
ANNUAL FINANCIAL REPORT PARIS SPECIAL SCHOOL DISTRICT



FOR THE YEAR ENDED JUNE 30, 2011



**ANNUAL FINANCIAL REPORT
PARIS SPECIAL SCHOOL DISTRICT
FOR THE YEAR ENDED JUNE 30, 2011**

***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

PARIS SPECIAL SCHOOL DISTRICT TABLE OF CONTENTS

	Exhibit	Page(s)
Audit Highlights		5
<u>INTRODUCTORY SECTION</u>		6
Paris Special School District Officials		7
<u>FINANCIAL SECTION</u>		8
Independent Auditor's Report		9-11
BASIC FINANCIAL STATEMENTS:		12
Government-wide Financial Statements:		
Statement of Net Assets	A	13
Statement of Activities	B	14
Fund Financial Statements:		
Governmental Funds:		
Balance Sheet	C-1	15
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	C-2	16
Statement of Revenues, Expenditures, and Changes in Fund Balances	C-3	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	C-4	18
Notes to the Financial Statements		19-39
REQUIRED SUPPLEMENTARY INFORMATION:		40
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Actual (Budgetary Basis) and Budget:		
General Purpose School Fund	D-1	41-42
Schedule of Funding Progress – Pension Plan	D-2	43
Schedule of Funding Progress – Other Postemployment Benefits Plan	D-3	44
Notes to the Required Supplementary Information		45

	Exhibit	Page(s)
COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES:		46
Nonmajor Governmental Funds:		47-48
Combining Balance Sheet	E-1	49
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	E-2	50
Schedules of Revenues, Expenditures, and Changes in Fund Balances – Actual (Budgetary Basis) and Budget:		
School Federal Projects Fund	E-3	51
Central Cafeteria Fund	E-4	52
Education Debt Service Fund	E-5	53
Miscellaneous Schedules:		54
Schedule of Changes in Long-term Notes and Bonds	F-1	55
Schedule of Long-term Debt Requirements by Year	F-2	56
Schedule of Transfers	F-3	57
Schedule of Salaries and Official Bonds of Principal Officials	F-4	58
Schedule of Detailed Revenues – All Governmental Fund Types	F-5	59-62
Schedule of Detailed Expenditures – All Governmental Fund Types	F-6	63-72
 <u>SINGLE AUDIT SECTION</u>		 73
 Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		 74-75
Auditor’s 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		76-78
Schedule of Expenditures of Federal Awards and State Grant		79-80
Schedule of Audit Findings Not Corrected		81
Schedule of Findings and Questioned Costs		82-84
Auditee Reporting Responsibilities		85

Audit Highlights
Annual Financial Report
Paris Special School District
For the Year Ended June 30, 2011

Scope

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

Results

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

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

Finding and Best Practice

The following are summaries of the audit finding and best practice:

- ◆ Material audit adjustments were required for proper financial statement presentation.

BEST PRACTICE

Paris Special School District does not have an Audit Committee. The Division of County Audit strongly believes 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

Paris Special School District Officials
June 30, 2011

Official

Mike Brown, Director of Schools and
Assistant Secretary-Treasurer

Board of Directors

Richard Edwards, President
Amy Cathey
Kim Foster
Bill Jelks
Christy Minor
Robert Sleadd
John Steele

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 13, 2012

Paris Special School District Director of Schools
and Board of Directors
Paris, 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 Paris 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 Paris 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 Paris 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 13, 2012, on our consideration of the Paris 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 Paris 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.

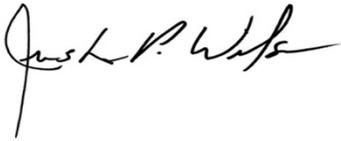
Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required 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 Paris 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 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 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 prominent vertical stroke at the end.

Justin P. Wilson
Comptroller of the Treasury

JPW/sb

BASIC FINANCIAL STATEMENTS

Exhibit A

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

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash	\$ 2,440,614
Investments	2,256,515
Due from Other Governments	352,308
Property Taxes Receivable	3,378,509
Allowance for Uncollectible Property Taxes	(88,075)
Deferred Charges - Debt Issuance Costs	20,121
Capital Assets:	
Assets Not Depreciated:	
Land	130,000
Construction in Progress	320,244
Assets Net of Accumulated Depreciation:	
Buildings and Improvements	13,947,382
Infrastructure	131,920
Other Capital Assets	392,721
Total Assets	<u>\$ 23,282,259</u>
<u>LIABILITIES</u>	
Accounts Payable	\$ 72,208
Payroll Deductions Payable	100,986
Contracts Payable	128,716
Retainage Payable	6,098
Due to State of Tennessee	75
Accrued Interest Payable	1,361
Deferred Revenue - Current Property Taxes	3,174,709
Noncurrent Liabilities:	
Due Within One Year	470,239
Due in More Than One Year (net of deferred amount on refunding)	3,368,252
Total Liabilities	<u>\$ 7,322,644</u>
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	\$ 11,262,618
Restricted for:	
Central Cafeteria	277,372
Debt Service	548,597
Capital Projects	139,507
Other Purposes	18,913
Unrestricted	<u>3,712,608</u>
Total Net Assets	<u>\$ 15,959,615</u>

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

Exhibit B

Paris Special School District
Statement of Activities
For the Year Ended June 30, 2011

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:				
Instruction	\$ 9,141,791	\$ 33,405	\$ 721,264	\$ 0
Support Services	3,452,829	89,913	250,212	(3,092,492)
Operation of Non-Instructional Services	1,382,708	452,997	938,306	8,595
Interest on Long-term Debt	165,066	0	0	(165,066)
Total Governmental Activities	\$ 14,142,394	\$ 576,315	\$ 1,909,782	\$ 20,212
General Revenues:				
Taxes:				
Property Taxes Levied for General Purposes				\$ 2,663,830
Property Taxes Levied for Debt Service				281,084
Local Option Sales Taxes				1,191,240
Business Tax				62,559
Interstate Telecommunications Tax				656
Grants and Contributions Not Restricted to Specific Programs				7,661,793
Unrestricted Investment Income				13,116
Miscellaneous				26,740
Total General Revenues				\$ 11,901,018
Change in Net Assets				\$ 264,933
Net Assets, July 1, 2010				15,694,682
Net Assets, June 30, 2011				\$ 15,959,615

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

Exhibit C-1

Paris Special School District
Balance Sheet
Governmental Funds
June 30, 2011

	<u>Major Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
	General Purpose School	Other Govern- mental Funds	Govern- mental Funds
<u>ASSETS</u>			
Cash	\$ 1,589,781	\$ 850,833	\$ 2,440,614
Investments	1,899,364	357,151	2,256,515
Due from Other Governments	351,021	1,287	352,308
Property Taxes Receivable	3,069,294	309,215	3,378,509
Allowance for Uncollectible Property Taxes	(80,087)	(7,988)	(88,075)
Total Assets	<u>\$ 6,829,373</u>	<u>\$ 1,510,498</u>	<u>\$ 8,339,871</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>Liabilities</u>			
Accounts Payable	\$ 41,388	\$ 30,820	\$ 72,208
Payroll Deductions Payable	100,986	0	100,986
Contracts Payable	0	128,716	128,716
Retainage Payable	0	6,098	6,098
Due to State of Tennessee	75	0	75
Deferred Revenue - Current Property Taxes	2,891,344	283,365	3,174,709
Deferred Revenue - Delinquent Property Taxes	76,711	15,928	92,639
Other Deferred Revenues	122,768	0	122,768
Total Liabilities	<u>\$ 3,233,272</u>	<u>\$ 464,927</u>	<u>\$ 3,698,199</u>
<u>Fund Balances</u>			
Restricted:			
Restricted for Education	\$ 15,236	\$ 3,677	\$ 18,913
Restricted for Operation of Non-Instructional Services	0	277,372	277,372
Restricted for Debt Service	0	517,724	517,724
Restricted for Capital Projects	0	139,507	139,507
Committed:			
Committed for Debt Service	0	7,291	7,291
Assigned:			
Assigned for Education	343,375	100,000	443,375
Unassigned	3,237,490	0	3,237,490
Total Fund Balances	<u>\$ 3,596,101</u>	<u>\$ 1,045,571</u>	<u>\$ 4,641,672</u>
Total Liabilities and Fund Balances	<u>\$ 6,829,373</u>	<u>\$ 1,510,498</u>	<u>\$ 8,339,871</u>

