0	\$ 237,425	\$ 243,000	\$ 243,000	\$ (5,575)
Other Local Revenues	1,960	0	1,960	1,250	1,250	710
State of Tennessee	8,611	0	8,611	8,500	8,500	111
Federal Government	601,406	0	601,406	552,000	617,982	(16,576)
Total Revenues	\$ 849,402	\$ 0	\$ 849,402	\$ 804,750	\$ 870,732	\$ (21,330)
<u>Expenditures</u>						
<u>Operation of Non-Instructional Services</u>						
Food Service	\$ 818,938	\$ 14,168	\$ 833,106	\$ 816,561	\$ 882,543	\$ 49,437
Total Expenditures	\$ 818,938	\$ 14,168	\$ 833,106	\$ 816,561	\$ 882,543	\$ 49,437
Excess (Deficiency) of Revenues Over Expenditures	\$ 30,464	\$ (14,168)	\$ 16,296	\$ (11,811)	\$ (11,811)	\$ 28,107
Net Change in Fund Balance Fund Balance, July 1, 2010	\$ 30,464	\$ (14,168)	\$ 16,296	\$ (11,811)	\$ (11,811)	\$ 28,107
	284,768	0	284,768	235,784	235,784	48,984
Fund Balance, June 30, 2011	\$ 315,232	\$ (14,168)	\$ 301,064	\$ 223,973	\$ 223,973	\$ 77,091

Major Governmental Fund

Education Debt Service Fund

The Education Debt Service Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

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, 2011

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 569,673	\$ 536,417	\$ 536,417	\$ 33,256
Total Revenues	\$ 569,673	\$ 536,417	\$ 536,417	\$ 33,256
<u>Expenditures</u>				
<u>Support Services</u>				
Board of Education	\$ 11,167	\$ 12,000	\$ 12,000	\$ 833
<u>Principal on Debt</u>				
Education	440,000	440,000	440,000	0
<u>Interest on Debt</u>				
Education	291,850	291,850	291,850	0
<u>Other Debt Service</u>				
Education	500	1,500	1,500	1,000
Total Expenditures	\$ 743,517	\$ 745,350	\$ 745,350	\$ 1,833
Excess (Deficiency) of Revenues Over Expenditures	\$ (173,844)	\$ (208,933)	\$ (208,933)	\$ 35,089
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 172,888	\$ 172,888	\$ 172,888	\$ 0
Total Other Financing Sources (Uses)	\$ 172,888	\$ 172,888	\$ 172,888	\$ 0
Net Change in Fund Balance	\$ (956)	\$ (36,045)	\$ (36,045)	\$ 35,089
Fund Balance, July 1, 2010	985,726	985,093	985,093	633
Fund Balance, June 30, 2011	\$ 984,770	\$ 949,048	\$ 949,048	\$ 35,722

MISCELLANEOUS SCHEDULES

Exhibit G-1

McKenzie Special School District
Schedule of Changes in Long-term Bonds
For the Year Ended June 30, 2011

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding 7-1-10	Paid and/or Matured During Period	Outstanding 6-30-11
<u>BONDS PAYABLE</u>							
<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	\$ 7,470,000	\$ 440,000	\$ 7,030,000
Total Bonds Payable					<u>\$ 7,470,000</u>	<u>\$ 440,000</u>	<u>\$ 7,030,000</u>

Exhibit G-2

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

Year Ending June 30	Bonds		
	Principal	Interest	Total
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	\$ 7,030,000	\$ 1,852,600	\$ 8,882,600

Exhibit G-3

McKenzie Special School District
Schedule of Transfers
For the Year Ended June 30, 2011

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Purpose School	Education Debt Service	Debt payments	\$ 172,888
Total Transfers			<u>\$ 172,888</u>

Exhibit G-4

McKenzie Special School District
Schedule of Salaries and Official Bonds of Principal Officials
For the Year Ended June 30, 2011

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	\$ 82,000 (1)	\$ 269,560	Western Surety Company
Finance Director	McKenzie Special School District Board of Directors	59,468	150,000	Tennessee Risk Management Trust
Employees' Blanket Bond			150,000	"

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

Exhibit G-5

McKenzie Special School District
Schedule of Detailed Revenues -
All Governmental Fund Types
For the Year Ended June 30, 2011

