
ANNUAL FINANCIAL REPORT PARIS SPECIAL SCHOOL DISTRICT



FOR THE YEAR ENDED JUNE 30, 2012



**ANNUAL FINANCIAL REPORT
PARIS SPECIAL SCHOOL DISTRICT
FOR THE YEAR ENDED JUNE 30, 2012**

***COMPTROLLER OF THE TREASURY
JUSTIN P. WILSON***

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

PARIS SPECIAL SCHOOL DISTRICT TABLE OF CONTENTS

	Exhibit	Page(s)
Audit Highlights		5
<u>INTRODUCTORY SECTION</u>		6
Paris Special School District Officials		7
<u>FINANCIAL SECTION</u>		8
Independent Auditor's Report		9-11
BASIC FINANCIAL STATEMENTS:		12
Government-wide Financial Statements:		
Statement of Net Assets	A	13
Statement of Activities	B	14
Fund Financial Statements:		
Governmental Funds:		
Balance Sheet	C-1	15
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	C-2	16
Statement of Revenues, Expenditures, and Changes in Fund Balances	C-3	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	C-4	18
Notes to the Financial Statements		19-38
REQUIRED SUPPLEMENTARY INFORMATION:		39
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Actual (Budgetary Basis) and Budget:		
General Purpose School Fund	D-1	40-41
Schedule of Funding Progress – Pension Plan	D-2	42
Schedule of Funding Progress – Other Postemployment Benefits Plan	D-3	43
Notes to the Required Supplementary Information		44

	Exhibit	Page(s)
COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES:		45
Nonmajor Governmental Funds:		46
Combining Balance Sheet	E-1	47
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	E-2	48
Schedules of Revenues, Expenditures, and Changes in Fund Balances – Actual (Budgetary Basis) and Budget:		
School Federal Projects Fund	E-3	49
Central Cafeteria Fund	E-4	50
Education Debt Service Fund	E-5	51
Miscellaneous Schedules:		52
Schedule of Changes in Long-term Notes and Bonds	F-1	53
Schedule of Long-term Debt Requirements by Year	F-2	54
Schedule of Transfers	F-3	55
Schedule of Salaries and Official Bonds of Principal Officials	F-4	56
Schedule of Detailed Revenues – All Governmental Fund Types	F-5	57-59
Schedule of Detailed Expenditures – All Governmental Fund Types	F-6	60-71
 <u>SINGLE AUDIT SECTION</u>		 72
 Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		 73-74
Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133		75-77
Schedule of Expenditures of Federal Awards and State Grants		78
Schedule of Audit Findings Not Corrected		79
Schedule of Findings and Questioned Costs		80-83
Auditee Reporting Responsibilities		84

Audit Highlights
Annual Financial Report
Paris Special School District
For the Year Ended June 30, 2012

Scope

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

Results

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

Our audit resulted in two findings and recommendations, which we have reviewed with Paris Special School District management. Detailed findings, recommendations, and management's responses are included in the Single Audit section of this report.

Findings and Best Practice

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

- ◆ Material audit adjustments were required for proper financial statement presentation.
- ◆ Deficiencies were noted with the purchase of gift cards given to employees.

BEST PRACTICE

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

INTRODUCTORY SECTION

Paris Special School District Officials
June 30, 2012

Official

Mike Brown, Director of Schools and
Assistant Secretary-Treasurer

Board of Directors

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

FINANCIAL SECTION



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF LOCAL GOVERNMENT AUDIT
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INDEPENDENT AUDITOR'S REPORT

March 13, 2013

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

To the Director of Schools and Board of Directors:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Paris Special School District, as of and for the year ended June 30, 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 Paris Special School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Paris Special School District as of June 30, 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 13, 2013, on our consideration of the Paris Special School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