Exhibit C-2

Paris 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)		\$	4,641,672
(1) Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.			
Add: land	\$	130,000	
Add: construction in progress		320,244	
Add: buildings and improvements net of accumulated depreciation		13,947,382	
Add: infrastructure net of accumulated depreciation		131,920	
Add: other capital assets net of accumulated depreciation		<u>392,721</u>	14,922,267
(2) Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.			
Less: notes payable	\$	(2,029,649)	
Less: bonds payable		(1,630,000)	
Add: deferred amount on refunding		7,654	
Add: deferred charges - debt issuance costs		20,121	
Less: accrued interest on notes		(1,361)	
Less: other postemployment benefits liability		<u>(186,496)</u>	(3,819,731)
(3) Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the governmental funds.			<u>215,407</u>
Net assets of governmental activities (Exhibit A)		\$	<u>15,959,615</u>

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

Exhibit C-3

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

	<u>Major Fund</u>	<u>Nonmajor Funds</u>	
	General Purpose School	Other Govern- mental Funds	Total Governmental Funds
<u>Revenues</u>			
Local Taxes	\$ 4,222,365	\$ 283,922	\$ 4,506,287
Licenses and Permits	605	0	605
Charges for Current Services	325,167	246,648	571,815
Other Local Revenues	44,928	35,583	80,511
State of Tennessee	7,654,683	10,352	7,665,035
Federal Government	30,082	1,758,152	1,788,234
Total Revenues	<u>\$ 12,277,830</u>	<u>\$ 2,334,657</u>	<u>\$ 14,612,487</u>
<u>Expenditures</u>			
Current:			
Instruction	\$ 7,363,391	\$ 927,817	\$ 8,291,208
Support Services	3,427,714	201,754	3,629,468
Operation of Non-Instructional Services	464,585	891,901	1,356,486
Capital Outlay	105,069	0	105,069
Debt Service:			
Principal on Debt	286,820	185,000	471,820
Interest on Debt	90,582	69,778	160,360
Capital Projects	0	320,244	320,244
Total Expenditures	<u>\$ 11,738,161</u>	<u>\$ 2,596,494</u>	<u>\$ 14,334,655</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 539,669</u>	<u>\$ (261,837)</u>	<u>\$ 277,832</u>
<u>Other Financing Sources (Uses)</u>			
Insurance Recovery	\$ 75,435	\$ 0	\$ 75,435
Transfers In	0	439,439	439,439
Transfers Out	(439,439)	0	(439,439)
Total Other Financing Sources (Uses)	<u>\$ (364,004)</u>	<u>\$ 439,439</u>	<u>\$ 75,435</u>
Net Change in Fund Balances	\$ 175,665	\$ 177,602	\$ 353,267
Fund Balance, July 1, 2010	<u>3,420,436</u>	<u>867,969</u>	<u>4,288,405</u>
Fund Balance, June 30, 2011	<u>\$ 3,596,101</u>	<u>\$ 1,045,571</u>	<u>\$ 4,641,672</u>

Exhibit C-4

Paris 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)		\$ 353,267
(1) Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their useful lives and reported as depreciation expense. The difference between capital outlays and depreciation is itemized as follows:		
Add: capital assets purchased in the current period	\$ 376,326	
Less: current-year depreciation expense	<u>(646,835)</u>	(270,509)
(2) The net effect of various transactions involving capital assets (sales, trade-ins, and donations) is to decrease net assets.		
Less: proceeds received from disposal of capital assets		(39,360)
(3) Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Add: deferred delinquent property taxes and other deferred June 30, 2011	\$ 215,407	
Less: deferred delinquent property taxes and other deferred June 30, 2010	<u>(420,567)</u>	(205,160)
(4) The issuance of long-term debt (e.g., bonds, notes) 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 effect of these differences in the treatment of long-term debt and related items:		
Less: change in deferred debt issuance costs	\$ (2,916)	
Less: change in deferred amount on refunding debt	(2,017)	
Add: principal payments on notes	286,820	
Add: principal payments on bonds	<u>185,000</u>	466,887
(5) Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		
Change in accrued interest payable	\$ 227	
Change in other postemployment benefits liability	<u>(40,419)</u>	(40,192)
Change in net assets of governmental activities (Exhibit B)		<u>\$ 264,933</u>

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

**PARIS SPECIAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2011**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Paris 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 Paris Special School District is a public municipal corporation governed by an elected seven-member board. As required by GAAP, these financial statements present the Paris 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 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 does not have any 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 business taxes and 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 fund:

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.

Additionally, the district reports the following fund types:

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.

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

Capital Projects Fund – The Education Capital Projects Fund accounts for financial resources to be used for school renovations.

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 Cash and Investments. Income from these pooled investments is allocated to the General Purpose School, Central Cafeteria, and Education Debt Service 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. All other investments are reported at fair value. 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 1.4 percent of total taxes levied.

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

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

an estimated allowance for uncollectible taxes, is reported as deferred revenue as of June 30.

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

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

Retainage payable in the district's nonmajor governmental funds represents amounts withheld from payments made on construction contracts pending completion of the projects. These amounts are held by the district as Cash in Bank in the nonmajor governmental funds.

3. 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 (e.g., roads and similar items), 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 \$10,000 or more and an estimated useful life of more than one year. 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 costs 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	7 - 40
Other Capital Assets	5 - 20
Infrastructure:	
Improvements Other Than Buildings	20 - 30

4. Compensated Absences

The general policy of the district (with the exception of sick leave for teachers) does not allow for the accumulation of sick and vacation days beyond year-end. General policy for all professional personnel (teachers) permits the unlimited accumulation of unused sick leave days. The granting of sick leave has no guaranteed payment attached and therefore requires no accrual or recording.

5. 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 other postemployment benefits, are recognized to the extent that the liabilities have matured (come due for payment) each period.

6. 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 district'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 except the Education Capital Projects Fund, which adopts project length budgets. 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, Special Education Program, Student Body Education Program, Attendance, etc.). Management may make revisions within major categories, but only the district's 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 Paris Special School District reported the following significant encumbrances:

Funds	Description	Amount
Major Fund:		
General Purpose School	Computers	\$ 191,289
"	Buses	93,680
Nonmajor Fund:		
Education Capital Projects	School Construction	614,107

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The district maintains a cash and internal investment pool. Each fund's portion of this pool is displayed on the balance sheets or statements of net assets as 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	\$ 2,256,515

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	Decreases	Balance 6-30-11
Capital Assets				
Not Depreciated:				
Land	\$ 130,000	\$ 0	\$ 0	\$ 130,000
Construction in Progress	0	320,244	0	320,244
Total Capital Assets Not Depreciated	<u>\$ 130,000</u>	<u>\$ 320,244</u>	<u>\$ 0</u>	<u>\$ 450,244</u>
Capital Assets Depreciated:				
Buildings and Improvements	\$ 21,977,724	\$ 0	\$ 0	\$ 21,977,724
Infrastructure	253,814	0	0	253,814
Other Capital Assets	1,454,005	56,082	108,273	1,401,814
Total Capital Assets Depreciated	<u>\$ 23,685,543</u>	<u>\$ 56,082</u>	<u>\$ 108,273</u>	<u>\$ 23,633,352</u>
Less Accumulated Depreciation For:				
Buildings and Improvements	\$ 7,480,428	\$ 549,914	\$ 0	\$ 8,030,342
Infrastructure	109,204	12,690	0	121,894
Other Capital Assets	993,775	84,231	68,913	1,009,093
Total Accumulated Depreciation	<u>\$ 8,583,407</u>	<u>\$ 646,835</u>	<u>\$ 68,913</u>	<u>\$ 9,161,329</u>
Total Capital Assets Depreciated, Net	<u>\$ 15,102,136</u>	<u>\$ (590,753)</u>	<u>\$ 39,360</u>	<u>\$ 14,472,023</u>
Governmental Activities Capital Assets, Net	<u>\$ 15,232,136</u>	<u>\$ (270,509)</u>	<u>\$ 39,360</u>	<u>\$ 14,922,267</u>

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

Governmental Activities:

Instruction	\$ 453,052
Support Services	167,561
Operation of Non-Instructional Services	<u>26,222</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 646,835</u></u>

C. Construction Commitments

At June 30, 2011, the Education Capital Projects Fund had uncompleted construction contracts of approximately \$614,107 for school renovations. Funding for these future expenditures is expected to be provided from available fund balances and federal grant funds.

