
ANNUAL FINANCIAL REPORT
McKENZIE SPECIAL SCHOOL DISTRICT



FOR THE YEAR ENDED JUNE 30, 2012



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COMPTROLLER OF THE TREASURY
JUSTIN P. WILSON

DIVISION OF LOCAL GOVERNMENT AUDIT
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State Auditors

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

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Audit Highlights

Annual Financial Report
McKenzie Special School District, Tennessee
For the Year Ended June 30, 2012

Scope

We have audited the basic financial statements of the McKenzie Special School District as of and for the year ended June 30, 2012.

Results

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

Findings and Best Practice

Our audit resulted in no findings.

Best Practice

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

INTRODUCTORY SECTION

McKenzie Special School District Officials
June 30, 2012

Officials

Lynn Watkins, Director of Schools
Stan George, Finance Director

Board of Directors

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

FINANCIAL SECTION



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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INDEPENDENT AUDITOR'S REPORT

March 12, 2013

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

To the Director of Schools and Board of Directors:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the McKenzie Special School District, as of and for the year ended June 30, 2012, which collectively comprise the district's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the McKenzie Special School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the auditing standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the McKenzie Special School District as of June 30, 2012, 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 12, 2013, on our consideration of the McKenzie Special School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 40 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the McKenzie Special School District's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds and the Education Debt Service Fund, and miscellaneous schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds and the Education Debt Service Fund, and the miscellaneous schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the

United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Very truly yours,

A handwritten signature in black ink, appearing to read "Justin P. Wilson". The signature is fluid and cursive, with a prominent vertical stroke at the beginning.

Justin P. Wilson
Comptroller of the Treasury

JPW/sb

BASIC FINANCIAL STATEMENTS

Exhibit A

McKenzie Special School District
Statement of Net Assets
June 30, 2012

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash	\$ 20
Equity in Pooled Cash and Investments	4,124,944
Inventories	61,589
Accounts Receivable	888
Due from Other Governments	300,309
Property Taxes Receivable	1,375,545
Allowance for Uncollectible Property Taxes	(61,955)
Prepaid Items	106,944
Deferred Charges - Debt Issuance Costs	71,503
Capital Assets:	
Assets Not Depreciated:	
Land	412,477
Assets Net of Accumulated Depreciation:	
Buildings and Improvements	6,648,541
Other Capital Assets	351,184
Total Assets	<u>\$ 13,391,989</u>
<u>LIABILITIES</u>	
Accounts Payable	\$ 99,568
Payroll Deductions Payable	162,576
Accrued Interest Payable	65,088
Deferred Revenue - Current Property Taxes	1,276,090
Noncurrent Liabilities:	
Due Within One Year	503,796
Due in More Than One Year (net of deferred amount on refunding and unamortized premiums on debt)	6,319,258
Total Liabilities	<u>\$ 8,426,376</u>
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	\$ 891,429
Restricted for:	
Education	209,035
Operation of Non-Instructional Services	285,327
Debt Service	955,872
Unrestricted	<u>2,623,950</u>
Total Net Assets	<u>\$ 4,965,613</u>

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

Exhibit B

McKenzie Special School District
Statement of Activities
For the Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Instruction	\$ 6,397,301	\$ 10,105	\$ 654,113	\$ (5,733,083)
Support Services	2,772,416	12,559	267,898	(2,491,959)
Operation of Non-Instructional Services	1,063,591	254,169	750,200	(59,222)
Interest on Long-term Debt	281,508	2,297	0	(279,211)
Total Governmental Activities	\$ 10,514,816	\$ 279,130	\$ 1,672,211	\$ (8,563,475)
General Revenues:				
Taxes:				
Property Taxes Levied for General Purposes				\$ 774,908
Property Taxes Levied for Debt Service				588,798
Local Option Sales Taxes				741,939
Interstate Telecommunications Tax				523
Grants and Contributions Not Restricted to Specific Programs				6,665,200
Unrestricted Investment Income				34,748
Miscellaneous				3,309
Total General Revenues				\$ 8,809,425
Change in Net Assets				\$ 245,950
Net Assets, July 1, 2011				4,719,663
Net Assets, June 30, 2012				\$ 4,965,613

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

Exhibit C-1

McKenzie Special School District
Balance Sheet - Governmental Funds
June 30, 2012

	<u>Major Funds</u>		<u>Nonmajor</u>	<u>Total</u>
	<u>General Purpose School</u>	<u>Education Debt Service</u>	<u>Funds</u> <u>Other</u> <u>Governmental Funds</u>	
<u>ASSETS</u>				
Cash	\$ 0	\$ 0	\$ 20	\$ 20
Equity in Pooled Cash and Investments	2,855,594	989,271	280,079	4,124,944
Inventories	0	0	61,589	61,589
Accounts Receivable	888	0	0	888
Due from Other Governments	213,901	8,589	77,819	300,309
Due from Other Funds	71,880	0	0	71,880
Property Taxes Receivable	781,560	593,985	0	1,375,545
Allowance for Uncollectible Property Taxes	(35,202)	(26,753)	0	(61,955)
Prepaid Items	106,944	0	0	106,944
Total Assets	<u>\$ 3,995,565</u>	<u>\$ 1,565,092</u>	<u>\$ 419,507</u>	<u>\$ 5,980,164</u>
<u>LIABILITIES AND FUND BALANCES</u>				
<u>Liabilities</u>				
Accounts Payable	\$ 90,633	\$ 0	\$ 8,935	\$ 99,568
Payroll Deductions Payable	162,576	0	0	162,576
Due to Other Funds	0	0	71,880	71,880
Deferred Revenue - Current Property Taxes	725,051	551,039	0	1,276,090
Deferred Revenue - Delinquent Property Taxes	17,314	13,158	0	30,472
Other Deferred Revenues	63,422	0	24,758	88,180
Total Liabilities	<u>\$ 1,058,996</u>	<u>\$ 564,197</u>	<u>\$ 105,573</u>	<u>\$ 1,728,766</u>
<u>Fund Balances</u>				
Nonspendable:				
Inventory	\$ 0	\$ 0	\$ 61,589	\$ 61,589
Prepaid Items	106,944	0	0	106,944
Restricted:				
Restricted for Education	48,726	0	28,607	77,333
Restricted for Operation of Non-Instructional Services	0	0	223,738	223,738
Restricted for Debt Service	0	1,000,895	0	1,000,895
Assigned:				
Assigned for Education	66,120	0	0	66,120
Unassigned	2,714,779	0	0	2,714,779
Total Fund Balances	<u>\$ 2,936,569</u>	<u>\$ 1,000,895</u>	<u>\$ 313,934</u>	<u>\$ 4,251,398</u>
Total Liabilities and Fund Balances	<u>\$ 3,995,565</u>	<u>\$ 1,565,092</u>	<u>\$ 419,507</u>	<u>\$ 5,980,164</u>

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

Exhibit C-2

McKenzie Special School District
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
June 30, 2012

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)		\$ 4,251,398
(1) Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Add: land	\$ 412,477	
Add: buildings and improvements net of accumulated depreciation	6,648,541	
Add: other capital assets net of accumulated depreciation	<u>351,184</u>	7,412,202
(2) Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.		
Less: bonds payable	\$ (6,570,000)	
Add: deferred amount on refunding	6,907	
Add: deferred charges - debt issuance costs	71,503	
Less: compensated absences payable	(45,983)	
Less: other postemployment benefits liability	(191,702)	
Less: accrued interest on bonds	(65,088)	
Less: other deferred revenue - premium on debt	<u>(22,276)</u>	(6,816,639)
(3) Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the governmental funds.		<u>118,652</u>
Net assets of governmental activities (Exhibit A)		<u>\$ 4,965,613</u>

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

Exhibit C-3

McKenzie Special School District
Statement of Revenues, Expenditures,
and Changes in Fund Balances -
Governmental Funds
For the Year Ended June 30, 2012