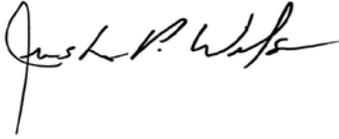
Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required 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 Paris Special School District's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds, and miscellaneous schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds, and the miscellaneous schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all

material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Very truly yours,

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

Justin P. Wilson
Comptroller of the Treasury

JPW/yu

BASIC FINANCIAL STATEMENTS

Exhibit A

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

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash	\$ 3,005,675
Investments	2,259,308
Due from Other Governments	454,443
Property Taxes Receivable	3,613,766
Allowance for Uncollectible Property Taxes	(87,984)
Deferred Charges - Debt Issuance Costs	17,205
Capital Assets:	
Assets Not Depreciated:	
Land	130,000
Construction in Progress	110,830
Assets Net of Accumulated Depreciation:	
Buildings and Improvements	14,399,168
Infrastructure	119,229
Other Capital Assets	624,065
Total Assets	<u>\$ 24,645,705</u>
<u>LIABILITIES</u>	
Accounts Payable	\$ 41,383
Payroll Deductions Payable	100,610
Contracts Payable	113,512
Retainage Payable	4,421
Accrued Interest Payable	1,134
Deferred Revenue - Current Property Taxes	3,304,537
Noncurrent Liabilities:	
Due Within One Year	498,793
Due in More Than One Year (net of deferred amount on refunding)	2,942,849
Total Liabilities	<u>\$ 7,007,239</u>
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	\$ 12,193,882
Restricted for:	
Instruction	20,239
Operation of Non-Instruction	295,193
Debt Service	575,750
Capital Projects	1,064,831
Unrestricted	<u>3,488,571</u>
Total Net Assets	<u>\$ 17,638,466</u>

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

Exhibit B

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

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Total
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:				
Instruction	\$ 9,137,147	\$ 41,940	\$ 754,380	\$ 892,482
Support Services	4,028,184	63,221	544,071	0
Operation of Non-Instructional Services	1,527,496	479,041	1,007,706	0
Interest on Long-term Debt	146,384	0	0	0
Total Governmental Activities	\$ 14,839,211	\$ 584,202	\$ 2,306,157	\$ 892,482
General Revenues:				
Taxes:				
Property Taxes Levied for General Purposes				\$ 3,284,885
Property Taxes Levied for Debt Service				284,594
Local Option Sales Taxes				1,405,415
Business Tax				42,477
Interstate Telecommunications Tax				653
Grants and Contributions Not Restricted to Specific Programs				7,686,141
Unrestricted Investment Income				11,062
Miscellaneous				19,994
Total General Revenues				\$ 12,735,221
Change in Net Assets				\$ 1,678,851
Net Assets, July 1, 2011				15,959,615
Net Assets, June 30, 2012				\$ 17,638,466

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

Exhibit C-1

Paris Special School District
 Balance Sheet
 Governmental Funds
 June 30, 2012

	Major Funds		Nonmajor	Total
	General	Education	Funds	
	Purpose	Capital	Other	
	School	Projects	Governmental	Funds
<u>ASSETS</u>				
Cash	\$ 1,364,343	\$ 1,038,546	\$ 602,786	\$ 3,005,675
Investments	1,901,715	0	357,593	2,259,308
Due from Other Governments	301,968	151,351	1,124	454,443
Property Taxes Receivable	3,304,641	0	309,125	3,613,766
Allowance for Uncollectible Property Taxes	(80,518)	0	(7,466)	(87,984)
Total Assets	\$ 6,792,149	\$ 1,189,897	\$ 1,263,162	\$ 9,245,208
<u>LIABILITIES AND FUND BALANCES</u>				
<u>Liabilities</u>				
Accounts Payable	\$ 29,338	\$ 7,133	\$ 4,912	\$ 41,383
Payroll Deductions Payable	100,610	0	0	100,610
Contracts Payable	0	113,512	0	113,512
Retainage Payable	0	4,421	0	4,421
Deferred Revenue - Current Property Taxes	3,021,352	0	283,185	3,304,537
Deferred Revenue - Delinquent Property Taxes	194,189	0	17,788	211,977
Other Deferred Revenues	127,499	0	0	127,499
Total Liabilities	\$ 3,472,988	\$ 125,066	\$ 305,885	\$ 3,903,939
<u>Fund Balances</u>				
Restricted:				
Restricted for Education	\$ 17,875	\$ 0	\$ 2,364	\$ 20,239
Restricted for Operation of Non-Instructional Services	0	0	295,193	295,193
Restricted for Debt Service	0	0	552,119	552,119
Restricted for Capital Projects	0	1,064,831	0	1,064,831
Committed:				
Committed for Debt Service	0	0	7,601	7,601
Assigned:				
Assigned for Education	22,156	0	100,000	122,156
Unassigned	3,279,130	0	0	3,279,130
Total Fund Balances	\$ 3,319,161	\$ 1,064,831	\$ 957,277	\$ 5,341,269
Total Liabilities and Fund Balances	\$ 6,792,149	\$ 1,189,897	\$ 1,263,162	\$ 9,245,208