	General Purpose School	School Federal Projects	Central Cafeteria	Education Debt Service	Total
<u>Local Taxes</u>					
<u>County Property Taxes</u>					
Circuit/Clerk & Master Collections - Prior Years	\$ 21,927	\$ 0	\$ 0	\$ 16,801	\$ 38,728
<u>County Local Option Taxes</u>					
Local Option Sales Tax	688,123	0	0	0	688,123
<u>Statutory Local Taxes</u>					
Interstate Telecommunications Tax	609	0	0	0	609
<u>City/School District Property Taxes</u>					
Current Property Tax	682,891	0	0	520,556	1,203,447
Prior Year Property Tax	23,813	0	0	21,840	45,653
Interest and Penalty	5,167	0	0	3,959	9,126
Payments in-Lieu-of Taxes	8,505	0	0	6,517	15,022
Total Local Taxes	\$ 1,431,035	\$ 0	\$ 0	\$ 569,673	\$ 2,000,708
<u>Licenses and Permits</u>					
<u>Licenses</u>					
Marriage Licenses	\$ 595	\$ 0	\$ 0	\$ 0	\$ 595
Total Licenses and Permits	\$ 595	\$ 0	\$ 0	\$ 0	\$ 595
<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	1,615	0	0	0	1,615
Lunch Payments - Children	0	0	118,623	0	118,623
Lunch Payments - Adults	0	0	20,217	0	20,217
Income from Breakfast	0	0	7,407	0	7,407
A la carte Sales	0	0	84,230	0	84,230
<u>Other Charges for Services</u>					
Other Charges for Services	0	0	6,948	0	6,948
Total Charges for Current Services	\$ 9,115	\$ 0	\$ 237,425	\$ 0	\$ 246,540
<u>Other Local Revenues</u>					
<u>Recurring Items</u>					
Investment Income	\$ 42,832	\$ 0	\$ 710	\$ 0	\$ 43,542
Lease/Rentals	1,431	0	100	0	1,531
Refund of Telecommunication and Internet Fees (E-Rate)	9,517	0	0	0	9,517
Miscellaneous Refunds	3,391	0	1,150	0	4,541
<u>Nonrecurring Items</u>					
Sale of Equipment	295	0	0	0	295
Damages Recovered from Individuals	292	0	0	0	292
Total Other Local Revenues	\$ 57,758	\$ 0	\$ 1,960	\$ 0	\$ 59,718
<u>State of Tennessee</u>					
<u>General Government Grants</u>					
On-Behalf Contributions for OPEB	\$ 45,705	\$ 0	\$ 0	\$ 0	\$ 45,705
<u>State Education Funds</u>					
Basic Education Program	5,680,939	0	0	0	5,680,939
Basic Education Program - ARRA	641,707	0	0	0	641,707
Early Childhood Education	99,572	0	0	0	99,572

(Continued)

Exhibit G-5

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

	General Purpose School	School Federal Projects	Central Cafeteria	Education Debt Service	Total
<u>State of Tennessee (Cont.)</u>					
<u>State Education Funds (Cont.)</u>					
School Food Service	\$ 0	\$ 0	\$ 8,611	\$ 0	\$ 8,611
Energy Efficient School Initiative	11,200	0	0	0	11,200
Driver Education	5,165	0	0	0	5,165
Other State Education Funds	752	0	0	0	752
Internet Connectivity - ARRA	4,102	0	0	0	4,102
Statewide Student Management System (SSMS) - ARRA	3,430	0	0	0	3,430
Career Ladder Program	53,183	0	0	0	53,183
Career Ladder - Extended Contract - ARRA	35,108	0	0	0	35,108
<u>Other State Revenues</u>					
Mixed Drink Tax	735	0	0	0	735
Safe Schools - ARRA	7,700	0	0	0	7,700
Total State of Tennessee	\$ 6,589,298	\$ 0	\$ 8,611	\$ 0	\$ 6,597,909
<u>Federal Government</u>					
<u>Federal Through State</u>					
USDA School Lunch Program	\$ 0	\$ 0	\$ 381,864	\$ 0	\$ 381,864
USDA - Commodities	0	0	50,482	0	50,482
Breakfast	0	0	165,345	0	165,345
USDA - Other	0	0	3,715	0	3,715
Vocational Education - Basic Grants to States	0	21,708	0	0	21,708
Title I Grants to Local Education Agencies	0	261,112	0	0	261,112
Special Education - Grants to States	24,487	295,007	0	0	319,494
Special Education Preschool Grants	0	24,072	0	0	24,072
Safe and Drug-free Schools - State Grants	0	56	0	0	56
Rural Education	0	28,885	0	0	28,885
Education for Homeless Children and Youth	0	781	0	0	781
Eisenhower Professional Development State Grants	0	52,237	0	0	52,237
Race-to-the-Top - ARRA	0	87,043	0	0	87,043
Other Federal through State	13,838	72,783	0	0	86,621
<u>Direct Federal Revenue</u>					
Public Law 874 - Maintenance and Operation	3,045	0	0	0	3,045
Other Direct Federal Revenue	1,683	0	0	0	1,683
Total Federal Government	\$ 43,053	\$ 843,684	\$ 601,406	\$ 0	\$ 1,488,143
Total	\$ 8,130,854	\$ 843,684	\$ 849,402	\$ 569,673	\$ 10,393,613