	Major Funds		Nonmajor Funds	Total Governmental Funds
	General Purpose School	Education Debt Service	Other Govern- mental Funds	
<u>Revenues</u>				
Local Taxes	\$ 1,518,062	\$ 591,958	\$ 0	\$ 2,110,020
Licenses and Permits	475	0	0	475
Charges for Current Services	10,105	0	254,169	264,274
Other Local Revenues	49,898	0	1,503	51,401
State of Tennessee	6,663,192	0	8,467	6,671,659
Federal Government	20,145	0	1,619,570	1,639,715
Total Revenues	\$ 8,261,877	\$ 591,958	\$ 1,883,709	\$ 10,737,544
<u>Expenditures</u>				
Current:				
Instruction	\$ 5,083,529	\$ 0	\$ 842,036	\$ 5,925,565
Support Services	2,557,259	11,771	119,275	2,688,305
Operation of Non-Instructional Services	102,944	0	933,786	1,036,730
Capital Outlay	31,036	0	0	31,036
Debt Service:				
Principal on Debt	0	460,000	0	460,000
Interest on Debt	0	276,450	0	276,450
Other Debt Service	0	500	0	500
Total Expenditures	\$ 7,774,768	\$ 748,721	\$ 1,895,097	\$ 10,418,586
Excess (Deficiency) of Revenues Over Expenditures				
	\$ 487,109	\$ (156,763)	\$ (11,388)	\$ 318,958
<u>Other Financing Sources (Uses)</u>				
Insurance Recovery	\$ 585	\$ 0	\$ 0	\$ 585
Transfers In	0	172,888	0	172,888
Transfers Out	(172,888)	0	0	(172,888)
Total Other Financing Sources (Uses)	\$ (172,303)	\$ 172,888	\$ 0	\$ 585
Net Change in Fund Balances				
Fund Balance, July 1, 2011	\$ 314,806	\$ 16,125	\$ (11,388)	\$ 319,543
	2,621,763	984,770	325,322	3,931,855
Fund Balance, June 30, 2012	\$ 2,936,569	\$ 1,000,895	\$ 313,934	\$ 4,251,398

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

Exhibit C-4

McKenzie Special School District
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2012

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)		\$ 319,543
(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: assets purchased and capitalized	\$ 31,036	
Less: current-year depreciation expense	<u>(527,036)</u>	(496,000)
(2) 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, 2012	\$ 118,652	
Less: deferred delinquent property taxes and other deferred June 30, 2011	<u>(97,727)</u>	20,925
(3) The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Add: principal payments on bonds	\$ 460,000	
Add: change in premium on debt issuances	2,297	
Less: change in deferred debt issuance costs	(7,371)	
Less: change in deferred amount on refunding debt	<u>(1,212)</u>	453,714
(4) Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		
Change in accrued interest payable	\$ 4,025	
Change in compensated absences payable	1,674	
Change in other postemployment benefits liability	<u>(57,931)</u>	(52,232)
Change in net assets of governmental activities (Exhibit B)		<u><u>\$ 245,950</u></u>

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

**MCKENZIE SPECIAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The McKenzie Special School District's financial statements are presented in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments.

The following are the more significant accounting policies of the district:

A. Reporting Entity

The district is a public municipal corporation governed by an elected seven-member board. As required by GAAP, these financial statements present the McKenzie Special School District. The district has no component units. The district operates a public school system and receives funding from local, state, and federal government sources.

B. Government-wide and Fund Financial Statements

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

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

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

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

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

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

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

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

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

The district reports the following major governmental funds:

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

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

Additionally, the district reports the following fund type:

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

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

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

State statutes authorize the district to make direct investments in bonds, notes, or treasury bills of the U.S. government and obligations guaranteed by the U.S. government or any of its agencies; deposit accounts at state and federal chartered banks and savings and loan associations; repurchase agreements; the State Treasurer’s Investment Pool; bonds of any state or political subdivision rated A or higher by any nationally recognized rating service; nonconvertible debt securities of certain federal government sponsored enterprises; and the district’s own legally issued bonds or notes.

The district maintains a cash and internal investment pool that is used by all funds. Each fund’s portion of this pool is displayed on the balance sheets or statements of net assets as Equity in Pooled Cash and Investments. Income from these pooled investments is assigned to the General Purpose School and Central Cafeteria funds. The district has adopted a policy of reporting U.S. Treasury obligations, U.S. agency obligations, and repurchase agreements with maturities

of one year or less when purchased on the balance sheet at amortized cost. Certificates of deposit and investments in the State Treasurer's Investment Pool are reported at cost. The State Treasurer's Investment Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Rule 2a7 allows SEC-registered mutual funds to use amortized cost rather than fair value to report net assets to compute share prices if certain conditions are met. State statutes require the state treasurer to administer the pool under the same terms and conditions, including collateral requirements, as prescribed for other funds invested by the state treasurer. No investments required to be reported at fair value were held at the balance sheet date.

2. Receivables and Payables

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

Property taxes receivable are shown with an allowance for uncollectibles. The allowance for uncollectible property taxes is equal to 2.37 percent of total taxes levied.

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

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

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

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

3. Inventories and Prepaid Items

Inventories consist of food and food-related items held for consumption and are valued at the lower of cost or market based on the first-in, first-out method. Inventories are offset in the nonspendable fund balance account in governmental funds.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. Prepaids are offset in the nonspendable fund balance account in governmental funds.

4. Capital Assets

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

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

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

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

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

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

5. Compensated Absences

The general policy of the district does not allow for the accumulation of vacation days beyond year-end. The district permits the unlimited accumulation of unused sick leave days for all professional personnel. This sick leave is accrued when incurred in the government-wide financial statements of the district. A liability for sick leave is reported in the governmental funds only if amounts have matured, for example, as a result of employee retirements.

6. Long-term Obligations

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

In the fund financial statements, governmental funds recognize debt premiums and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Only the matured portion (the portion that has come due for payment) of long-term indebtedness, including bonds payable, is recognized as a liability and expenditure in the governmental fund financial statements. Liabilities and expenditures for other long-term obligations, including compensated absences and other postemployment benefits, are recognized to the extent that the liabilities have matured (come due for payment) each period.

7. Net Assets and Fund Equity

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

- a. Invested in capital assets, net of related debt – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any

bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

- b. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

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.

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

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

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

Committed Fund Balance – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal resolutions of the Board of Directors, the School Department's highest level of decision-making authority, and shall remain binding unless removed in the same manner.

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

A. **Budgetary Information**

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

The district is required by state statute to adopt annual budgets. Annual budgets are prepared on the basis in which current available funds must be sufficient to meet current expenditures. Expenditures and encumbrances may not legally exceed appropriations authorized by the Board of Directors and any authorized revisions. Unencumbered appropriations lapse at the end of each fiscal year.

The budgetary level of control is at the major category level established by the County Uniform Chart of Accounts, as prescribed by the Comptroller of the Treasury of the State of Tennessee. Major categories are at the department level (examples of General Purpose School Fund major categories: Regular Instruction Program, Alternative Instruction Program, Special Education Program, Vocational Education Program, etc.). Management may make revisions within major categories, but only the Board of Directors may transfer appropriations between major categories. During the year, several supplementary appropriations were necessary.

The district's budgetary basis of accounting is consistent with GAAP, except instances in which encumbrances are treated as budgeted expenditures. The difference between the budgetary basis and the GAAP basis is presented on the face of each budgetary schedule.

At June 30, 2012, the McKenzie Special School District reported the following significant encumbrances in the General Purpose School Fund:

<u>Description</u>	<u>Amount</u>
Lighting	\$ 34,602
HVAC Unit	13,150

B. Expenditures Exceeded Appropriations

Total expenditures in the Central Cafeteria Fund exceeded total appropriations approved by the Board of Directors by \$4,214. Expenditures that exceed appropriations are a violation of state statutes. These expenditures in excess of appropriations were funded by greater than anticipated revenues.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

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

Deposits

Legal Provisions. All deposits with financial institutions must be secured by one of two methods. One method involves financial institutions that participate in the bank collateral pool administered by the state treasurer. Participating banks determine the aggregate balance of their public fund accounts for the State of Tennessee and its political subdivisions. The amount of collateral required to secure these public deposits must equal at least 105 percent of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the state treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for the purposes of credit risk disclosure.

For deposits with financial institutions that do not participate in the bank collateral pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured amount of the deposits. The collateral must be placed by the depository bank in an escrow account in a second bank for the benefit of the district.