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

Exhibit C-2

Paris 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)		\$ 5,341,269	
(1) Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.			
Add: land	\$	130,000	
Add: construction in progress		110,830	
Add: buildings and improvements net of accumulated depreciation		14,399,168	
Add: infrastructure net of accumulated depreciation		119,229	
Add: other capital assets net of accumulated depreciation		<u>624,065</u>	15,383,292
(2) Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.			
Less: notes payable	\$	(1,739,410)	
Less: bonds payable		(1,450,000)	
Add: deferred amount on refunding		5,843	
Add: deferred charges - debt issuance costs		17,205	
Less: accrued interest on notes		(1,134)	
Less: other postemployment benefits liability		<u>(258,075)</u>	(3,425,571)
(3) Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the governmental funds.			<u>339,476</u>
Net assets of governmental activities (Exhibit A)			<u>\$ 17,638,466</u>

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

Exhibit C-3

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

	Major Funds		Nonmajor	Total
	General Purpose School	Education Capital Projects	Funds	
			Other Governmental Funds	
				Governmental Funds
<u>Revenues</u>				
Local Taxes	\$ 4,629,328	\$ 0	\$ 282,734	\$ 4,912,062
Licenses and Permits	913	0	0	913
Charges for Current Services	318,045	0	251,787	569,832
Other Local Revenues	49,809	44,417	16,890	111,116
State of Tennessee	7,907,689	0	10,632	7,918,321
Federal Government	17,854	872,239	1,991,656	2,881,749
Total Revenues	\$ 12,923,638	\$ 916,656	\$ 2,553,699	\$ 16,393,993
<u>Expenditures</u>				
Current:				
Instruction	\$ 7,522,602	\$ 0	\$ 1,002,063	\$ 8,524,665
Support Services	3,666,693	0	218,871	3,885,564
Operation of Non-Instructional Services	486,416	0	1,038,893	1,525,309
Capital Outlay	201,682	0	0	201,682
Debt Service:				
Principal on Debt	290,239	0	180,000	470,239
Interest on Debt	79,225	0	62,659	141,884
Capital Projects	0	950,595	0	950,595
Total Expenditures	\$ 12,246,857	\$ 950,595	\$ 2,502,486	\$ 15,699,938
Excess (Deficiency) of Revenues				
Over Expenditures	\$ 676,781	\$ (33,939)	\$ 51,213	\$ 694,055
<u>Other Financing Sources (Uses)</u>				
Insurance Recovery	\$ 5,542	\$ 0	\$ 0	\$ 5,542
Transfers In	0	959,263	0	959,263
Transfers Out	(959,263)	0	0	(959,263)
Total Other Financing Sources (Uses)	\$ (953,721)	\$ 959,263	\$ 0	\$ 5,542
Net Change in Fund Balances	\$ (276,940)	\$ 925,324	\$ 51,213	\$ 699,597
Fund Balance, July 1, 2011	3,596,101	139,507	906,064	4,641,672
Fund Balance, June 30, 2012	\$ 3,319,161	\$ 1,064,831	\$ 957,277	\$ 5,341,269