D. Interfund Transfers

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

Transfer Out	Transfer In Nonmajor Governmental Fund
General Purpose School Fund	\$ 439,439

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 and to use unrestricted revenues collected in the General Purpose School Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

E. Long-term Debt

General Obligation Bonds and Notes

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

General obligation bonds and capital outlay notes are direct obligations and pledge the full faith and credit of the district. General obligation bonds and capital outlay notes outstanding were issued for original terms of up to ten years for bonds and up to ten years for notes. Repayment terms are generally structured with increasing amounts of principal maturing as interest requirements decrease over the term of the debt. All bonds and notes included in long-term debt as of June 30, 2011, will be retired from the General Purpose School and Education Debt Service funds.

General obligation bonds and the capital outlay notes outstanding as of June 30, 2011, for governmental activities are as follows:

Type	Interest Rate	Original Amount of Issue	Balance 6-30-11
General Obligation Bonds -			
Refunding	3.85 %	\$ 2,145,000	\$ 1,630,000
Capital Outlay Notes	3.9 to 4.14	3,000,000	2,029,649

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

Year Ending June 30	Bonds		
	Principal	Interest	Total
2012	\$ 180,000	\$ 62,755	\$ 242,755
2013	205,000	55,825	260,825
2014	230,000	47,932	277,932
2015	250,000	39,078	289,078
2016	250,000	29,453	279,453
2017-2018	515,000	30,222	545,222
Total	<u>\$ 1,630,000</u>	<u>\$ 265,265</u>	<u>\$ 1,895,265</u>

Year Ending June 30	Notes		
	Principal	Interest	Total
2012	\$ 290,239	\$ 79,225	\$ 369,464
2013	293,793	67,267	361,060
2014	297,486	55,294	352,780
2015	301,325	43,175	344,500
2016	305,315	30,939	336,254
2017-2019	541,491	29,897	571,388
Total	<u>\$ 2,029,649</u>	<u>\$ 305,797</u>	<u>\$ 2,335,446</u>

There is \$525,015 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:

	<u>Bonds</u>	<u>Notes</u>
Balance, July 1, 2010	\$ 1,815,000	\$ 2,316,469
Deductions	<u>(185,000)</u>	<u>(286,820)</u>
Balance, June 30, 2011	<u>\$ 1,630,000</u>	<u>\$ 2,029,649</u>
Balance Due Within One Year	<u>\$ 180,000</u>	<u>\$ 290,239</u>

	<u>Other Postemployment Benefits</u>
Balance, July 1, 2010	\$ 146,077
Additions	104,347
Deductions	<u>(63,928)</u>
Balance, June 30, 2011	<u>\$ 186,496</u>
Balance Due Within One Year	<u>\$ 0</u>

Analysis of Noncurrent Liabilities Presented on Exhibit A:

Total Noncurrent Liabilities, June 30, 2011	\$ 3,846,145
Less: Balance Due Within One Year	(470,239)
Less: Deferred Amount on Refunding	<u>(7,654)</u>
Noncurrent Liabilities - Due in More Than One Year - Exhibit A	<u>\$ 3,368,252</u>

Other postemployment benefits will be paid from the employing funds, primarily the General Purpose School Fund.

F. On-Behalf Payments

The State of Tennessee pays health insurance premiums for retired teachers on-behalf of the Paris 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 \$53,718 and \$420, 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 Paris Special School District has implemented provisions of this statement in the financial statements of this report for its governmental funds.

C. Contingent Liabilities

The district's attorney advised that there were no pending suits or claims against the district that would materially affect the district's financial statements.

D. Retirement Commitments

Plan Description

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

The Paris 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 6.55 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 \$125,311 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 six 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	\$125,311	100%	\$0
6-30-10	133,791	100	0
6-30-09	126,314	100	0

Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the plan was 92.33 percent funded. The actuarial accrued liability for benefits was \$4 million, and the actuarial value of assets was \$3 million, resulting in an unfunded actuarial accrued liability (UAAL) of zero. The covered payroll (annual payroll of active employees covered by the plan) was \$2 million, and the ratio of the UAAL to the covered payroll was 16.87 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 Paris 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 School 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 School District is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ended June 30, 2011, 2010, and 2009, were \$545,489, \$378,030, and \$357,042, 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 \$63,928 for postemployment health care.

Annual OPEB Cost and Net OPEB Obligation

	<u>Local Education Group Plan</u>
ARC	\$ 104,000
Interest on the NPO	6,573
Adjustment to the ARC	<u>(6,226)</u>
Annual OPEB cost	\$ 104,347
Less: amount of contribution	<u>(63,928)</u>
Increase/decrease in NPO	\$ 40,419
Net OPEB obligation, 7-1-10	<u>146,077</u>
 Net OPEB obligation, 6-30-11	 <u><u>\$ 186,496</u></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	\$ 110,900	33 %	\$ 107,299
6-30-10	"	100,254	61	146,077
6-30-11	"	104,347	61	186,496

Funded Status and Funding Progress

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

	<u>Local Education Group Plan</u>
Actuarial valuation date	7-1-10
Actuarial accrued liability (AAL)	\$ 1,106,000
Actuarial value of plan assets	\$ 0
Unfunded actuarial accrued liability (UAAL)	\$ 1,106,000
Actuarial value of assets as a % of the AAL	0%
Covered payroll (active plan members)	\$ 4,981,395
UAAL as a % of covered payroll	22%

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 that competitive bids be solicited through newspaper advertisement on all purchases estimated to exceed \$10,000.

**REQUIRED SUPPLEMENTARY
INFORMATION**

Exhibit D-1

Paris 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:		Add: Encumbrances 6/30/2011	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Encumbrances 7/1/2010	Encumbrances 6/30/2011			Original	Final	
Revenues								
Local Taxes	\$ 4,222,365	\$ 0	\$ 0	\$ 0	\$ 4,222,365	\$ 4,219,669	\$ 4,223,289	\$ (924)
Licenses and Permits	605	0	0	0	605	713	519	86
Charges for Current Services	325,167	0	0	0	325,167	236,300	298,635	26,532
Other Local Revenues	44,928	0	0	0	44,928	54,069	44,610	318
State of Tennessee	7,654,683	0	0	0	7,654,683	7,367,071	7,590,700	63,983
Federal Government	30,082	0	0	0	30,082	12,668	35,182	(5,100)
Total Revenues	\$ 12,277,830	\$ 0	\$ 0	\$ 0	\$ 12,277,830	\$ 11,890,490	\$ 12,192,935	\$ 84,895
Expenditures								
Instruction								
Regular Instruction Program	\$ 6,873,749	\$ (219,461)	\$ 201,158	\$ 6,855,446	\$ 7,106,700	\$ 6,994,685	\$ 139,239	
Special Education Program	432,646	0	0	432,646	255,880	440,672	8,026	
Student Body Education Program	56,996	0	0	56,996	62,377	62,207	5,211	
Support Services								
Attendance	15,132	0	0	15,132	15,304	15,304	172	
Health Services	149,197	0	0	149,197	159,965	159,965	10,768	
Other Student Support	276,178	0	0	276,178	294,619	282,430	6,252	
Regular Instruction Program	372,875	(138)	0	372,737	373,916	378,199	5,462	
Special Education Program	35,010	0	0	35,010	35,010	35,010	0	
Other Programs	54,138	0	0	54,138	0	54,138	0	
Board of Education	161,027	0	0	161,027	170,563	165,644	4,617	
Director of Schools	171,275	0	0	171,275	172,668	173,537	2,262	
Office of the Principal	517,945	0	0	517,945	533,008	539,456	21,511	
Fiscal Services	106,878	0	0	106,878	112,973	107,509	631	

(Continued)