Investments

Legal Provisions. The district is authorized to make direct investments in bonds, notes, or treasury bills of the U.S. government and obligations guaranteed by the U.S. government or any of its agencies; deposits at state and federal chartered banks and savings and loan associations; bonds of any state or political subdivision rated A or higher by any nationally recognized rating service; nonconvertible debt securities of certain federal government sponsored enterprises; and the district’s own legally issued bonds or notes. These investments may not have a maturity greater than two years. The district may make investments with longer maturities if various restrictions set out in state law are followed. The district is also authorized to make investments in the State Treasurer’s Investment Pool and in repurchase agreements. Repurchase agreements must be approved by the state Comptroller’s Office and executed in accordance with procedures established by the State Funding Board. Securities purchased under a repurchase agreement must be obligations of the U.S. government or obligations guaranteed by the U.S. government or any of its agencies. When repurchase agreements are executed, the purchase of the securities must be priced at least two percent below the fair value of the securities on the day of purchase.

Investment Balances. As of June 30, 2012, the district had the following investments carried at cost. All investments are in the district’s investment pool.

Investment	Weighted Average Maturity (days)	Cost
State Treasurer's Investment Pool	6 to 164	\$ 856,999

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, 2012, 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, 2012, was as follows:

Governmental Activities:

	Balance 7-1-11	Increases	Balance 6-30-12
Capital Assets Not Depreciated:			
Land	\$ 381,441	\$ 31,036	\$ 412,477
Total Capital Assets Not Depreciated	<u>\$ 381,441</u>	<u>\$ 31,036</u>	<u>\$ 412,477</u>
Capital Assets Depreciated:			
Buildings and Improvements	\$ 15,974,905	\$ 0	\$ 15,974,905
Other Capital Assets	1,076,144	0	1,076,144
Total Capital Assets Depreciated	<u>\$ 17,051,049</u>	<u>\$ 0</u>	<u>\$ 17,051,049</u>
Less Accumulated Depreciation For:			
Buildings and Improvements	\$ 8,859,169	\$ 467,195	\$ 9,326,364
Other Capital Assets	665,119	59,841	724,960
Total Accumulated Depreciation	<u>\$ 9,524,288</u>	<u>\$ 527,036</u>	<u>\$ 10,051,324</u>
Total Capital Assets Depreciated, Net	<u>\$ 7,526,761</u>	<u>\$ (527,036)</u>	<u>\$ 6,999,725</u>
Governmental Activities Capital Assets, Net	<u>\$ 7,908,202</u>	<u>\$ (496,000)</u>	<u>\$ 7,412,202</u>

There were no decreases in capital assets during the year ended June 30, 2012.

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

Governmental Activities:

Instruction	\$ 477,801
Support Services	24,595
Operation of Non-Instructional Services	<u>24,640</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 527,036</u>

C. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of June 30, 2012, was as follows:

Due to/from Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Purpose School	Nonmajor governmental	\$ 71,880

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

Interfund Transfers:

Interfund transfers for the year ended June 30, 2012, consisted of the following amount:

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

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.

D. Long-term Debt

General Obligation Bonds

The district issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. In addition, general obligation bonds have been issued to refund other general obligation bonds.

General obligation bonds are direct obligations and pledge the full faith and credit of the district. General obligation bonds outstanding were issued for original terms of up to 14 years. Repayment terms are generally structured with increasing amounts of principal maturing as interest requirements decrease over the term of the debt. All bonds included in long-term debt as of June 30, 2012, will be retired from the Education Debt Service Fund.

General obligation bonds outstanding as of June 30, 2012, for governmental activities are as follows:

Type	Interest Rates	Final Maturity	Original Amount of Issue	Balance 6-30-12
G.O. Bonds - Refunding	3.5 to 4%	4-1-22	\$ 8,255,000	\$ 6,570,000

The annual requirements to amortize all general obligation bonds outstanding as of June 30, 2012, including interest payments, are presented in the following table:

Year Ending June 30	Bonds		
	Principal	Interest	Total
2013	\$ 490,000	\$ 260,350	\$ 750,350
2014	520,000	243,200	763,200
2015	550,000	222,400	772,400
2016	590,000	200,400	790,400
2017	630,000	176,800	806,800
2018-2022	3,790,000	473,000	4,263,000
Total	<u>\$ 6,570,000</u>	<u>\$ 1,576,150</u>	<u>\$ 8,146,150</u>

There is \$1,000,895 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, 2012, was as follows:

Governmental Activities:

	Bonds	Compensated Absences
	<u> </u>	<u> </u>
Balance, July 1, 2011	\$ 7,030,000	\$ 47,657
Additions	0	12,401
Reductions	(460,000)	(14,075)
	<u> </u>	<u> </u>
Balance, June 30, 2012	<u>\$ 6,570,000</u>	<u>\$ 45,983</u>
Balance Due Within One Year	<u>\$ 490,000</u>	<u>\$ 13,796</u>

	Other Postemployment Benefits
	<u> </u>
Balance, July 1, 2011	\$ 133,771
Additions	104,671
Reductions	(46,740)
	<u> </u>
Balance, June 30, 2012	<u>\$ 191,702</u>
Balance Due Within One Year	<u>\$ 0</u>

Analysis of Noncurrent Liabilities Presented on Exhibit A:

Total Noncurrent Liabilities, June 30, 2012	\$ 6,807,685
Less: Due Within One Year	(503,796)
Add: Unamortized Premium on Debt	22,276
Less: Deferred Amount on Refunding	(6,907)
	<u> </u>
Noncurrent Liabilities - Due in More Than One Year - Exhibit A	<u>\$ 6,319,258</u>

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

E. On-Behalf Payments

The State of Tennessee pays health insurance premiums for retired teachers on-behalf of the McKenzie Special School District. These payments are made by the state to the Local Education Group Insurance Plan and the Medicare Supplement Plan. Both of these plans are administered by the State of Tennessee and reported in the state's Comprehensive Annual Financial Report. Payments by the state to the Local Education Group Insurance Plan and the Medicare Supplement Plan for the year ended June 30, 2012, were

\$32,647 and \$16,833, 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. Contingent Liabilities

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

C. Retirement Commitments

Plan Description

Employees of the McKenzie Special School District are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the

performance of duty. Members joining the system after July 1, 1979, become vested after five years of service, and members joining prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly. Political subdivisions such as 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 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, 2012, was 7.27 percent of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the district is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ended June 30, 2012, the district's annual pension cost of \$60,233 to TCRS was equal to the district's required and actual contributions. The required contribution was determined as part of the July 1, 2009, actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected three percent annual rate of inflation, (c) 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), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) 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 ten years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6-30-12	\$60,233	100%	\$0
6-30-11	67,604	100	0
6-30-10	55,518	100	0

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was 98.27 percent funded. The actuarial accrued liability for benefits was \$1.62 million, and the actuarial value of assets was \$1.6 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$.03 million. The covered payroll (annual payroll of active employees covered by the plan) was \$.8 million, and the ratio of the UAAL to the covered payroll was 3.52 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.

SCHOOL TEACHERS

Plan Description

The district contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979, are vested after five years of service. Members joining prior to July 1, 1979, are vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of *Tennessee Code Annotated*. State statutes are amended by the Tennessee

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

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

Funding Policy

Most teachers are required by state statute to contribute five percent of their salaries to the plan. The employer contribution rate for the district is established at an actuarially determined rate. The employer rate for the fiscal year ended June 30, 2012, was 9.05 percent of annual covered payroll. The employer contribution requirement for the district is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ended June 30, 2012, 2011, and 2010, were \$437,358, \$424,159, and \$305,402, respectively, equal to the required contributions for each year.

D. Other Postemployment Benefits (OPEB)

Plan Description

The district participates in the state-administered Local Education Group Insurance Plan for healthcare benefits. For accounting purposes, the plan is an agent multiple-employer defined benefit OPEB plan. Benefits are established and amended by an insurance committee created by Section 8-27-302, *Tennessee Code Annotated*, for local education employees. Prior to reaching age 65, all members 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, 2012, the district contributed \$46,740 for postemployment health care.