Exhibit G-6

McKenzie Special School District
Schedule of Detailed Expenditures -
All Governmental Fund Types
For the Year Ended June 30, 2011

General Purpose School Fund

Instruction

Regular Instruction Program

Teachers	\$	3,044,659	
Career Ladder Program		35,062	
Career Ladder Extended Contracts		28,287	
Homebound Teachers		3,700	
Educational Assistants		12,878	
Other Salaries and Wages		5,628	
Certified Substitute Teachers		36,605	
Non-certified Substitute Teachers		18,525	
Social Security		180,412	
State Retirement		281,767	
Medical Insurance		298,306	
Employer Medicare		42,850	
Evaluation and Testing		12,434	
Maintenance and Repair Services - Equipment		1,264	
Medical and Dental Services		299	
Printing, Stationery, and Forms		363	
Instructional Supplies and Materials		89,842	
Textbooks		95,166	
Fee Waivers		6,898	
Other Charges		24,232	
Furniture and Fixtures		9,271	
Regular Instruction Equipment		113,886	
Total Regular Instruction Program			\$ 4,342,334

Alternative Instruction Program

Contracts with Other School Systems	\$	19,035	
Total Alternative Instruction Program			19,035

Special Education Program

Teachers	\$	234,304
Career Ladder Program		4,000
Career Ladder Extended Contracts		3,500
Educational Assistants		14,027
Speech Pathologist		32,952
Social Security		16,110
State Retirement		25,770
Medical Insurance		32,740
Employer Medicare		3,785
Contracts with Other School Systems		23,000

(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.)

Instructional Supplies and Materials	\$ 2,000	
Total Special Education Program		\$ 392,188

Vocational Education Program

Teachers	\$ 166,470	
Career Ladder Program	3,000	
Social Security	9,490	
State Retirement	15,244	
Medical Insurance	17,217	
Employer Medicare	2,220	
Instructional Supplies and Materials	1,613	
Vocational Instruction Equipment	2,393	
Total Vocational Education Program		217,647

Support Services

Health Services

Medical Personnel	\$ 59,865	
Social Security	3,684	
State Retirement	4,352	
Employer Medicare	862	
Travel	309	
Drugs and Medical Supplies	561	
Office Supplies	265	
In Service/Staff Development	683	
Health Equipment	455	
Other Equipment	1,215	
Total Health Services		72,251

Other Student Support

Career Ladder Program	\$ 3,000	
Guidance Personnel	146,522	
Other Salaries and Wages	13,760	
Social Security	8,956	
State Retirement	14,748	
Medical Insurance	27,220	
Employer Medicare	2,094	
Communication	861	
Contracts with Government Agencies	22,000	
Instructional Supplies and Materials	47	

(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.)

Office Supplies	\$	243	
In Service/Staff Development		1,456	
Other Charges		172	
Other Equipment		165	
Total Other Student Support			\$ 241,244

Regular Instruction Program

Supervisor/Director	\$	63,423	
Career Ladder Program		3,000	
Career Ladder Extended Contracts		5,344	
Librarians		131,475	
Instructional Computer Personnel		62,785	
Educational Assistants		27,506	
Social Security		16,810	
State Retirement		25,918	
Medical Insurance		23,963	
Employer Medicare		3,931	
Communication		871	
Data Processing Services		49,628	
Dues and Memberships		89	
Licenses		19,372	
Travel		1,284	
Library Books/Media		9,115	
Office Supplies		116	
Periodicals		575	
Other Supplies and Materials		919	
In Service/Staff Development		8,783	
Regular Instruction Equipment		1,090	
Other Equipment		3,677	
Total Regular Instruction Program			459,674

Special Education Program

Supervisor/Director	\$	22,941	
Social Security		1,312	
State Retirement		2,027	
Medical Insurance		4,444	
Employer Medicare		307	
Travel		11,752	
In Service/Staff Development		183	
Total Special Education Program			42,966