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

Exhibit C-4

Paris Special School District
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 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)		\$ 699,597
<p>(1) Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their useful lives and reported as depreciation expense. The difference between capital outlays and depreciation is itemized as follows:</p>		
Add: capital assets purchased in the current period	\$ 1,122,134	
Less: current-year depreciation expense	<u>(661,109)</u>	461,025
<p>(2) Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Add: deferred delinquent property taxes and other deferred June 30, 2012	\$ 339,476	
Less: deferred delinquent property taxes and other deferred June 30, 2011	<u>(215,407)</u>	124,069
<p>(3) The issuance of long-term debt (e.g., bonds, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the effect of these differences in the treatment of long-term debt and related items:</p>		
Less: change in deferred debt issuance costs	\$ (2,916)	
Less: change in deferred amount on refunding debt	(1,811)	
Add: principal payments on notes	290,239	
Add: principal payments on bonds	<u>180,000</u>	465,512
<p>(4) Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.</p>		
Change in accrued interest payable	\$ 227	
Change in other postemployment benefits liability	<u>(71,579)</u>	<u>(71,352)</u>
Change in net assets of governmental activities (Exhibit B)		<u>\$ 1,678,851</u>

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

B. Government-wide and Fund Financial Statements

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

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

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

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

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

Fund financial statements of the district are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Funds are organized into three major categories: governmental, proprietary, and fiduciary. However, the district does not have any proprietary or fiduciary funds to report. An emphasis is placed on major funds within the governmental category.

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

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

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

The district reports the following major governmental 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 Capital Projects Fund – This fund accounts for financial resources to be used for school renovations.

Additionally, the district reports the following fund types:

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

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

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 Cash and Investments. Income from these pooled investments is allocated to the General

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

2. Receivables and Payables

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

Property taxes receivable are shown with an allowance for uncollectibles. The allowance for uncollectible property taxes is equal to 1.3 percent of total taxes levied.

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

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

Property taxes receivable are also reported as of June 30 for the taxes that are levied, collected, and reported as revenue during the current fiscal year. These property taxes receivable are presented on the balance sheet with offsetting deferred revenue to reflect amounts not available as of June 30. Property taxes collected within 30 days of year-end are considered available and accrued. The allowance for

uncollectible taxes represents the estimated amount of the receivable that will be filed in court for collection. Delinquent taxes filed in court for collection are not included in taxes receivable since they are neither measurable nor available.

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

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

3. Capital Assets

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

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads and similar items), are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the district as assets with an initial, individual cost of \$10,000 or more and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	7 - 40
Other Capital Assets	5 - 20
Infrastructure:	
Improvements Other Than Buildings	20 - 30

4. **Compensated Absences**

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

5. **Long-term Obligations**

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

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

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

6. **Net Assets and Fund Equity**

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

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

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

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

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 district'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

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for all governmental funds except the Education Capital Projects Fund, which adopts project length budgets. All annual appropriations lapse at fiscal year end.

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

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

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

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The district maintains a cash and internal investment pool. Each fund's portion of this pool is displayed on the balance sheets or statements of net assets as Cash and Investments.

Deposits

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

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

Investments

Legal Provisions. The district is authorized to make direct investments in bonds, notes, or treasury bills of the U.S. government and obligations guaranteed by the U.S. government or any of its agencies; deposits at state and federal chartered banks and savings and loan associations; bonds of any state or political subdivision rated A or higher by any nationally recognized rating service; nonconvertible debt securities of certain federal government sponsored enterprises; and the district's own legally issued bonds or notes. These investments may not have a maturity greater than two years. The district may make investments with longer maturities if various restrictions set out in state law are followed. The district is also authorized to make

investments in the State Treasurer’s Investment Pool and in repurchase agreements. Repurchase agreements must be approved by the state Comptroller’s Office and executed in accordance with procedures established by the State Funding Board. Securities purchased under a repurchase agreement must be obligations of the U.S. government or obligations guaranteed by the U.S. government or any of its agencies. When repurchase agreements are executed, the purchase of the securities must be priced at least two percent below the fair value of the securities on the day of purchase.