Annual OPEB Cost and Net OPEB Obligation

	Local Education Group Plan
	<hr/>
ARC	\$ 105,000
Interest on the NPO	5,351
Adjustment to the ARC	(5,680)
Annual OPEB cost	<hr/> \$ 104,671
Less: Amount of contribution	(46,740)
Increase/decrease in NPO	<hr/> \$ 57,931
Net OPEB obligation, 7-1-11	<hr/> 133,771
	<hr/>
Net OPEB obligation, 6-30-12	<hr/> <hr/> \$ 191,702

Fiscal Year Ended	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End
<hr/>				
6-30-10	Local Education Group	\$ 77,171	61%	\$ 101,716
6-30-11	"	80,241	60	133,771
6-30-12	"	104,671	45	191,702

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2011, was as follows:

	Local Education Group Plan
	<hr/>
Actuarial valuation date	7-1-11
Actuarial accrued liability (AAL)	\$ 869,000
Actuarial value of plan assets	\$ 0
Unfunded actuarial accrued liability (UAAL)	\$ 869,000
Actuarial value of assets as a % of the AAL	0%
Covered payroll (active plan members)	\$ 5,665,052
UAAL as a % of covered payroll	15%

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, 2011, actuarial valuation for the Local Education Group Plan, the projected unit credit actuarial cost method was used and the actuarial assumptions included a four percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 9.25 percent for fiscal year 2012. The trend will decrease to 8.75 percent in fiscal year 2013 and then be reduced by decrements to an ultimate rate of five percent by fiscal year 2021. The rate includes a 2.5 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with June 30, 2008.

E. Purchasing Law

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

**REQUIRED SUPPLEMENTARY
INFORMATION**

Exhibit D-1

McKenzie Special School District
 Schedule of Revenues, Expenditures, and Changes
 in Fund Balance - Actual (Budgetary Basis) and Budget
 General Purpose School Fund
 For the Year Ended June 30, 2012

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2011	Add: Encumbrances 6/30/2012	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
<u>Revenues</u>							
Local Taxes	\$ 1,518,062	\$ 0	\$ 0	\$ 1,518,062	\$ 1,224,645	\$ 1,224,645	\$ 293,417
Licenses and Permits	475	0	0	475	300	300	175
Charges for Current Services	10,105	0	0	10,105	9,500	9,500	605
Other Local Revenues	49,898	0	0	49,898	50,000	50,000	(102)
State of Tennessee	6,663,192	0	0	6,663,192	6,537,087	6,642,567	20,625
Federal Government	20,145	0	0	20,145	16,000	34,402	(14,257)
Total Revenues	\$ 8,261,877	\$ 0	\$ 0	\$ 8,261,877	\$ 7,837,532	\$ 7,961,414	\$ 300,463
<u>Expenditures</u>							
<u>Instruction</u>							
Regular Instruction Program	\$ 4,400,854	\$ (34,745)	\$ 12,157	\$ 4,378,266	\$ 4,491,603	\$ 4,495,810	\$ 117,544
Alternative Instruction Program	18,557	0	0	18,557	21,000	21,000	2,443
Special Education Program	440,787	0	0	440,787	412,384	442,786	1,999
Vocational Education Program	223,331	(322)	0	223,009	229,607	229,607	6,598
<u>Support Services</u>							
Health Services	72,810	0	0	72,810	73,927	73,927	1,117
Other Student Support	247,679	0	0	247,679	250,021	250,021	2,342
Regular Instruction Program	460,628	0	226	460,854	461,976	471,976	11,122
Special Education Program	32,358	0	0	32,358	46,441	34,441	2,083
Vocational Education Program	5,184	0	0	5,184	5,441	5,441	257
Other Programs	49,480	0	0	49,480	0	49,480	0
Board of Education	99,557	0	0	99,557	103,963	103,963	4,406
Director of Schools	142,401	0	2,631	145,032	146,870	146,870	1,838
Office of the Principal	493,930	0	0	493,930	499,482	499,482	5,552

(Continued)

Exhibit D-1

McKenzie Special School District
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
General Purpose School Fund (Cont.)

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2011	Add: Encumbrances 6/30/2012	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
<u>Expenditures (Cont.)</u>							
<u>Support Services (Cont.)</u>							
Fiscal Services	\$ 104,284	\$ (315)	\$ 354	\$ 104,323	\$ 104,539	\$ 106,032	\$ 1,709
Operation of Plant	582,488	0	0	582,488	622,061	607,061	24,573
Maintenance of Plant	266,460	(5,400)	50,752	311,812	226,091	335,119	23,307
<u>Operation of Non-Instructional Services</u>							
Early Childhood Education	102,944	(1,000)	0	101,944	102,539	102,539	595
<u>Capital Outlay</u>							
Regular Capital Outlay	31,036	0	0	31,036	0	34,024	2,988
Total Expenditures	\$ 7,774,768	\$ (41,782)	\$ 66,120	\$ 7,799,106	\$ 7,797,945	\$ 8,009,579	\$ 210,473
<u>Excess (Deficiency) of Revenues</u>							
Over Expenditures	\$ 487,109	\$ 41,782	\$ (66,120)	\$ 462,771	\$ 39,587	\$ (48,165)	\$ 510,936
<u>Other Financing Sources (Uses)</u>							
Insurance Recovery	\$ 585	\$ 0	\$ 0	\$ 585	\$ 0	\$ 0	\$ 585
Transfers Out	(172,888)	0	0	(172,888)	(172,888)	(172,888)	0
Total Other Financing Sources (Uses)	\$ (172,303)	\$ 0	\$ 0	\$ (172,303)	\$ (172,888)	\$ (172,888)	\$ 585
Net Change in Fund Balance	\$ 314,806	\$ 41,782	\$ (66,120)	\$ 290,468	\$ (133,301)	\$ (221,053)	\$ 511,521
Fund Balance, July 1, 2011	2,621,763	(41,782)	0	2,579,981	2,579,981	2,579,981	0
Fund Balance, June 30, 2012	\$ 2,936,569	\$ 0	\$ (66,120)	\$ 2,870,449	\$ 2,446,680	\$ 2,358,928	\$ 511,521

Exhibit D-2

McKenzie Special School District
Schedule of Funding Progress – Pension Plan
June 30, 2012

(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)
7-1-11	\$ 1,595	\$ 1,623	\$ 28	98.27 %	\$ 799	3.52 %
7-1-09	1,210	1,243	33	97.35	836	3.94
7-1-07	1,001	1,038	37	96.44	725	5.1

Exhibit D-3

McKenzie Special School District
Schedule of Funding Progress – Other Postemployment Benefits Plan
June 30, 2012

(Dollar amounts in thousands)

Plan	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Local Education Group	7-1-09	\$ 0	\$ 738	\$ 738	0%	\$ 3,184	23%
"	7-1-10	0	763	763	0	3,572	21
"	7-1-11	0	869	869	0	5,665	15

**MCKENZIE SPECIAL SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2012**

BUDGETARY INFORMATION

The district is required by state statute to adopt annual budgets. Annual budgets are prepared on the basis in which current available funds must be sufficient to meet current expenditures. Expenditures and encumbrances may not legally exceed appropriations authorized by the board of directors and any authorized revisions. Unencumbered appropriations lapse at the end of each fiscal year.

The budgetary level of control is at the major category level established by the County Uniform Chart of Accounts, as prescribed by the Comptroller of the Treasury of the State of Tennessee. Major categories are at the department level (examples of General Purpose School Fund major categories: Regular Instruction Program, Alternative Instruction Program, Special Education Program, Vocational Education Program, etc.). Management may make revisions within major categories, but only the board of directors may transfer appropriations between major categories. During the year, several supplementary appropriations were necessary.

The district's budgetary basis of accounting is consistent with generally accepted accounting principles (GAAP), except instances in which encumbrances are treated as budgeted expenditures. The difference between the budgetary basis and the GAAP basis is presented on the face of each budgetary schedule.