Exhibit D-1

Paris 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:		Add:	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Encumbrances 7/1/2010	Encumbrances 6/30/2011			Original	Final	
<u>Expenditures (Cont.)</u>								
<u>Support Services (Cont.)</u>								
Operation of Plant	\$ 780,618	\$ 0	\$ 1,550	\$ 782,168	\$ 767,139	\$ 806,139	\$ 23,971	
Maintenance of Plant	235,405	(10,000)	5,064	230,469	299,140	295,472	65,003	
Transportation	387,498	0	95,605	483,103	399,941	502,418	19,315	
Central and Other	164,538	0	0	164,538	166,437	165,659	1,121	
<u>Operation of Non-Instructional Services</u>								
Community Services	202,809	0	0	202,809	185,800	208,240	5,431	
Early Childhood Education	261,776	(726)	15,760	276,810	276,813	276,813	3	
<u>Capital Outlay</u>								
Regular Capital Outlay	105,069	0	24,238	129,307	269,731	171,231	41,924	
Principal on Debt								
Education	286,820	0	0	286,820	286,821	286,821	1	
Interest on Debt								
Education	90,582	0	0	90,582	90,800	90,800	218	
Total Expenditures	\$ 11,738,161	\$ (230,325)	\$ 343,375	\$ 11,851,211	\$ 12,035,605	\$ 12,212,349	\$ 361,138	
Excess (Deficiency) of Revenues Over Expenditures	\$ 539,669	\$ 230,325	\$ (343,375)	\$ 426,619	\$ (145,115)	\$ (19,414)	\$ 446,033	
<u>Other Financing Sources (Uses)</u>								
Insurance Recovery	\$ 75,435	\$ 0	\$ 0	\$ 75,435	\$ 0	\$ 75,435	\$ 0	
Transfers Out	(439,439)	0	0	(439,439)	0	(439,439)	0	
Total Other Financing Sources (Uses)	\$ (364,004)	\$ 0	\$ 0	\$ (364,004)	\$ 0	\$ (364,004)	\$ 0	
Net Change in Fund Balance	\$ 175,665	\$ 230,325	\$ (343,375)	\$ 62,615	\$ (145,115)	\$ (383,418)	\$ 446,033	
Fund Balance, July 1, 2010	3,420,436	(230,325)	0	3,190,111	3,127,818	3,127,818	62,293	
Fund Balance, June 30, 2011	\$ 3,596,101	\$ 0	\$ (343,375)	\$ 3,252,726	\$ 2,982,703	\$ 2,744,400	\$ 508,326	

Exhibit D-2

Paris 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	\$ 3,476	\$ 3,765	\$ 289	92.33 %	\$ 1,711	16.87 %
7-1-07	3,148	3,434	286	91.67	1,698	16.84

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

Paris 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 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)
Local Education Group	7-1-07	\$ 0	\$ 579	\$ 579	0%	\$ 4,372	13%
"	7-1-09	0	1,072	1,072	0	4,733	23
"	7-1-10	0	1,106	1,106	0	4,981	22

PARIS 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, Special Education Program, Student Body Education Program, Attendance, etc.). Management may make revisions within major categories, but only the district's 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 Paris Special School District reported the following significant encumbrances in the General Purpose School Fund:

<u>Description</u>	<u>Amount</u>
Computers	\$ 191,289
Buses	93,680

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

Nonmajor Governmental Funds

Special Revenue Funds

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.

Capital Projects Fund

Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Education Capital Projects Fund – The Education Capital Projects Fund is used to account for financial resources to be used for school renovations.

Debt Service Fund

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

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

Exhibit E-1

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

	Special Revenue Funds			Debt Service Fund		Capital Projects Fund		Total Nonmajor Governmental Funds
	School Federal Projects	Central Cafeteria	Total	Education Debt Service	Education Capital Projects	Education Capital Projects		
\$ 119,969 \$	170,805 \$	290,774 \$	271,210 \$	288,849 \$			850,833	
0	106,567	106,567	250,584	0			357,151	
0	0	0	1,287	0			1,287	
0	0	0	309,215	0			309,215	
0	0	0	(7,988)	0			(7,988)	
\$ 119,969 \$	277,372 \$	397,341 \$	824,308 \$	288,849 \$			1,510,498	

ASSETS

Cash
 Investments
 Due from Other Governments
 Property Taxes Receivable
 Allowance for Uncollectible Property Taxes

Total Assets

LIABILITIES AND FUND BALANCES

Liabilities

Accounts Payable
 Contracts Payable
 Retainage Payable
 Deferred Revenue - Current Property Taxes
 Deferred Revenue - Delinquent Property Taxes
 Total Liabilities

Fund Balances

Restricted:
 Restricted for Education
 Restricted for Operation of Non-Instructional Services
 Restricted for Debt Service
 Restricted for Capital Projects
 Committed:
 Committed for Debt Service
 Assigned:
 Assigned for Education
 Total Fund Balances

Total Liabilities and Fund Balances

\$ 16,292 \$	0 \$	16,292 \$	0 \$	14,528 \$			30,820
0	0	0	0	128,716			128,716
0	0	0	0	6,098			6,098
0	0	0	283,365	0			283,365
0	0	0	15,928	0			15,928
\$ 16,292 \$	0 \$	16,292 \$	299,293 \$	149,342 \$			464,927
\$ 3,677 \$	0 \$	3,677 \$	0 \$	0 \$			3,677
0	277,372	277,372	0	0			277,372
0	0	0	517,724	0			517,724
0	0	0	0	139,507			139,507
0	0	0	7,291	0			7,291
100,000	0	100,000	0	0			100,000
\$ 103,677 \$	277,372 \$	381,049 \$	525,015 \$	139,507 \$			1,045,571
\$ 119,969 \$	277,372 \$	397,341 \$	824,308 \$	288,849 \$			1,510,498

Exhibit E-2

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

	Special Revenue Funds						Total	Debt Service Fund	Capital Projects Fund	Total Nonmajor Governmental Funds		
	School Federal Projects		Central Cafeteria		Education Debt Service						Education Capital Projects	
<u>Revenues</u>												
Local Taxes	\$	0	\$	0	\$	0	\$	0	\$	283,922		
Charges for Current Services		0	246,648		246,648		0		0	246,648		
Other Local Revenues		0	15,067		15,067		516		20,000	35,583		
State of Tennessee		0	10,352		10,352		0		0	10,352		
Federal Government		1,088,003	649,937		1,737,940		0		20,212	1,758,152		
Total Revenues	\$	1,088,003	\$	922,004	\$	2,010,007	\$	284,438	\$	40,212	\$	2,334,657
<u>Expenditures</u>												
Current:												
Instruction	\$	927,817	\$	0	\$	927,817	\$	0	\$	0	\$	927,817
Support Services		189,269		6,800		196,069		5,685		0		201,754
Operation of Non-Instructional Services		0		891,901		891,901		0		0		891,901
Debt Service:												
Principal on Debt		0		0		0		185,000		0		185,000
Interest on Debt		0		0		0		69,778		0		69,778
Capital Projects		0		0		0		0		320,244		320,244
Total Expenditures	\$	1,117,086	\$	898,701	\$	2,015,787	\$	260,463	\$	320,244	\$	2,596,494
Excess (Deficiency) of Revenues Over Expenditures	\$	(29,083)	\$	23,303	\$	(5,780)	\$	23,975	\$	(280,032)	\$	(261,837)
<u>Other Financing Sources (Uses)</u>												
Transfers In	\$	0	\$	0	\$	0	\$	0	\$	439,439	\$	439,439
Total Other Financing Sources (Uses)	\$	0	\$	0	\$	0	\$	0	\$	439,439	\$	439,439
Net Change in Fund Balances Fund Balance, July 1, 2010	\$	(29,083)	\$	23,303	\$	(5,780)	\$	23,975	\$	159,407	\$	177,602
Fund Balance, July 1, 2010		132,760		254,069		386,829		501,040		(19,900)		867,969
Fund Balance, June 30, 2011	\$	103,677	\$	277,372	\$	381,049	\$	525,015	\$	139,507	\$	1,045,571