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

Investment	Weighttted Average Maturity (days)	Cost
State Treasurer's Investment Pool	6 to 164	\$ 2,259,308

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	Decreases	Balance 6-30-12
Capital Assets				
Not Depreciated:				
Land	\$ 130,000	\$ 0	\$ 0	\$ 130,000
Construction in Progress	320,244	110,830	320,244	110,830
Total Capital Assets				
Not Depreciated	\$ 450,244	\$ 110,830	\$ 320,244	\$ 240,830

Governmental Activities (Cont.):

	Balance 7-1-11	Increases	Decreases	Balance 6-30-12
Capital Assets				
Depreciated:				
Buildings and				
Improvements	\$ 21,977,724	\$ 998,699	\$ 0	\$ 22,976,423
Infrastructure	253,814	0	0	253,814
Other Capital Assets	1,401,814	332,849	0	1,734,663
Total Capital Assets				
Depreciated	<u>\$ 23,633,352</u>	<u>\$ 1,331,548</u>	<u>\$ 0</u>	<u>\$ 24,964,900</u>
Less Accumulated				
Depreciation For:				
Buildings and				
Improvements	\$ 8,030,342	\$ 546,913	\$ 0	\$ 8,577,255
Infrastructure	121,894	12,691	0	134,585
Other Capital Assets	1,009,093	101,505	0	1,110,598
Total Accumulated				
Depreciation	<u>\$ 9,161,329</u>	<u>\$ 661,109</u>	<u>\$ 0</u>	<u>\$ 9,822,438</u>
Total Capital Assets				
Depreciated, Net	<u>\$ 14,472,023</u>	<u>\$ 670,439</u>	<u>\$ 0</u>	<u>\$ 15,142,462</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 14,922,267</u>	<u>\$ 781,269</u>	<u>\$ 320,244</u>	<u>\$ 15,383,292</u>

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

Governmental Activities:

Instruction	\$ 450,051
Support Services	186,647
Operation of Non-Instructional Services	<u>24,411</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 661,109</u></u>

C. Construction Commitments

At June 30, 2012, the Education Capital Projects Fund had uncompleted construction contracts of approximately \$1,040,328 for school renovations. Funding for these future expenditures is expected to be provided from available fund balance.

D. Interfund Transfers

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

Transfer Out	Transfer In Education Capital Projects Fund
General Purpose School Fund	\$ 959,263

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the General Purpose School Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

E. Long-term Debt

General Obligation Bonds and Notes

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

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

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

Type	Interest Rate	Final Maturity	Original Amount of Issue	Balance 6-30-12
General Obligation Bonds - Refunding	3.85 %	6-1-18	\$ 2,145,000	\$ 1,450,000
Capital Outlay Notes	3.9 to 4.14	6-30-19	3,000,000	1,739,410

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

Year Ending June 30	Bonds		
	Principal	Interest	Total
2013	\$ 205,000	\$ 55,825	\$ 260,825
2014	230,000	47,932	277,932
2015	250,000	39,078	289,078
2016	250,000	29,453	279,453
2017	245,000	19,827	264,827
2018	270,000	10,395	280,395
Total	<u>\$ 1,450,000</u>	<u>\$ 202,510</u>	<u>\$ 1,652,510</u>

Year Ending June 30	Notes		
	Principal	Interest	Total
2013	\$ 293,793	\$ 67,267	\$ 361,060
2014	297,486	55,294	352,780
2015	301,325	43,175	344,500
2016	305,315	30,939	336,254
2017	309,463	18,477	327,940
2018-2019	232,028	11,420	243,448
Total	<u>\$ 1,739,410</u>	<u>\$ 226,572</u>	<u>\$ 1,965,982</u>

There is \$559,720 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	Notes
Balance, July 1, 2011	\$ 1,630,000	\$ 2,029,649
Reductions	(180,000)	(290,239)
Balance, June 30, 2012	<u>\$ 1,450,000</u>	<u>\$ 1,739,410</u>
Balance Due Within One Year	<u>\$ 205,000</u>	<u>\$ 293,793</u>

	<u>Other Postemployment Benefits</u>
Balance, July 1, 2011	\$ 186,496
Additions	127,542
Reductions	<u>(55,963)</u>
Balance, June 30, 2012	<u>\$ 258,075</u>
Balance Due Within One Year	<u>\$ 0</u>