At June 30, 2012, the McKenzie Special School District reported the following significant encumbrances in the General Purpose School Fund:

<u>Description</u>	<u>Amount</u>
Lighting	\$ 34,602
HVAC Unit	13,150

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

Nonmajor Governmental Funds

Special Revenue Fund

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

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

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

Exhibit E-1

McKenzie Special School District
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2012

	<u>Special Revenue Funds</u>		Total
	School	Central	Nonmajor
	Federal	Cafeteria	Governmental
	Projects		Funds
<u>ASSETS</u>			
Cash	\$ 0	\$ 20	\$ 20
Equity in Pooled Cash and Investments	45,311	234,768	280,079
Inventories	0	61,589	61,589
Due from Other Governments	57,101	20,718	77,819
Total Assets	<u>\$ 102,412</u>	<u>\$ 317,095</u>	<u>\$ 419,507</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>Liabilities</u>			
Accounts Payable	\$ 1,619	\$ 7,316	\$ 8,935
Due to Other Funds	47,428	24,452	71,880
Other Deferred Revenues	24,758	0	24,758
Total Liabilities	<u>\$ 73,805</u>	<u>\$ 31,768</u>	<u>\$ 105,573</u>
<u>Fund Balances</u>			
Nonspendable:			
Inventory	\$ 0	\$ 61,589	\$ 61,589
Restricted:			
Restricted for Education	28,607	0	28,607
Restricted for Operation of Non-Instructional Services	0	223,738	223,738
Total Fund Balances	<u>\$ 28,607</u>	<u>\$ 285,327</u>	<u>\$ 313,934</u>
Total Liabilities and Fund Balances	<u>\$ 102,412</u>	<u>\$ 317,095</u>	<u>\$ 419,507</u>

Exhibit E-2

McKenzie Special School District
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances -
Nonmajor Governmental Funds
For the Year Ended June 30, 2012

	<u>Special Revenue Funds</u>		Total Nonmajor Governmental Funds
	School Federal Projects	Central Cafeteria	
<u>Revenues</u>			
Charges for Current Services	\$ 0	\$ 254,169	\$ 254,169
Other Local Revenues	0	1,503	1,503
State of Tennessee	0	8,467	8,467
Federal Government	979,828	639,742	1,619,570
Total Revenues	<u>\$ 979,828</u>	<u>\$ 903,881</u>	<u>\$ 1,883,709</u>
<u>Expenditures</u>			
Current:			
Instruction	\$ 842,036	\$ 0	\$ 842,036
Support Services	119,275	0	119,275
Operation of Non-Instructional Services	0	933,786	933,786
Total Expenditures	<u>\$ 961,311</u>	<u>\$ 933,786</u>	<u>\$ 1,895,097</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 18,517</u>	<u>\$ (29,905)</u>	<u>\$ (11,388)</u>
Net Change in Fund Balances	\$ 18,517	\$ (29,905)	\$ (11,388)
Fund Balance, July 1, 2011	<u>10,090</u>	<u>315,232</u>	<u>325,322</u>
Fund Balance, June 30, 2012	<u>\$ 28,607</u>	<u>\$ 285,327</u>	<u>\$ 313,934</u>

McKenzie Special School District
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
School Federal Projects Fund
For the Year Ended June 30, 2012

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2011	Add: Encumbrances 6/30/2012	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
<u>Revenues</u>							
Federal Government	\$ 979,828	\$ 0	\$ 0	\$ 979,828	\$ 1,018,482	\$ 1,277,788	\$ (297,960)
Total Revenues	\$ 979,828	\$ 0	\$ 0	\$ 979,828	\$ 1,018,482	\$ 1,277,788	\$ (297,960)
<u>Expenditures</u>							
<u>Instruction</u>							
Regular Instruction Program	\$ 467,361	\$ 0	\$ 0	\$ 467,361	\$ 491,306	\$ 565,303	\$ 97,942
Special Education Program	281,569	(121)	0	281,448	295,563	459,881	178,433
Vocational Education Program	93,106	(3,973)	23,366	112,499	109,458	113,525	1,026
<u>Support Services</u>							
Health Services	19,616	0	0	19,616	22,166	22,166	2,550
Other Student Support	6,372	(396)	0	5,976	7,000	6,736	760
Regular Instruction Program	63,589	(155)	200	63,634	61,776	81,262	17,628
Special Education Program	19,628	0	0	19,628	18,917	19,905	277
Vocational Education Program	428	0	0	428	2,350	428	0
Maintenance of Plant	9,642	0	0	9,642	9,946	10,079	437
Total Expenditures	\$ 961,311	\$ (4,645)	\$ 23,566	\$ 980,232	\$ 1,018,482	\$ 1,279,285	\$ 299,053
Excess (Deficiency) of Revenues Over Expenditures	\$ 18,517	\$ 4,645	\$ (23,566)	\$ (404)	\$ 0	\$ (1,497)	\$ 1,093
<u>Other Financing Sources (Uses)</u>							
Transfers In	\$ 0	\$ 0	\$ 0	\$ 0	\$ 49,342	\$ 0	\$ 0
Transfers Out	\$ 0	\$ 0	\$ 0	\$ 0	\$ (49,342)	\$ 0	\$ 0
Total Other Financing Sources (Uses)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Net Change in Fund Balance Fund Balance, July 1, 2011	\$ 18,517	\$ 4,645	\$ (23,566)	\$ (404)	\$ 0	\$ (1,497)	\$ 1,093
	10,090	(4,645)	0	5,445	5,445	5,445	0
Fund Balance, June 30, 2012	\$ 28,607	\$ 0	\$ (23,566)	\$ 5,041	\$ 5,445	\$ 3,948	\$ 1,093

Exhibit E-4

McKenzie Special School District
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
Central Cafeteria Fund
For the Year Ended June 30, 2012

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2011	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
				Original	Final	
<u>Revenues</u>						
Charges for Current Services	\$ 254,169 \$	0 \$	254,169 \$	231,500 \$	257,000 \$	(2,831)
Other Local Revenues	1,503	0	1,503	1,375	1,375	128
State of Tennessee	8,467	0	8,467	8,500	8,500	(33)
Federal Government	639,742	0	639,742	577,500	625,981	13,761
Total Revenues	\$ 903,881 \$	0 \$	903,881 \$	818,875 \$	892,856 \$	11,025
<u>Expenditures</u>						
<u>Operation of Non-Instructional Services</u>						
Food Service	\$ 933,786 \$	(14,168) \$	919,618 \$	841,423 \$	915,404 \$	(4,214)
Total Expenditures	\$ 933,786 \$	(14,168) \$	919,618 \$	841,423 \$	915,404 \$	(4,214)
Excess (Deficiency) of Revenues Over Expenditures	\$ (29,905) \$	14,168 \$	(15,737) \$	(22,548) \$	(22,548) \$	6,811
Net Change in Fund Balance Fund Balance, July 1, 2011	\$ (29,905) \$	14,168 \$	(15,737) \$	(22,548) \$	(22,548) \$	6,811
	315,232	(14,168)	301,064	315,232	315,232	(14,168)
Fund Balance, June 30, 2012	\$ 285,327 \$	0 \$	285,327 \$	292,684 \$	292,684 \$	(7,357)

Major Governmental Fund

Education Debt Service Fund

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

Exhibit F

McKenzie Special School District
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
Education Debt Service Fund
For the Year Ended June 30, 2012

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 591,958	\$ 538,217	\$ 538,217	\$ 53,741
Total Revenues	\$ 591,958	\$ 538,217	\$ 538,217	\$ 53,741
<u>Expenditures</u>				
<u>Support Services</u>				
Board of Education	\$ 11,771	\$ 12,000	\$ 12,000	\$ 229
<u>Principal on Debt</u>				
Education	460,000	460,000	460,000	0
<u>Interest on Debt</u>				
Education	276,450	276,450	276,450	0
<u>Other Debt Service</u>				
Education	500	1,500	1,500	1,000
Total Expenditures	\$ 748,721	\$ 749,950	\$ 749,950	\$ 1,229
Excess (Deficiency) of Revenues Over Expenditures	\$ (156,763)	\$ (211,733)	\$ (211,733)	\$ 54,970
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 172,888	\$ 172,888	\$ 172,888	\$ 0
Total Other Financing Sources (Uses)	\$ 172,888	\$ 172,888	\$ 172,888	\$ 0
Net Change in Fund Balance	\$ 16,125	\$ (38,845)	\$ (38,845)	\$ 54,970
Fund Balance, July 1, 2011	984,770	984,770	984,770	0
Fund Balance, June 30, 2012	\$ 1,000,895	\$ 945,925	\$ 945,925	\$ 54,970

MISCELLANEOUS SCHEDULES

Exhibit G-1

McKenzie Special School District
Schedule of Changes in Long-term Bonds
For the Year Ended June 30, 2012

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding 7-1-11	Paid and/or Matured During Period	Outstanding 6-30-12
<u>BONDS PAYABLE</u>							
<u>Payable through Education Debt</u>							
Service Fund							
School Refunding - Series 2008	\$ 8,255,000	3.5 to 4 %	9-18-08	4-1-22	\$ 7,030,000	\$ 460,000	\$ 6,570,000
Total Bonds Payable					<u>\$ 7,030,000</u>	<u>\$ 460,000</u>	<u>\$ 6,570,000</u>