Exhibit E-3

Paris 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: 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>Revenues</u>							
Federal Government	\$ 1,088,003 \$	0 \$	0 \$	1,088,003 \$	1,333,823 \$	1,166,379 \$	(78,376)
Total Revenues	\$ 1,088,003 \$	0 \$	0 \$	1,088,003 \$	1,333,823 \$	1,166,379 \$	(78,376)
<u>Expenditures</u>							
<u>Instruction</u>							
Regular Instruction Program	\$ 534,012 \$	(916) \$	0 \$	533,096 \$	572,727 \$	533,698 \$	602
Special Education Program	393,805	0	3,456	397,261	543,595	406,688	9,427
<u>Support Services</u>							
Other Student Support	6,227	0	0	6,227	5,047	7,681	1,454
Regular Instruction Program	177,815	0	148	177,963	204,454	210,313	32,350
Special Education Program	5,227	0	0	5,227	8,000	8,000	2,773
Total Expenditures	\$ 1,117,086 \$	(916) \$	3,604 \$	1,119,774 \$	1,333,823 \$	1,166,380 \$	46,606
Excess (Deficiency) of Revenues Over Expenditures	\$ (29,083) \$	916 \$	(3,604) \$	(31,771) \$	0 \$	(1) \$	(31,770)
Net Change in Fund Balance Fund Balance, July 1, 2010	\$ (29,083) \$	916 \$	(3,604) \$	(31,771) \$	0 \$	(1) \$	(31,770)
	132,760	(916)	0	131,844	130,714	130,714	1,130
Fund Balance, June 30, 2011	\$ 103,677 \$	0 \$	(3,604) \$	100,073 \$	130,714 \$	130,713 \$	(30,640)

Exhibit E-4

Paris 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	\$ 246,648 \$	0 \$	246,648 \$	235,013 \$	246,034 \$	614
Other Local Revenues	15,067	0	15,067	1,198	15,061	6
State of Tennessee	10,352	0	10,352	10,353	10,352	0
Federal Government	649,937	0	649,937	570,222	649,870	67
Total Revenues	\$ 922,004 \$	0 \$	922,004 \$	816,786 \$	921,317 \$	687
<u>Expenditures</u>						
Support Services	\$ 6,800 \$	0 \$	6,800 \$	6,800 \$	6,800 \$	0
Board of Education						
Operation of Non-Instructional Services						
Food Service	891,901	22,224	914,125	809,986	923,027	8,902
Total Expenditures	\$ 898,701 \$	22,224 \$	920,925 \$	816,786 \$	929,827 \$	8,902
Excess (Deficiency) of Revenues Over Expenditures	\$ 23,303 \$	(22,224) \$	1,079 \$	0 \$	(8,510) \$	9,589
Net Change in Fund Balance Fund Balance, July 1, 2010	\$ 23,303 \$	(22,224) \$	1,079 \$	0 \$	(8,510) \$	9,589
	254,069	0	254,069	254,068	254,068	1
Fund Balance, June 30, 2011	\$ 277,372 \$	(22,224) \$	255,148 \$	254,068 \$	245,558 \$	9,590

Exhibit E-5

Paris 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	\$ 283,922	\$ 284,196	\$ 280,674	\$ 3,248
Other Local Revenues	516	904	524	(8)
Total Revenues	\$ 284,438	\$ 285,100	\$ 281,198	\$ 3,240
<u>Expenditures</u>				
<u>Support Services</u>				
Board of Education	\$ 5,685	\$ 7,000	\$ 6,000	\$ 315
<u>Principal on Debt</u>				
Education	185,000	185,000	185,000	0
<u>Interest on Debt</u>				
Education	69,778	69,878	69,878	100
Total Expenditures	\$ 260,463	\$ 261,878	\$ 260,878	\$ 415
Excess (Deficiency) of Revenues Over Expenditures	\$ 23,975	\$ 23,222	\$ 20,320	\$ 3,655
Net Change in Fund Balance	\$ 23,975	\$ 23,222	\$ 20,320	\$ 3,655
Fund Balance, July 1, 2010	501,040	498,793	498,793	2,247
Fund Balance, June 30, 2011	\$ 525,015	\$ 522,015	\$ 519,113	\$ 5,902

MISCELLANEOUS SCHEDULES

Exhibit F-1

Paris Special School District
Schedule of Changes in Long-term Notes and 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>NOTES PAYABLE</u>								
<u>Payable through General Purpose School Fund</u>								
School Renovation	\$ 2,000,000	4.14 %	6-20-07	6-20-17	\$ 1,400,000	\$ 200,000	\$ 1,200,000	
School Renovation	1,000,000	3.9	6-26-09	6-30-19	916,469	86,820	829,649	
Total Notes Payable					\$ 2,316,469	\$ 286,820	\$ 2,029,649	
<u>BONDS PAYABLE</u>								
<u>Payable through Education Debt Service Fund</u>								
School Refunding Bonds, Series 2008	2,145,000	3.85	7-29-08	6-1-18	\$ 1,815,000	\$ 185,000	\$ 1,630,000	
Total Bonds Payable					\$ 1,815,000	\$ 185,000	\$ 1,630,000	

Exhibit F-2

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

Year Ending June 30	Notes		
	Principal	Interest	Total
2012	\$ 290,239	\$ 79,225	\$ 369,464
2013	293,793	67,267	361,060
2014	297,486	55,294	352,780
2015	301,325	43,175	344,500
2016	305,315	30,939	336,254
2017	309,463	18,476	327,939
2018	113,774	7,951	121,725
2019	118,254	3,470	121,724
Total	<u>\$ 2,029,649</u>	<u>\$ 305,797</u>	<u>\$ 2,335,446</u>

Year Ending June 30	Bonds		
	Principal	Interest	Total
2012	\$ 180,000	\$ 62,755	\$ 242,755
2013	205,000	55,825	260,825
2014	230,000	47,932	277,932
2015	250,000	39,078	289,078
2016	250,000	29,453	279,453
2017	245,000	19,827	264,827
2018	270,000	10,395	280,395
Total	<u>\$ 1,630,000</u>	<u>\$ 265,265</u>	<u>\$ 1,895,265</u>

Exhibit F-3

Paris 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 Capital Projects	School improvements	<u>\$ 439,439</u>
Total Transfers			<u><u>\$ 439,439</u></u>

Exhibit F-4

Paris 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 Paris Special School District Board of Directors	\$ 95,136 (1)	\$ 301,800	RLI Insurance Company
Employees' Blanket Bond			150,000	Tennessee Risk Management Trust

(1) Includes \$1,000 chief administrative officer training. Does not include \$1,759 life insurance allowance, \$5,857 medical insurance allowance, \$881 dental and vision insurance allowance, \$16,440 tax shelter annuity, and \$6,240 vehicle allowance.

Exhibit F-5

Paris 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	Education Capital Projects	Total
<u>Local Taxes</u>						
<u>County Property Taxes</u>						
Current Property Tax	\$ 2,035,948	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,035,948
Trustee's Collections - Prior Year	63,275	0	0	0	0	63,275
Trustee's Collections - Bankruptcy	3,493	0	0	0	0	3,493
Circuit/Clerk & Master Collections - Prior Years	7,131	0	0	0	0	7,131
Interest and Penalty	20,409	0	0	0	0	20,409
Pick-up Taxes	927	0	0	0	0	927
Payments in-Lieu-of Taxes - T.V.A.	1,546	0	0	0	0	1,546
Payments in-Lieu-of Taxes - Local Utilities	32,425	0	0	0	0	32,425
Payments in-Lieu-of Taxes - Other	62,587	0	0	0	0	62,587
<u>County Local Option Taxes</u>						
Local Option Sales Tax	1,204,131	0	0	0	0	1,204,131
Business Tax	62,559	0	0	0	0	62,559
<u>Statutory Local Taxes</u>						
Bank Excise Tax	20,735	0	0	0	0	20,735
Interstate Telecommunications Tax	724	0	0	0	0	724
<u>City/School District Property Taxes</u>						
Current Property Tax	665,558	0	0	267,270	0	932,828
Prior Year Property Tax	22,500	0	0	9,148	0	31,648
Interest and Penalty	1,480	0	0	729	0	2,209
Payments in-Lieu-of Taxes	16,937	0	0	6,775	0	23,712
Total Local Taxes	\$ 4,222,365	\$ 0	\$ 0	\$ 283,922	\$ 0	\$ 4,506,287
<u>Licenses and Permits</u>						
<u>Licenses</u>						
Marriage Licenses	605	0	0	0	0	605
Total Licenses and Permits	\$ 605	\$ 0	\$ 0	\$ 0	\$ 0	\$ 605