Analysis of Noncurrent Liabilities Presented on Exhibit A:

Total Noncurrent Liabilities, June 30, 2012	\$ 3,447,485
Less: Balance Due Within One Year	(498,793)
Less: Deferred Amount on Refunding	<u>(5,843)</u>
Noncurrent Liabilities - Due in More Than One Year - Exhibit A	<u>\$ 2,942,849</u>

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

F. On-Behalf Payments

The State of Tennessee pays health insurance premiums for retired teachers on-behalf of the Paris Special School District. These payments are made by the state to the Local Education Group Insurance Plan and the Medicare Supplement Plan. Both of these plans are administered by the State of Tennessee and reported in the state's Comprehensive Annual Financial Report. Payments by the state to the Local Education Group Insurance Plan and the Medicare Supplement Plan for the year ended June 30, 2012, were \$53,422 and \$9,391, 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

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

C. Retirement Commitments

Plan Description

Employees of the Paris Special School District are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service, or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979, become vested after five years of service, and members joining prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the 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 6.55 percent of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the district is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ended June 30, 2012, the district's annual pension cost of \$135,912 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 six 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	\$135,912	100%	\$0
6-30-11	133,791	100	0
6-30-10	125,311	100	0

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was 97.99 percent funded. The actuarial accrued liability for benefits was \$4.46 million, and the actuarial value of assets was \$4.37 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$.09 million. The covered payroll (annual payroll of active employees covered by the plan) was \$1.86 million, and the ratio of the UAAL to the covered payroll was 4.83 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 SETHEEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor, Andrew

Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.tn.gov/treasury/tcrs/Schools.

Funding Policy

Most teachers are required by state statute to contribute five percent of their salaries to the plan. The employer contribution rate for the district is established at an actuarially determined rate. The employer rate for the fiscal year ended June 30, 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 \$558,477, \$545,489, and \$378,030, 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 the age of 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 plan is 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 employer in the plan develops its own contribution policy in terms of subsidizing active employees or retired employees' premiums since the committee is not prescriptive on that issue. The state provides 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 \$55,963 for postemployment health care.

Annual OPEB Cost and Net OPEB Obligation

	<u>Local Education Group Plan</u>
ARC	\$ 128,000
Interest on the NPO	7,460
Adjustment to the ARC	<u>(7,918)</u>
Annual OPEB cost	\$ 127,542
Less: amount of contribution	<u>(55,963)</u>
Increase/decrease in NPO	\$ 71,579
Net OPEB obligation, 7-1-11	<u>186,496</u>
 Net OPEB obligation, 6-30-12	 <u><u>\$ 258,075</u></u>

Fiscal Year Ended	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End
6-30-10	Local Education Group	\$ 100,254	61 %	\$ 146,077
6-30-11	"	104,347	61	186,496
6-30-12	"	127,542	44	258,075

Funded Status and Funding Progress

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

	<u>Local Education Group Plan</u>
Actuarial valuation date	7-1-11
Actuarial accrued liability (AAL)	\$ 1,226,000
Actuarial value of plan assets	\$ 0
Unfunded actuarial accrued liability (UAAL)	\$ 1,226,000
Actuarial value of assets as a % of the AAL	0%
Covered payroll (active plan members)	\$ 5,034,429
UAAL as a % of covered payroll	24%

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 president of the board of directors), to make all purchases. This statute also requires that competitive bids be solicited through newspaper advertisement on all purchases estimated to exceed \$10,000.