Exhibit G-2

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

Year Ending June 30	Bonds		Total
	Principal	Interest	
2013	\$ 490,000	\$ 260,350	\$ 750,350
2014	520,000	243,200	763,200
2015	550,000	222,400	772,400
2016	590,000	200,400	790,400
2017	630,000	176,800	806,800
2018	665,000	151,600	816,600
2019	715,000	125,000	840,000
2020	760,000	96,400	856,400
2021	800,000	66,000	866,000
2022	850,000	34,000	884,000
Total	<u>\$ 6,570,000</u>	<u>\$ 1,576,150</u>	<u>\$ 8,146,150</u>

Exhibit G-3

McKenzie Special School District
Schedule of Transfers
For the Year Ended June 30, 2012

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

Exhibit G-4

McKenzie Special School District
Schedule of Salaries and Official Bonds of Principal Officials
For the Year Ended June 30, 2012

Official	Authorization for Salary	Salary Paid During Period	Bond	Surety
Director of Schools	State Board of Education and McKenzie Special School District Board of Directors	\$ 83,280 (1)	\$ 283,150	Western Surety Company
Finance Director	McKenzie Special School District Board of Directors	60,911	150,000	Tennessee Risk Management Trust
Employees' Blanket Bond			150,000	"

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

Exhibit G-5

McKenzie Special School District
Schedule of Detailed Revenues -
All Governmental Fund Types
For the Year Ended June 30, 2012

	General Purpose School	School Federal Projects	Central Cafeteria	Education Debt Service	Total
<u>Local Taxes</u>					
<u>County Local Option Taxes</u>					
Local Option Sales Tax	\$ 738,651	\$ 0	\$ 0	\$ 0	738,651
<u>Statutory Local Taxes</u>					
Interstate Telecommunications Tax	520	0	0	0	520
<u>City/School District Property Taxes</u>					
Current Property Tax	707,460	0	0	537,671	1,245,131
Prior Year Property Tax	56,857	0	0	43,212	100,069
Interest and Penalty	5,546	0	0	4,214	9,760
Payments in-Lieu-of Taxes	9,028	0	0	6,861	15,889
Total Local Taxes	\$ 1,518,062	\$ 0	\$ 0	\$ 591,958	\$ 2,110,020
<u>Licenses and Permits</u>					
<u>Licenses</u>					
Marriage Licenses	\$ 475	\$ 0	\$ 0	\$ 0	475
Total Licenses and Permits	\$ 475	\$ 0	\$ 0	\$ 0	475
<u>Charges for Current Services</u>					
<u>Fees</u>					
Vending Machine Collections	\$ 7,500	\$ 0	\$ 0	\$ 0	7,500
<u>Education Charges</u>					
Tuition - Other	2,605	0	0	0	2,605
Lunch Payments - Children	0	0	140,251	0	140,251
Lunch Payments - Adults	0	0	21,621	0	21,621
Income from Breakfast	0	0	4,995	0	4,995
A la carte Sales	0	0	79,595	0	79,595
<u>Other Charges for Services</u>					
Other Charges for Services	0	0	7,707	0	7,707
Total Charges for Current Services	\$ 10,105	\$ 0	\$ 254,169	\$ 0	264,274
<u>Other Local Revenues</u>					
<u>Recurring Items</u>					
Investment Income	\$ 34,213	\$ 0	\$ 535	\$ 0	34,748
Lease/Rentals	1,392	0	100	0	1,492
Refund of Telecommunication and Internet Fees (E-Rate)	11,067	0	0	0	11,067
Miscellaneous Refunds	1,074	0	868	0	1,942
<u>Nonrecurring Items</u>					
Sale of Equipment	1,175	0	0	0	1,175
Damages Recovered from Individuals	192	0	0	0	192
Contributions and Gifts	785	0	0	0	785
Total Other Local Revenues	\$ 49,898	\$ 0	\$ 1,503	\$ 0	51,401
<u>State of Tennessee</u>					
<u>General Government Grants</u>					
On-Behalf Contributions for OPEB	\$ 49,480	\$ 0	\$ 0	\$ 0	49,480
<u>State Education Funds</u>					
Basic Education Program	6,407,000	0	0	0	6,407,000
Early Childhood Education	101,991	0	0	0	101,991
School Food Service	0	0	8,467	0	8,467
Driver Education	6,769	0	0	0	6,769

(Continued)

Exhibit G-5

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

	General Purpose School	School Federal Projects	Central Cafeteria	Education Debt Service	Total
<u>State of Tennessee (Cont.)</u>					
<u>State Education Funds (Cont.)</u>					
Other State Education Funds	\$ 11,577	\$ 0	\$ 0	\$ 0	\$ 11,577
Career Ladder Program	52,434	0	0	0	52,434
Career Ladder - Extended Contract	32,800	0	0	0	32,800
<u>Other State Revenues</u>					
Mixed Drink Tax	800	0	0	0	800
Other State Revenues	341	0	0	0	341
Total State of Tennessee	\$ 6,663,192	\$ 0	\$ 8,467	\$ 0	\$ 6,671,659
<u>Federal Government</u>					
<u>Federal Through State</u>					
USDA School Lunch Program	\$ 0	\$ 0	\$ 406,006	\$ 0	\$ 406,006
USDA - Commodities	0	0	37,281	0	37,281
Breakfast	0	0	178,712	0	178,712
USDA - Other	0	0	3,545	0	3,545
USDA Food Service Equipment Grant - ARRA	0	0	14,198	0	14,198
Vocational Education - Basic Grants to States	0	15,586	0	0	15,586
Other Vocational	0	25,242	0	0	25,242
Title I Grants to Local Education Agencies	0	254,378	0	0	254,378
Special Education - Grants to States	11,202	285,319	0	0	296,521
Special Education Preschool Grants	0	23,506	0	0	23,506
Rural Education	0	21,280	0	0	21,280
Eisenhower Professional Development State Grants	0	44,030	0	0	44,030
Race-to-the-Top - ARRA	0	72,642	0	0	72,642
Other Federal through State	7,200	237,845	0	0	245,045
<u>Direct Federal Revenue</u>					
Public Law 874 - Maintenance and Operation	1,743	0	0	0	1,743
Total Federal Government	\$ 20,145	\$ 979,828	\$ 639,742	\$ 0	\$ 1,639,715
Total	\$ 8,261,877	\$ 979,828	\$ 903,881	\$ 591,958	\$ 10,737,544

Exhibit G-6

McKenzie Special School District
Schedule of Detailed Expenditures -
All Governmental Fund Types
For the Year Ended June 30, 2012

General Purpose School Fund

Instruction

Regular Instruction Program

Teachers	\$ 3,099,779	
Career Ladder Program	29,500	
Homebound Teachers	4,725	
Educational Assistants	13,576	
Certified Substitute Teachers	33,850	
Non-certified Substitute Teachers	30,303	
Social Security	181,733	
State Retirement	283,682	
Medical Insurance	342,646	
Employer Medicare	42,720	
Communication	3,274	
Evaluation and Testing	11,046	
Maintenance and Repair Services - Equipment	1,255	
Medical and Dental Services	104	
Printing, Stationery, and Forms	594	
Other Contracted Services	1,407	
Instructional Supplies and Materials	58,568	
Textbooks	120,812	
Fee Waivers	6,476	
Other Charges	24,352	
Furniture and Fixtures	4,034	
Regular Instruction Equipment	99,652	
Other Equipment	6,766	
Total Regular Instruction Program		\$ 4,400,854

Alternative Instruction Program

Contracts with Other School Systems	\$ 18,557	
Total Alternative Instruction Program		18,557

Special Education Program

Teachers	\$ 241,565
Career Ladder Program	4,000
Educational Assistants	18,943
Speech Pathologist	33,806
Social Security	16,574
State Retirement	26,355
Medical Insurance	37,018
Employer Medicare	3,876
Contracts with Other School Systems	53,758

(Continued)

Exhibit G-6

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

General Purpose School Fund (Cont.)

Instruction (Cont.)

Special Education Program (Cont.)