(Continued)

Exhibit F-5

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

	General Purpose School	School Federal Projects	Central Cafeteria	Education Debt Service	Education Capital Projects	Total
<u>Charges for Current Services</u>						
<u>Education Charges</u>						
Tuition - Regular Day Students	\$ 33,405	\$ 0	\$ 0	\$ 0	\$ 0	\$ 33,405
Lunch Payments - Children	0	0	182,218	0	0	182,218
Lunch Payments - Adults	0	0	44,133	0	0	44,133
Income from Breakfast	0	0	11,722	0	0	11,722
Special Milk Sales	0	0	3,710	0	0	3,710
A la carte Sales	0	0	4,865	0	0	4,865
Receipts from Individual Schools	85,413	0	0	0	0	85,413
Community Service Fees - Children	206,349	0	0	0	0	206,349
Total Charges for Current Services	\$ 325,167	\$ 0	\$ 246,648	\$ 0	\$ 0	\$ 571,815
<u>Other Local Revenues</u>						
<u>Recurring Items</u>						
Investment Income	\$ 12,600	\$ 0	\$ 1,204	\$ 516	\$ 0	\$ 14,320
Miscellaneous Refunds	11,082	0	13,863	0	0	24,945
<u>Nonrecurring Items</u>						
Sale of Equipment	1,155	0	0	0	0	1,155
Damages Recovered from Individuals	640	0	0	0	0	640
Contributions and Gifts	14,951	0	0	0	20,000	34,951
<u>Other Local Revenues</u>						
Other Local Revenues	4,500	0	0	0	0	4,500
Total Other Local Revenues	\$ 44,928	\$ 0	\$ 15,067	\$ 516	\$ 20,000	\$ 80,511
<u>State of Tennessee</u>						
<u>General Government Grants</u>						
On-Behalf Contributions for OPEB	\$ 54,138	\$ 0	\$ 0	\$ 0	\$ 0	\$ 54,138

(Continued)

Exhibit F-5

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

	General Purpose School	School Federal Projects	Central Cafeteria	Education Debt Service	Education Capital Projects	Total
<u>State of Tennessee (Cont.)</u>						
<u>State Education Funds</u>						
Basic Education Program	\$ 6,462,794	\$ 0	\$ 0	\$ 0	\$ 0	\$ 6,462,794
Basic Education Program - ARRA	606,206	0	0	0	0	606,206
Early Childhood Education	276,813	0	0	0	0	276,813
School Food Service	0	0	10,352	0	0	10,352
Energy Efficient School Initiative	1,980	0	0	0	0	1,980
Other State Education Funds	1,984	0	0	0	0	1,984
Coordinated School Health - ARRA	82,000	0	0	0	0	82,000
Internet Connectivity - ARRA	4,741	0	0	0	0	4,741
Family Resource Centers - ARRA	33,300	0	0	0	0	33,300
Career Ladder Program	74,965	0	0	0	0	74,965
Career Ladder - Extended Contract - ARRA	40,741	0	0	0	0	40,741
<u>Other State Revenues</u>						
Income Tax	1,778	0	0	0	0	1,778
Mixed Drink Tax	4,743	0	0	0	0	4,743
Safe Schools - ARRA	8,500	0	0	0	0	8,500
Total State of Tennessee	\$ 7,654,683	\$ 0	\$ 10,352	\$ 0	\$ 0	\$ 7,665,035
<u>Federal Government</u>						
<u>Federal Through State</u>						
USDA School Lunch Program	\$ 0	\$ 0	\$ 443,117	\$ 0	\$ 0	\$ 443,117
USDA - Commodities	0	0	57,189	0	0	57,189
Breakfast	0	0	133,838	0	0	133,838
USDA - Other	0	0	15,793	0	0	15,793

(Continued)

Exhibit F-5

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

	General Purpose School	School Federal Projects	Central Cafeteria	Education Debt Service	Education Capital Projects	Total
<u>Federal Government (Cont.)</u>						
<u>Federal Through State (Cont.)</u>						
Title I Grants to Local Education Agencies	\$ 0	\$ 468,797	\$ 0	\$ 0	\$ 0	\$ 468,797
Special Education - Grants to States	0	368,980	0	0	0	368,980
Special Education Preschool Grants	12,668	23,049	0	0	0	35,717
Rural Education	0	42,577	0	0	0	42,577
Eisenhower Professional Development State Grants	0	92,347	0	0	0	92,347
Homeland Security Grants	0	0	0	0	20,212	20,212
Race-to-the-Top - ARRA	0	84,235	0	0	0	84,235
Other Federal through State	17,414	8,018	0	0	0	25,432
Total Federal Government	\$ 30,082	\$ 1,088,003	\$ 649,937	\$ 0	\$ 20,212	\$ 1,788,234
Total	\$ 12,277,830	\$ 1,088,003	\$ 922,004	\$ 284,438	\$ 40,212	\$ 14,612,487

Exhibit F-6

Paris 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	\$	4,354,768	
Career Ladder Program		56,978	
Career Ladder Extended Contracts		28,841	
Homebound Teachers		1,178	
Educational Assistants		189,313	
Other Salaries and Wages		76,481	
Certified Substitute Teachers		42,750	
Non-certified Substitute Teachers		41,391	
Social Security		279,319	
State Retirement		417,096	
Life Insurance		17,127	
Medical Insurance		506,426	
Employer Medicare		64,828	
Other Contracted Services		142,322	
Instructional Supplies and Materials		108,038	
Textbooks		85,884	
Other Supplies and Materials		85,793	
Other Charges		10,097	
Regular Instruction Equipment		365,119	
Total Regular Instruction Program			\$ 6,873,749

Special Education Program

Teachers	\$	264,402	
Homebound Teachers		5,159	
Educational Assistants		24,326	
Speech Pathologist		41,050	
Social Security		19,853	
State Retirement		29,101	
Medical Insurance		26,258	
Employer Medicare		4,643	
Other Contracted Services		17,854	
Total Special Education Program			432,646

Student Body Education Program

Other Salaries and Wages	\$	150	
Social Security		9	
State Retirement		14	
Employer Medicare		2	
Other Contracted Services		8,275	

(Continued)

Exhibit F-6

Paris Special School District
Schedule of Detailed Expenditures -
All Governmental Fund Types

General Purpose School Fund (Cont.)

Instruction (Cont.)

Student Body Education Program (Cont.)

Other Supplies and Materials	\$	32,674	
Other Charges		<u>15,872</u>	
Total Student Body Education Program	\$		56,996

Support Services

Attendance

Clerical Personnel	\$	13,395	
Social Security		697	
State Retirement		877	
Employer Medicare		<u>163</u>	
Total Attendance			15,132

Health Services

Medical Personnel	\$	55,837	
Other Salaries and Wages		58,783	
Social Security		7,071	
State Retirement		5,200	
Employer Medicare		1,654	
Communication		2,000	
Travel		843	
Other Contracted Services		50	
Drugs and Medical Supplies		3,290	
Other Supplies and Materials		13,374	
In Service/Staff Development		1,035	
Other Charges		<u>60</u>	
Total Health Services			149,197

Other Student Support

Career Ladder Program	\$	3,000	
Guidance Personnel		106,130	
Social Workers		52,410	
Assessment Personnel		55,064	
Clerical Personnel		10,468	
Social Security		14,004	
State Retirement		19,062	
Life Insurance		620	
Medical Insurance		9,530	
Employer Medicare		3,275	
Other Supplies and Materials		<u>2,615</u>	
Total Other Student Support			276,178

(Continued)

Exhibit F-6

Paris Special School District
Schedule of Detailed Expenditures -
All Governmental Fund Types

General Purpose School Fund (Cont.)

Support Services (Cont.)