(Continued)

Exhibit G-6

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Vocational Education Program

Supervisor/Director	\$	6,278	
Social Security		349	
State Retirement		555	
Medical Insurance		842	
Employer Medicare		82	
Total Vocational Education Program			\$ 8,106

Other Programs

On-Behalf Payments to OPEB	\$	45,705	
Total Other Programs			45,705

Board of Education

Election Commission	\$	350	
Unemployment Compensation		7,403	
Employer Medicare		86	
Payments to Retirees		5,915	
Audit Services		12,436	
Dues and Memberships		4,172	
Legal Services		1,441	
Licenses		250	
Postal Charges		145	
Maintenance and Repair Services - Records		2,000	
Office Supplies		217	
Liability Insurance		22,695	
Premiums on Corporate Surety Bonds		943	
Trustee's Commission		21,266	
Workers' Compensation Insurance		13,872	
In Service/Staff Development		873	
Refund to Applicant for Criminal Investigation		768	
Other Charges		4,159	
Total Board of Education			98,991

Director of Schools

County Official/Administrative Officer	\$	81,000	
Career Ladder Program		1,000	
Secretary(ies)		14,408	
Social Security		5,893	
State Retirement		8,481	
Medical Insurance		16,338	

(Continued)

Exhibit G-6

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Director of Schools (Cont.)

Employer Medicare	\$	1,378	
Advertising		572	
Communication		2,947	
Dues and Memberships		1,206	
Legal Notices, Recording, and Court Costs		389	
Postal Charges		1,609	
Rentals		2,100	
Office Supplies		211	
In Service/Staff Development		1,108	
Other Charges		30	
Total Director of Schools			\$ 138,670

Office of the Principal

Principals	\$	201,855	
Career Ladder Program		4,000	
Accountants/Bookkeepers		60,342	
Assistant Principals		56,630	
Secretary(ies)		34,505	
Social Security		21,383	
State Retirement		30,663	
Medical Insurance		44,490	
Employer Medicare		5,001	
Communication		4,333	
Data Processing Services		897	
Dues and Memberships		625	
Maintenance and Repair Services - Office Equipment		107	
Rentals		5,580	
Office Supplies		104	
In Service/Staff Development		3,218	
Other Charges		90	
Administration Equipment		6,903	
Total Office of the Principal			480,726

Fiscal Services

Supervisor/Director	\$	59,468	
Purchasing Personnel		14,408	
Social Security		4,490	
State Retirement		5,354	
Medical Insurance		7,014	

(Continued)

Exhibit G-6

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Fiscal Services (Cont.)

Employer Medicare	\$	1,050	
Data Processing Services		5,220	
Printing, Stationery, and Forms		391	
Office Supplies		584	
Periodicals		47	
In Service/Staff Development		1,128	
Administration Equipment		862	
Total Fiscal Services			\$ 100,016

Operation of Plant

Janitorial Services	\$	254,715	
Disposal Fees		5,677	
Custodial Supplies		410	
Electricity		240,896	
Natural Gas		31,975	
Water and Sewer		22,551	
Boiler Insurance		1,863	
Building and Contents Insurance		33,948	
Total Operation of Plant			592,035

Maintenance of Plant

Maintenance Personnel	\$	89,198	
Social Security		5,491	
State Retirement		6,180	
Employer Medicare		1,284	
Communication		1,021	
Maintenance and Repair Services - Buildings		93,167	
Maintenance and Repair Services - Equipment		65	
Maintenance and Repair Services - Vehicles		2,386	
Pest Control		3,121	
Gasoline		4,551	
Other Charges		90	
Other Equipment		9,398	
Total Maintenance of Plant			215,952

Operation of Non-Instructional Services

Early Childhood Education

Teachers	\$	42,339	
Educational Assistants		24,951	

(Continued)

Exhibit G-6

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

General Purpose School Fund (Cont.)

Operation of Non-Instructional Services (Cont.)

Early Childhood Education (Cont.)