Other Contracted Services	\$	2,892	
Instructional Supplies and Materials		2,000	
Total Special Education Program			\$ 440,787

Vocational Education Program

Teachers	\$	170,583	
Career Ladder Program		3,000	
Social Security		9,542	
State Retirement		15,195	
Medical Insurance		21,207	
Employer Medicare		2,232	
Instructional Supplies and Materials		1,572	
Total Vocational Education Program			223,331

Support Services

Health Services

Medical Personnel	\$	61,807	
Social Security		3,804	
State Retirement		4,493	
Employer Medicare		890	
Drugs and Medical Supplies		1,110	
In Service/Staff Development		526	
Health Equipment		180	
Total Health Services			72,810

Other Student Support

Career Ladder Program	\$	3,000	
Guidance Personnel		149,828	
Other Salaries and Wages		13,858	
Social Security		9,124	
State Retirement		15,070	
Medical Insurance		27,979	
Employer Medicare		2,134	
Communication		870	
Contracts with Government Agencies		22,000	
Instructional Supplies and Materials		578	
Office Supplies		803	
In Service/Staff Development		2,351	
Other Equipment		84	
Total Other Student Support			247,679

(Continued)

Exhibit G-6

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Regular Instruction Program

Supervisor/Director	\$	64,899	
Career Ladder Program		3,000	
Librarians		133,800	
Instructional Computer Personnel		63,774	
Educational Assistants		28,438	
Social Security		16,394	
State Retirement		26,102	
Medical Insurance		25,905	
Employer Medicare		3,834	
Communication		394	
Data Processing Services		59,002	
Licenses		7,174	
Travel		1,254	
Library Books/Media		12,035	
Office Supplies		177	
Other Supplies and Materials		3,218	
In Service/Staff Development		8,008	
Other Charges		32	
Other Equipment		3,188	
Total Regular Instruction Program			\$ 460,628

Special Education Program

Supervisor/Director	\$	23,296	
Social Security		1,336	
State Retirement		2,108	
Medical Insurance		4,076	
Employer Medicare		313	
Travel		1,105	
In Service/Staff Development		124	
Total Special Education Program			32,358

Vocational Education Program

Supervisor/Director	\$	4,096	
Social Security		254	
State Retirement		371	
Employer Medicare		59	
In Service/Staff Development		404	
Total Vocational Education Program			5,184

(Continued)

Exhibit G-6

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Other Programs

On-Behalf Payments to OPEB	\$ 49,480	
Total Other Programs		\$ 49,480

Board of Education

Election Commission	\$ 400	
Unemployment Compensation	6,517	
Employer Medicare	86	
Payments to Retirees	5,920	
Audit Services	11,709	
Dues and Memberships	4,331	
Legal Services	1,136	
Licenses	250	
Postal Charges	137	
Maintenance and Repair Services - Records	2,000	
Office Supplies	247	
Liability Insurance	23,944	
Premiums on Corporate Surety Bonds	2,032	
Trustee's Commission	22,893	
Workers' Compensation Insurance	13,650	
In Service/Staff Development	440	
Refund to Applicant for Criminal Investigation	336	
Other Charges	3,529	
Total Board of Education		99,557

Director of Schools

County Official/Administrative Officer	\$ 82,280
Career Ladder Program	1,000
Secretary(ies)	14,835
Social Security	6,008
State Retirement	8,615
Medical Insurance	16,871
Employer Medicare	1,405
Advertising	704
Communication	4,581
Dues and Memberships	1,162
Legal Notices, Recording, and Court Costs	410
Postal Charges	622
Rentals	1,999
Office Supplies	464

(Continued)

Exhibit G-6

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Director of Schools (Cont.)

Periodicals	\$	57	
In Service/Staff Development		857	
Other Charges		13	
Administration Equipment		368	
Furniture and Fixtures		150	
Total Director of Schools			\$ 142,401

Office of the Principal

Principals	\$	206,853	
Career Ladder Program		3,000	
Accountants/Bookkeepers		62,833	
Assistant Principals		64,798	
Secretary(ies)		36,004	
Social Security		22,514	
State Retirement		32,041	
Medical Insurance		37,163	
Employer Medicare		5,265	
Communication		5,298	
Dues and Memberships		625	
Rentals		7,137	
Office Supplies		108	
In Service/Staff Development		3,006	
Administration Equipment		7,285	
Total Office of the Principal			493,930

Fiscal Services

Supervisor/Director	\$	60,911
Purchasing Personnel		14,835
Social Security		4,608
State Retirement		5,507
Medical Insurance		7,203
Employer Medicare		1,078
Data Processing Services		6,354
Dues and Memberships		25
Maintenance and Repair Services - Office Equipment		59
Printing, Stationery, and Forms		470
Travel		68
Office Supplies		566
In Service/Staff Development		700

(Continued)

Exhibit G-6

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Fiscal Services (Cont.)

Administration Equipment	\$ 1,900	
Total Fiscal Services		\$ 104,284

Operation of Plant

Janitorial Services	\$ 260,100	
Disposal Fees	5,470	
Custodial Supplies	243	
Electricity	237,443	
Natural Gas	20,752	
Water and Sewer	20,669	
Boiler Insurance	1,968	
Building and Contents Insurance	35,843	
Total Operation of Plant		582,488

Maintenance of Plant

Maintenance Personnel	\$ 90,166	
Social Security	5,549	
State Retirement	6,555	
Employer Medicare	1,298	
Communication	1,099	
Maintenance and Repair Services - Buildings	120,399	
Maintenance and Repair Services - Equipment	69	
Maintenance and Repair Services - Vehicles	3,178	
Pest Control	3,200	
Gasoline	6,213	
Other Charges	160	
Maintenance Equipment	11,745	
Motor Vehicles	8,035	
Other Equipment	8,794	
Total Maintenance of Plant		266,460

Operation of Non-Instructional Services

Early Childhood Education

Teachers	\$ 43,196
Educational Assistants	25,795
Social Security	4,264
State Retirement	5,785
Employer Medicare	997
Other Contracted Services	750

(Continued)

Exhibit G-6

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

General Purpose School Fund (Cont.)

Operation of Non-Instructional Services (Cont.)

Early Childhood Education (Cont.)

Food Supplies	\$	890	
Instructional Supplies and Materials		15,774	
Other Supplies and Materials		191	
In Service/Staff Development		1,582	
Regular Instruction Equipment		<u>3,720</u>	
Total Early Childhood Education	\$		102,944

Capital Outlay

Regular Capital Outlay

Land	\$	<u>31,036</u>	
Total Regular Capital Outlay			<u>31,036</u>

Total General Purpose School Fund \$ 7,774,768

School Federal Projects Fund

Instruction

Regular Instruction Program

Teachers	\$	262,558	
Career Ladder Extended Contracts		37,231	
Educational Assistants		53,295	
Other Salaries and Wages		6,433	
Social Security		17,528	
State Retirement		26,697	
Medical Insurance		34,052	
Employer Medicare		4,808	
Other Contracted Services		16,967	
Instructional Supplies and Materials		<u>7,792</u>	
Total Regular Instruction Program	\$		467,361

Special Education Program

Teachers	\$	34,239	
Career Ladder Extended Contracts		4,588	
Educational Assistants		114,689	
Speech Pathologist		14,478	
Social Security		9,897	
State Retirement		12,616	
Medical Insurance		3,157	
Employer Medicare		2,315	
Contracts with Other School Systems		41,089	

(Continued)

Exhibit G-6

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

School Federal Projects Fund (Cont.)

Instruction (Cont.)

Special Education Program (Cont.)

Other Contracted Services	\$	39,020	
Instructional Supplies and Materials		2,603	
Special Education Equipment		2,878	
Total Special Education Program			\$ 281,569

Vocational Education Program

Teachers	\$	41,903	
Social Security		2,243	
State Retirement		3,792	
Medical Insurance		8,958	
Employer Medicare		525	
Instructional Supplies and Materials		6,350	
Vocational Instruction Equipment		29,335	
Total Vocational Education Program			93,106

Support Services

Health Services

Medical Personnel	\$	17,624	
Social Security		1,090	
State Retirement		647	
Employer Medicare		255	
Total Health Services			19,616

Other Student Support

Other Salaries and Wages	\$	247	
Travel		3,885	
Other Contracted Services		2,240	
Total Other Student Support			6,372

Regular Instruction Program

Supervisor/Director	\$	36,608	
Career Ladder Extended Contracts		5,875	
Social Security		2,463	
State Retirement		3,845	
Medical Insurance		6,406	
Employer Medicare		576	
In Service/Staff Development		7,816	
Total Regular Instruction Program			63,589

(Continued)

Exhibit G-6

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

School Federal Projects Fund (Cont.)