Regular Instruction Program

Supervisor/Director	\$	85,720	
Career Ladder Program		2,000	
Librarians		129,270	
Materials Supervisor		18,316	
Clerical Personnel		29,813	
Social Security		14,779	
State Retirement		22,790	
Life Insurance		666	
Medical Insurance		28,537	
Employer Medicare		3,456	
Travel		5,961	
Library Books/Media		4,386	
In Service/Staff Development		27,181	
Total Regular Instruction Program			\$ 372,875

Special Education Program

Supervisor/Director	\$	30,000	
Social Security		1,860	
State Retirement		2,715	
Employer Medicare		435	
Total Special Education Program			35,010

Other Programs

On-Behalf Payments to OPEB	\$	54,138	
Total Other Programs			54,138

Board of Education

Secretary to Board	\$	100	
Unemployment Compensation		9,894	
Audit Services		7,004	
Dues and Memberships		10,800	
Legal Services		1,050	
Other Contracted Services		2,000	
Liability Insurance		13,534	
Premiums on Corporate Surety Bonds		1,056	
Trustee's Commission		70,593	
Workers' Compensation Insurance		36,119	
Criminal Investigation of Applicants - TBI		1,260	
Refund to Applicant for Criminal Investigation		960	

(Continued)

Exhibit F-6

Paris Special School District
Schedule of Detailed Expenditures -
All Governmental Fund Types

General Purpose School Fund (Cont.)

Support Services (Cont.)

Board of Education (Cont.)

Other Charges	\$ 6,657	
Total Board of Education		\$ 161,027

Director of Schools

County Official/Administrative Officer	\$ 94,136	
Career Ladder Program	1,000	
Social Security	6,634	
State Retirement	11,431	
Life Insurance	1,759	
Medical Insurance	13,464	
Dental Insurance	881	
Employer Medicare	1,744	
Other Fringe Benefits	22,680	
Communication	9,887	
Postal Charges	2,197	
Travel	2,000	
Other Supplies and Materials	2,500	
Other Charges	962	
Total Director of Schools		171,275

Office of the Principal

Principals	\$ 228,560	
Career Ladder Program	3,200	
Assistant Principals	124,761	
Secretary(ies)	63,745	
Social Security	18,345	
State Retirement	27,383	
Life Insurance	886	
Medical Insurance	26,801	
Employer Medicare	5,885	
Communication	15,028	
Postal Charges	1,319	
Travel	1,167	
Office Supplies	865	
Total Office of the Principal		517,945

Fiscal Services

Accountants/Bookkeepers	\$ 52,413
Clerical Personnel	29,470

(Continued)

Exhibit F-6

Paris Special School District
Schedule of Detailed Expenditures -
All Governmental Fund Types

General Purpose School Fund (Cont.)

Support Services (Cont.)

Fiscal Services (Cont.)

Social Security	\$	4,867	
State Retirement		5,363	
Life Insurance		268	
Medical Insurance		6,403	
Employer Medicare		1,138	
Travel		311	
Other Contracted Services		5,220	
Office Supplies		1,366	
Administration Equipment		59	
Total Fiscal Services			\$ 106,878

Operation of Plant

Custodial Personnel	\$	216,402	
Social Security		13,262	
State Retirement		11,451	
Life Insurance		907	
Employer Medicare		3,102	
Other Contracted Services		41,948	
Custodial Supplies		32,547	
Electricity		328,927	
Natural Gas		34,472	
Water and Sewer		17,582	
Other Supplies and Materials		24,516	
Boiler Insurance		1,511	
Building and Contents Insurance		33,386	
Other Charges		18,846	
Plant Operation Equipment		1,759	
Total Operation of Plant			780,618

Maintenance of Plant

Supervisor/Director	\$	62,928	
Maintenance Personnel		70,927	
Social Security		7,615	
State Retirement		8,768	
Life Insurance		424	
Medical Insurance		16,208	
Employer Medicare		1,781	
Maintenance and Repair Services - Buildings		13,928	
Maintenance and Repair Services - Equipment		3,684	

(Continued)

Exhibit F-6

Paris Special School District
Schedule of Detailed Expenditures -
All Governmental Fund Types

General Purpose School Fund (Cont.)

Support Services (Cont.)

Maintenance of Plant (Cont.)

Travel	\$	60	
Other Contracted Services		28,346	
Equipment and Machinery Parts		7,416	
Other Supplies and Materials		9,719	
Maintenance Equipment		3,601	
Total Maintenance of Plant			\$ 235,405

Transportation

Mechanic(s)	\$	35,204	
Bus Drivers		151,548	
Other Salaries and Wages		39,738	
In-Service Training		396	
Social Security		14,009	
State Retirement		11,722	
Life Insurance		508	
Employer Medicare		3,276	
Travel		448	
Other Contracted Services		9,377	
Diesel Fuel		51,745	
Gasoline		6,568	
Tires and Tubes		10,066	
Vehicle Parts		39,284	
Other Supplies and Materials		1,307	
Vehicle and Equipment Insurance		9,290	
In Service/Staff Development		670	
Other Charges		2,342	
Total Transportation			387,498

Central and Other

Data Processing Personnel	\$	129,657	
Social Security		7,136	
State Retirement		8,493	
Life Insurance		402	
Medical Insurance		17,181	
Employer Medicare		1,669	
Total Central and Other			164,538

(Continued)

Exhibit F-6

Paris Special School District
Schedule of Detailed Expenditures -
All Governmental Fund Types

General Purpose School Fund (Cont.)

Operation of Non-Instructional Services

Community Services

Supervisor/Director	\$	39,984	
Other Salaries and Wages		137,500	
Social Security		8,880	
State Retirement		4,411	
Employer Medicare		2,587	
Other Supplies and Materials		9,447	
Total Community Services			\$ 202,809

Early Childhood Education

Supervisor/Director	\$	5,500	
Teachers		127,255	
Other Salaries and Wages		57,860	
Certified Substitute Teachers		300	
Non-certified Substitute Teachers		1,020	
Social Security		8,100	
State Retirement		11,093	
Life Insurance		600	
Medical Insurance		19,572	
Employer Medicare		2,900	
Other Contracted Services		3,167	
Electricity		5,000	
Other Supplies and Materials		15,974	
In Service/Staff Development		1,733	
Other Equipment		1,702	
Total Early Childhood Education			261,776

Capital Outlay

Regular Capital Outlay

Building Improvements	\$	27,728	
Other Capital Outlay		77,341	
Total Regular Capital Outlay			105,069

Principal on Debt

Education

Principal on Notes	\$	286,820	
Total Education			286,820

(Continued)

Exhibit F-6

Paris Special School District
Schedule of Detailed Expenditures -
All Governmental Fund Types

General Purpose School Fund (Cont.)

Interest on Debt

Education

Interest on Notes	\$ 90,582	
Total Education		\$ 90,582

Total General Purpose School Fund \$ 11,738,161

School Federal Projects Fund

Instruction

Regular Instruction Program

Teachers	\$ 114,149	
Educational Assistants	290,644	
Other Salaries and Wages	10,738	
Social Security	24,714	
State Retirement	29,858	
Medical Insurance	5,606	
Employer Medicare	5,780	
Instructional Supplies and Materials	45,235	
Other Supplies and Materials	1,041	
Regular Instruction Equipment	6,247	
Total Regular Instruction Program		\$ 534,012

Special Education Program

Teachers	\$ 23,048	
Educational Assistants	206,286	
Speech Pathologist	43,890	
Social Security	15,074	
State Retirement	16,159	
Employer Medicare	3,853	
Evaluation and Testing	20,000	
Other Contracted Services	7,626	
Instructional Supplies and Materials	42,297	
Other Supplies and Materials	10,082	
Special Education Equipment	5,490	
Total Special Education Program		393,805

Support Services

Other Student Support

Other Salaries and Wages	\$ 3,946	
Social Security	231	
State Retirement	399	

(Continued)

Exhibit F-6

Paris Special School District
Schedule of Detailed Expenditures -
All Governmental Fund Types

School Federal Projects Fund (Cont.)

Support Services (Cont.)

Other Student Support (Cont.)