Social Security	\$	4,165	
State Retirement		5,648	
Employer Medicare		974	
Advertising		252	
Maintenance and Repair Services - Equipment		108	
Food Supplies		837	
Instructional Supplies and Materials		12,958	
Other Supplies and Materials		477	
In Service/Staff Development		1,761	
Regular Instruction Equipment		2,777	
Total Early Childhood Education	\$		97,247

Capital Outlay

Regular Capital Outlay

Architects	\$	464	
Engineering Services		5,453	
Heating and Air Conditioning Equipment		99,063	
Other Capital Outlay		60,972	
Total Regular Capital Outlay			165,952

Total General Purpose School Fund \$ 7,730,739

School Federal Projects Fund

Instruction

Regular Instruction Program

Teachers	\$	215,470	
Educational Assistants		51,475	
Other Salaries and Wages		24,450	
Social Security		13,892	
State Retirement		20,338	
Medical Insurance		26,662	
Employer Medicare		3,918	
Other Contracted Services		26,794	
Instructional Supplies and Materials		5,355	
Other Supplies and Materials		781	
Regular Instruction Equipment		25,662	
Total Regular Instruction Program	\$		414,797

(Continued)

Exhibit G-6

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

School Federal Projects Fund (Cont.)

Instruction (Cont.)

Special Education Program

Teachers	\$	42,278	
Educational Assistants		96,958	
Speech Pathologist		14,122	
Social Security		8,888	
State Retirement		11,769	
Medical Insurance		3,134	
Employer Medicare		2,079	
Contracts with Other School Systems		64,923	
Other Contracted Services		28,941	
Instructional Supplies and Materials		11,485	
Special Education Equipment		18,108	
Total Special Education Program			\$ 302,685

Vocational Education Program

Teachers	\$	5,130	
Social Security		318	
State Retirement		464	
Employer Medicare		74	
Instructional Supplies and Materials		2,941	
Vocational Instruction Equipment		4,425	
Total Vocational Education Program			13,352

Support Services

Health Services

Medical Personnel	\$	12,496	
Social Security		773	
State Retirement		294	
Employer Medicare		181	
Total Health Services			13,744

Other Student Support

Travel	\$	4,201	
Other Contracted Services		2,749	
Total Other Student Support			6,950

Regular Instruction Program

Supervisor/Director	\$	36,050	
Social Security		2,063	
State Retirement		3,185	

(Continued)

Exhibit G-6

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

School Federal Projects Fund (Cont.)

Support Services (Cont.)

Regular Instruction Program (Cont.)

Medical Insurance	\$	6,983	
Employer Medicare		482	
In Service/Staff Development		14,818	
Total Regular Instruction Program			\$ 63,581

Special Education Program

Supervisor/Director	\$	6,319	
Clerical Personnel		7,204	
Social Security		771	
State Retirement		1,088	
Medical Insurance		998	
Employer Medicare		180	
In Service/Staff Development		1,384	
Total Special Education Program			17,944

Vocational Education Program

In Service/Staff Development	\$	378	
Total Vocational Education Program			378

Office of the Principal

In Service/Staff Development	\$	717	
Total Office of the Principal			717

Maintenance of Plant

Maintenance Personnel	\$	5,746	
Social Security		356	
State Retirement		371	
Employer Medicare		83	
Total Maintenance of Plant			6,556

Total School Federal Projects Fund \$ 840,704

Central Cafeteria Fund

Operation of Non-Instructional Services

Food Service

Supervisor/Director	\$	31,644	
Cafeteria Personnel		223,250	
Social Security		15,496	
State Retirement		15,127	

(Continued)

Exhibit G-6

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

Central Cafeteria Fund (Cont.)

Operation of Non-Instructional Services (Cont.)

Food Service (Cont.)

Medical Insurance	\$	3,359	
Unemployment Compensation		912	
Employer Medicare		3,624	
Advertising		113	
Audit Services		1,111	
Communication		1,407	
Data Processing Services		1,266	
Dues and Memberships		199	
Maintenance and Repair Services - Buildings		220	
Maintenance and Repair Services - Equipment		7,005	
Pest Control		750	
Postal Charges		158	
Printing, Stationery, and Forms		204	
Travel		1,603	
Disposal Fees		9,063	
Permits		240	
Custodial Supplies		5,400	
Food Preparation Supplies		34,577	
Food Supplies		352,688	
Office Supplies		851	
Uniforms		1,888	
Utilities		44,076	
USDA - Commodities		50,482	
Refunds		364	
Workers' Compensation Insurance		5,562	
In Service/Staff Development		647	
Refund to Applicant for Criminal Investigation		96	
Other Charges		692	
Food Service Equipment		4,864	
Total Food Service			\$ 818,938
Total Central Cafeteria Fund			\$ 818,938

Education Debt Service Fund

Support Services

Board of Education

Trustee's Commission	\$	11,167	
Total Board of Education			\$ 11,167

(Continued)

Exhibit G-6

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

Education Debt Service Fund (Cont.)