Support Services (Cont.)

Special Education Program

Supervisor/Director	\$	6,466	
Clerical Personnel		7,417	
Social Security		789	
State Retirement		1,116	
Medical Insurance		968	
Employer Medicare		185	
In Service/Staff Development		2,687	
Total Special Education Program			\$ 19,628

Vocational Education Program

Travel	\$	350	
In Service/Staff Development		78	
Total Vocational Education Program			428

Maintenance of Plant

Maintenance Personnel	\$	8,390	
Social Security		520	
State Retirement		610	
Employer Medicare		122	
Total Maintenance of Plant			<u>9,642</u>

Total School Federal Projects Fund \$ 961,311

Central Cafeteria Fund

Operation of Non-Instructional Services

Food Service

Supervisor/Director	\$	32,642
Cafeteria Personnel		246,182
Social Security		16,936
State Retirement		16,371
Medical Insurance		3,432
Unemployment Compensation		849
Employer Medicare		3,961
Advertising		98
Audit Services		1,042
Communication		1,558
Data Processing Services		554
Dues and Memberships		160
Maintenance and Repair Services - Equipment		15,155

(Continued)

Exhibit G-6

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

Central Cafeteria Fund (Cont.)

Operation of Non-Instructional Services (Cont.)

Food Service (Cont.)

Postal Charges	\$	152	
Printing, Stationery, and Forms		255	
Travel		1,737	
Disposal Fees		8,805	
Permits		240	
Custodial Supplies		5,159	
Food Preparation Supplies		29,238	
Food Supplies		444,237	
Office Supplies		1,292	
Uniforms		1,716	
Utilities		42,019	
USDA - Commodities		37,281	
Refunds		469	
Workers' Compensation Insurance		6,098	
In Service/Staff Development		77	
Refund to Applicant for Criminal Investigation		192	
Other Charges		388	
Administration Equipment		862	
Food Service Equipment		14,629	
Total Food Service		<u>14,629</u>	\$ <u>933,786</u>

Total Central Cafeteria Fund \$ 933,786

Education Debt Service Fund

Support Services

Board of Education

Trustee's Commission	\$	11,771	
Total Board of Education			\$ 11,771

Principal on Debt

Education

Principal on Bonds	\$	460,000	
Total Education			460,000

Interest on Debt

Education

Interest on Bonds	\$	276,450	
Total Education			276,450

Other Debt Service

Education

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

Total Education Debt Service Fund 748,721

Total Governmental Funds - McKenzie Special School District \$ 10,418,586

SINGLE AUDIT SECTION



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF LOCAL GOVERNMENT 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 12, 2013

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

To the Director of Schools and Board of Directors:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the McKenzie Special School District as of and for the year ended June 30, 2012, which collectively comprise the McKenzie Special School District's basic financial statements and have issued our report thereon dated March 12, 2013. 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

The management of the McKenzie Special School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the McKenzie Special School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the McKenzie Special School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the McKenzie Special School District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

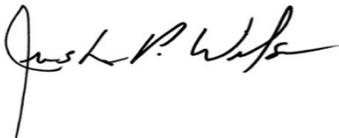
Compliance and Other Matters

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

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

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

Very truly yours,



Justin P. Wilson
Comptroller of the Treasury

JPW/sb



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF LOCAL GOVERNMENT 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

Independent Auditor's Report

March 12, 2013

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

To the Director of Schools and Board of Directors:

Compliance

We have audited the McKenzie Special School District's compliance 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, 2012. The McKenzie Special School District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the McKenzie Special School District's management. Our responsibility is to express an opinion on the McKenzie Special School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and

material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the McKenzie Special School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the McKenzie Special School District's compliance with those requirements.

In our opinion, the McKenzie Special School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of the McKenzie Special School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the McKenzie Special School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the McKenzie Special School District's internal control over compliance.

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the McKenzie Special School District as of and for the year ended June 30, 2012, and have issued our report thereon dated March 12, 2013. Our audit was performed for the purpose of forming our opinions on the financial statements as a whole. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of

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

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

Very truly yours,

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

Justin P. Wilson
Comptroller of the Treasury

JPW/sb

McKenzie Special School District
Schedule of Expenditures of Federal Awards (1)
For the Year Ended June 30, 2012

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	\$ 178,712
National School Lunch Program	10.555	N/A	409,551 (3)
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	N/A	14,198
Passed-through State Department of Agriculture:			
National School Lunch Program (Commodities - Noncash Assistance)	10.555	N/A	<u>37,281 (3)</u>
Total U.S. Department of Agriculture			<u>\$ 639,742</u>
U.S. Department of Education:			
Direct Program:			
Impact Aid	84.041	N/A	\$ 1,743
Passed-through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	N/A	254,707
Special Education Cluster:			
Special Education - Grants to States	84.027	N/A	270,831
Special Education - Preschool Grants	84.173	N/A	18,617
Special Education - Grants to States, Recovery Act	84.391	N/A	3,285
Special Education - Preschool Grants, Recovery Act	84.392	N/A	150
Career and Technical Education - Basic Grants to States	84.048	N/A	47,208
Safe and Drug-free Schools and Communities - State Grants	84.186	(2)	7,200
Educational Technology State Grants Cluster:			
Educational Technology State Grants	84.318	N/A	193
Educational Technology State Grants, Recovery Act	84.386	(2)	273
Rural Education	84.358	N/A	21,172
English Language Acquisition State Grants	84.365	N/A	1,269
Improving Teacher Quality State Grants	84.367	N/A	43,814
State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	N/A	73,811
State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	N/A	3,544
Education Jobs Fund	84.410	N/A	<u>237,183</u>
Total U.S. Department of Education			<u>\$ 985,000</u>
Total Expenditures of Federal Awards			<u>\$ 1,624,742</u>
State Grants:			
		<u>Contract Number</u>	
Early Childhood Education - State Department of Education	N/A	(2)	\$ 101,991
ACT/EXPLORE/PLAN - Testing - State Department of Education	N/A	(2)	3,143
ConnecTenn - State Department of Education	N/A	(2)	<u>4,890</u>
Total State Grants			<u>\$ 110,024</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 \$446,832.

McKenzie Special School District
Schedule of Audit Findings Not Corrected
June 30, 2012

Government Auditing Standards require auditors to report the status of uncorrected findings from prior audits. There were no findings from the Annual Financial Report for the McKenzie Special School District, for the year ended June 30, 2011, which had not been corrected.

MCKENZIE SPECIAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2012

PART I, SUMMARY OF AUDITOR'S RESULTS

1. Our report on the financial statements of the McKenzie Special School District is unqualified.
2. The audit of the financial statements of the McKenzie Special School District disclosed no significant deficiencies in internal control.
3. The audit disclosed no instances of noncompliance that were material to the financial statements of the McKenzie Special School District.
4. The audit disclosed no significant deficiencies in internal control over major programs.
5. An unqualified opinion was issued on compliance for major programs.
6. The audit revealed no findings that are required to be reported under Section 510(a) of OMB Circular A-133.
7. The Child Nutrition Cluster: School Breakfast Program and National School Lunch Program (CFDA Nos. 10.553 and 10.555), and Education Jobs Fund (CFDA No. 84.410) were determined to be major programs.
8. A \$300,000 threshold was used to distinguish between Type A and Type B federal programs.
9. The McKenzie Special School District did qualify as a low-risk auditee.

PART II, FINDINGS RELATING TO THE FINANCIAL STATEMENTS

There were no findings relating to the financial statements of the McKenzie Special School District, as a result of our examination, for the year ended June 30, 2012.

BEST PRACTICE

McKENZIE SPECIAL SCHOOL DISTRICT SHOULD ESTABLISH AN AUDIT COMMITTEE

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

**PART III, FINDINGS AND QUESTIONED
COSTS FOR FEDERAL AWARDS**

There were no findings and questioned costs for federal awards.

**McKENZIE SPECIAL SCHOOL DISTRICT
AUDITEE REPORTING RESPONSIBILITIES
For the Year Ended June 30, 2012**

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