Employer Medicare	\$	10	
Other Charges		<u>1,641</u>	
Total Other Student Support			\$ 6,227

Regular Instruction Program

Other Salaries and Wages	\$	92,621	
In-Service Training		12,757	
Social Security		6,463	
State Retirement		9,358	
Employer Medicare		1,514	
Library Books/Media		6,080	
In Service/Staff Development		<u>49,022</u>	
Total Regular Instruction Program			177,815

Special Education Program

Travel	\$	502	
In Service/Staff Development		<u>4,725</u>	
Total Special Education Program			<u>5,227</u>

Total School Federal Projects Fund \$ 1,117,086

Central Cafeteria Fund

Support Services

Board of Education

Workers' Compensation Insurance	\$	<u>6,800</u>	
Total Board of Education			\$ 6,800

Operation of Non-Instructional Services

Food Service

Cafeteria Personnel	\$	276,362	
Other Salaries and Wages		34,659	
In-Service Training		1,554	
Social Security		19,089	
State Retirement		18,148	
Life Insurance		1,800	
Medical Insurance		5,524	
Employer Medicare		4,464	
Communication		1,023	
Maintenance and Repair Services - Equipment		3,000	

(Continued)

Exhibit F-6

Paris Special School District
Schedule of Detailed Expenditures -
All Governmental Fund Types

Central Cafeteria Fund (Cont.)

Operation of Non-Instructional Services (Cont.)

Food Service (Cont.)

Transportation - Other than Students	\$	7,439	
Other Contracted Services		8,467	
Food Supplies		399,006	
Uniforms		2,230	
USDA - Commodities		57,189	
Other Supplies and Materials		30,949	
In Service/Staff Development		874	
Food Service Equipment		20,124	
Total Food Service			\$ 891,901

Total Central Cafeteria Fund \$ 898,701

Education Debt Service Fund

Support Services

Board of Education

Trustee's Commission	\$	5,685	
Total Board of Education			\$ 5,685

Principal on Debt

Education

Principal on Bonds	\$	185,000	
Total Education			185,000

Interest on Debt

Education

Interest on Bonds	\$	69,778	
Total Education			69,778

Total Education Debt Service Fund 260,463

Education Capital Projects Fund

Capital Projects

Education Capital Projects

Architects	\$	68,250	
Other Contracted Services		119,466	
Building Construction		132,528	
Total Education Capital Projects			\$ 320,244

Total Education Capital Projects Fund 320,244

Total Governmental Funds - Paris Special School District \$ 14,334,655

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 13, 2012

Paris Special School District Director of Schools
and Board of Directors
Paris, 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 Paris Special School District as of and for the year ended June 30, 2011, which collectively comprise the Paris Special School District's basic financial statements and have issued our report thereon dated March 13, 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 Paris 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 Paris Special School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Paris Special School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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. We consider the following deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness: 11.01.

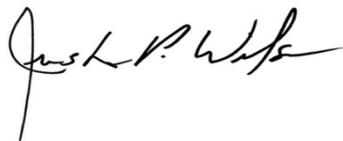
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Paris Special School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

This report is intended solely for the information and use of management, the director of schools, board of directors, others within the Paris 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
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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 13, 2012

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

To the Director of Schools and Board of Directors:

Compliance

We have audited the compliance of the Paris 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 Paris 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 Paris Special School District's management. Our responsibility is to express an opinion on the Paris 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 Paris 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 Paris Special School District's compliance with those requirements.

In our opinion, the Paris 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 Paris 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 Paris 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 Paris 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.

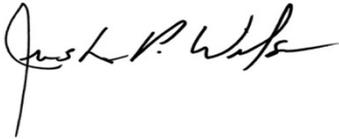
Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Paris Special School District as of and for the year ended June 30, 2011, and have issued our report thereon dated March 13, 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, others within the Paris 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 fluid and cursive, with a prominent vertical stroke at the beginning.

Justin P. Wilson
Comptroller of the Treasury

JPW/sb

Paris Special School District
Schedule of Expenditures of Federal Awards and State Grants (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	\$ 133,838
National School Lunch Program	10.555	N/A	443,117 (3)
Special Milk Program for Children	10.556	N/A	15,793
Passed-through State Department of Agriculture:			
National School Lunch Program (Commodities - Noncash Assistance)	10.555	N/A	57,189 (3)
Total U.S. Department of Agriculture			\$ 649,937
U.S. Department of Education:			
Passed-through State Department of Education:			
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	N/A	\$ 359,392
Title I Grants to Local Educational Agencies, Recovery Act	84.389	N/A	127,394
Special Education Cluster:			
Special Education - Grants to States	84.027	N/A	272,730
Special Education - Preschool Grants	84.173	N/A	26,198
Special Education - Grants to States, Recovery Act	84.391	N/A	102,997
Special Education - Preschool Grants, Recovery Act	84.392	N/A	9,774
Safe and Drug-free Schools and Communities - State Grants	84.186	(2)	1,043
Education Technology State Grants Cluster:			
Education Technology State Grants	84.318	(2)	1,562
Education Technology State Grants, Recovery Act	84.386	(2)	6,326
Rural Education	84.358	N/A	42,577
Improving Teacher Quality State Grants	84.367	N/A	95,526
State Fiscal Stabilization Fund Cluster:			
State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	N/A	606,206
State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	N/A	162,199
State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	N/A	84,235
Total U.S. Department of Education			\$ 1,898,159
U.S. Department of Health and Human Services:			
Passed-through State Department of Agriculture:			
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Programs	93.714	N/A	\$ 17,414
Total U.S. Department of Health and Human Services			\$ 17,414
U.S. Department of Homeland Security:			
Passed-through State Department of Military:			
Hazard Mitigation Grant	97.039	DR-1745-TN	\$ 20,212
Total U.S. Department of Homeland Security			\$ 20,212
Total Expenditures of Federal Awards			\$ 2,585,722

(Continued)

Paris Special School District
Schedule of Expenditures of Federal Awards and State Grants (1) (Cont.)

Federal/Pass-through Agency/State Grantor Program Title	Federal CFDA Number	Contract Number	Expenditures
<u>State Grants</u>			
Energy Efficient School Initiative - State Department of Education	N/A	(2)	\$ 1,980
Early Childhood Education - State Department of Education	N/A	(2)	276,813
Connect Tenn - State Department of Education	N/A	(2)	870
ACT/Explore - State Department of Education	N/A	(2)	<u>1,114</u>
Total State Grants			<u>\$ 280,777</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 \$500,306.

Paris 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 are no findings from the Annual Financial Report for the Paris Special School District for the year ended June 30, 2010, which have not been corrected.

PARIS 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 Paris Special School District is unqualified.
2. The audit of the financial statements of the Paris Special School District disclosed one significant deficiency in internal control. This deficiency was considered to be a material weakness.
3. The audit disclosed no instances of noncompliance that were material to the financial statements of the Paris Special School District.
4. The audit disclosed no significant deficiencies in internal control over major programs.
5. An unqualified opinion was issued on compliance for major programs.
6. The audit revealed no findings that are required to be reported under Section 510(a) of OMB Circular A-133.
7. The Title I, Part A Cluster: Title I Grants to Local Educational Agencies and Title I Grants to Local Educational Agencies, Recovery Act (CFDA Nos. 84.010 and 84.389); the Special Education Cluster: Special Education – Grants to States, Special Education – Preschool Grants, Special Education – Grants to States, Recovery Act and Special Education – Preschool Grants, Recovery Act (CFDA Nos. 84.027, 84.173, 84.391, and 84.392); 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 Paris Special School District did not qualify as a low-risk auditee.

PART II, FINDINGS RELATING TO THE FINANCIAL STATEMENTS

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

FINDING 11.01 MATERIAL AUDIT ADJUSTMENTS WERE REQUIRED FOR PROPER FINANCIAL STATEMENT PRESENTATION
(Internal Control – Material Weakness Under *Government Auditing Standards*)

At June 30, 2011, certain general ledger account balances of the Education Capital Projects Fund were not materially correct, and audit adjustments were required for the financial statements to be materially correct at year-end. Generally accepted accounting principles require the Paris Special School District to have adequate internal controls over the maintenance of its accounting records. Material audit adjustments were required because the district's financial reporting system did not prevent, detect or correct potential misstatements in the accounting records. It is a strong indicator of a material weakness in internal controls if the entity has ineffective controls over the maintenance of its accounting records which are used to prepare the financial statements, including the related notes to the financial statements. We presented audit adjustments to management that they approved and posted to properly present the financial statements in this report.

RECOMMENDATION

The Paris Special School District should have appropriate processes in place to ensure that its general ledgers are materially correct.

BEST PRACTICE

PARIS SPECIAL SCHOOL DISTRICT SHOULD ESTABLISH AN AUDIT COMMITTEE

The Paris 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.

**PARIS 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.