Principal on Debt

Education

Principal on Bonds	\$ 440,000	
Total Education		\$ 440,000

Interest on Debt

Education

Interest on Bonds	\$ 291,850	
Total Education		291,850

Other Debt Service

Education

Other Debt Service	\$ 500	
Total Education		<u>500</u>

Total Education Debt Service Fund		<u>\$ 743,517</u>
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Total Governmental Funds - McKenzie Special School District		<u><u>\$ 10,133,898</u></u>
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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

March 8, 2012

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, 2011, which collectively comprise the McKenzie Special School District's basic financial statements and have issued our report thereon dated March 8, 2012. 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of 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 internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

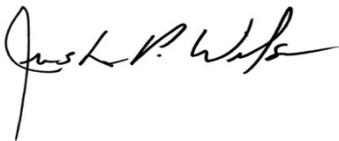
Compliance and Other Matters

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

This report is intended solely for the information and use of management, the director of schools, board of directors, finance director, 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/sb



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF COUNTY AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7841

REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

March 8, 2012

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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

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 was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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, 2011, and have issued our report thereon dated March 8, 2012. Our audit was performed for the purpose of forming our opinions on the financial statements as a whole. The 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and

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

This report is intended solely for the information and use of management, the director of schools, board of directors, finance director, others within the McKenzie Special School District, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Justin P. Wilson". The signature is written in a cursive style with a prominent vertical stroke on the left side.

Justin P. Wilson
Comptroller of the Treasury

JPW/sb

McKenzie Special School District
Schedule of Expenditures of Federal Awards (1)
For the Year Ended June 30, 2011

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	\$ 165,345
National School Lunch Program	10.555	N/A	385,579 (3)
Passed-through State Department of Agriculture:			
National School Lunch Program (Commodities - Noncash Assistance)	10.555	N/A	<u>50,482 (3)</u>
Total U.S. Department of Agriculture			<u>\$ 601,406</u>
U.S. Department of Education:			
Direct Program:			
Impact Aid	84.041	N/A	\$ 3,045
Passed-through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	N/A	263,089
Special Education Cluster:			
Special Education - Grants to States	84.027	N/A	278,468
Special Education - Preschool Grants	84.173	N/A	20,300
Special Education - Grants to States, Recovery Act	84.391	N/A	42,699
Special Education - Preschool Grants, Recovery Act	84.392	N/A	3,651
Career and Technical Education - Basic Grants to States	84.048	N/A	17,931
Safe and Drug-free Schools and Communities - State Grants	84.186	(2)	215
Education Technology State Grants Cluster:			
Education Technology State Grants	84.318	N/A	908
Education Technology State Grants, Recovery Act	84.386	(2)	11,212
Rural Education	84.358	N/A	28,854
Improving Teacher Quality State Grants	84.367	N/A	52,237
Education for Homeless Children and Youth, Recovery Act	84.387	N/A	780
State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	N/A	85,682
Education Jobs Fund	84.410	N/A	59,165
State Fiscal Stabilization Fund Cluster:			
State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	N/A	641,707
State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	N/A	<u>50,340</u>
Total U.S. Department of Education			<u>\$ 1,560,283</u>
U.S. Department of Health and Human Services:			
Passed-through State Department of Education:			
ARRA Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program	93.714	N/A	<u>\$ 13,838</u>
Total U.S. Department of Health and Human Services:			<u>\$ 13,838</u>
Total Expenditures of Federal Awards			<u>\$ 2,175,527</u>

(Continued)

McKenzie Special School District
Schedule of Expenditures of Federal Awards (1) (Cont.)

Federal/Pass-through Agency/State Grantor Program Title	Federal CFDA Number	Contract Number	Expenditures
State Grants:			
Early Childhood Education - State Department of Education	N/A	(2)	\$ 99,572
Energy Efficiency Grant - State Department of Education	N/A	(2)	11,200
ConnectTenn - State Department of Education	N/A	(2)	<u>752</u>
Total State Grants			<u>\$ 111,524</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 \$436,061.

McKenzie Special School District
Schedule of Audit Findings Not Corrected
June 30, 2011

Government Auditing Standards require auditors to report the status of uncorrected findings from prior audits. There were no findings from the Annual Financial Report for the McKenzie Special School District, for the year ended June 30, 2010, which had not been corrected.

MCKENZIE SPECIAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2011

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 Child Nutrition Cluster: School Breakfast Program and National School Lunch Program (CFDA Nos. 10.553 and 10.555), 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 not 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, 2011.

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, 2011**

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