**REQUIRED SUPPLEMENTARY
INFORMATION**

Exhibit D-1

Paris Special School District
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
General Purpose School Fund
For the Year Ended June 30, 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	\$ 4,629,328	\$ 0	\$ 0	\$ 4,629,328	\$ 4,272,872	\$ 4,376,863	\$ 252,465
Licenses and Permits	913	0	0	913	519	519	394
Charges for Current Services	318,045	0	0	318,045	263,000	295,404	22,641
Other Local Revenues	49,809	0	0	49,809	52,069	48,576	1,233
State of Tennessee	7,907,689	0	0	7,907,689	7,685,086	7,857,492	50,197
Federal Government	17,854	0	0	17,854	20,000	17,854	0
Total Revenues	\$ 12,923,638	\$ 0	\$ 0	\$ 12,923,638	\$ 12,293,546	\$ 12,596,708	\$ 326,930
<u>Expenditures</u>							
<u>Instruction</u>							
Regular Instruction Program	\$ 6,986,779	\$ (201,158)	\$ 16,944	\$ 6,802,565	\$ 7,031,300	\$ 6,910,438	\$ 107,873
Special Education Program	479,020	0	0	479,020	477,812	479,020	0
Student Body Education Program	56,803	0	0	56,803	53,377	57,566	763
<u>Support Services</u>							
Attendance	15,485	0	0	15,485	15,660	15,560	75
Health Services	142,633	0	2,961	145,594	159,965	159,299	13,705
Other Student Support	275,598	0	599	276,197	286,474	281,475	5,278
Regular Instruction Program	384,668	0	0	384,668	389,240	391,996	7,328
Special Education Program	35,010	0	0	35,010	35,010	35,010	0
Other Programs	62,813	0	0	62,813	0	62,813	0
Board of Education	168,490	0	0	168,490	176,834	176,718	8,228
Director of Schools	161,454	0	0	161,454	179,579	172,779	11,325
Office of the Principal	501,178	0	0	501,178	536,664	513,873	12,695
Fiscal Services	108,668	0	0	108,668	116,116	112,214	3,546

(Continued)

Exhibit D-1

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

	Actual (GAAP Basis)	Less: 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>							
Operation of Plant	\$ 798,377	\$ (1,550)	0	\$ 796,827	\$ 822,826	\$ 825,322	\$ 28,495
Maintenance of Plant	248,223	(5,064)	0	243,159	273,040	280,740	37,581
Transportation	597,241	(95,605)	0	501,636	525,673	530,955	29,319
Central and Other	166,855	0	0	166,855	172,381	170,381	3,526
<u>Operation of Non-Instructional Services</u>							
Community Services	190,768	0	0	190,768	214,170	214,170	23,402
Early Childhood Education	295,648	(15,760)	1,652	281,540	281,540	281,540	0
Capital Outlay							
Regular Capital Outlay	201,682	(24,238)	0	177,444	176,419	206,419	28,975
Principal on Debt							
Education	290,239	0	0	290,239	290,240	290,240	1
Interest on Debt							
Education	79,225	0	0	79,225	79,226	79,226	1
Total Expenditures	\$ 12,246,857	\$ (343,375)	22,156	\$ 11,925,638	\$ 12,293,546	\$ 12,247,754	\$ 322,116
<u>Excess (Deficiency) of Revenues</u> <u>Over Expenditures</u>	\$ 676,781	\$ 343,375	(22,156)	\$ 998,000	\$ 0	\$ 348,954	\$ 649,046
<u>Other Financing Sources (Uses)</u>							
Insurance Recovery	\$ 5,542	0	0	5,542	0	5,541	1
Transfers In	0	0	0	0	0	750,000	(750,000)
Transfers Out	(959,263)	0	0	(959,263)	0	(1,709,263)	750,000
Total Other Financing Sources (Uses)	\$ (953,721)	0	0	(953,721)	0	(953,722)	1
Net Change in Fund Balance	\$ (276,940)	\$ 343,375	(22,156)	\$ 44,279	\$ 0	\$ (604,768)	\$ 649,047
Fund Balance, July 1, 2011	3,596,101	(343,375)	0	3,252,726	3,596,200	3,596,200	(343,474)
Fund Balance, June 30, 2012	\$ 3,319,161	0	(22,156)	\$ 3,297,005	\$ 3,596,200	\$ 2,991,432	\$ 305,573

Exhibit D-2

Paris 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	\$ 4,371	\$ 4,461	\$ 90	97.99 %	\$ 1,860	4.83 %
7-1-09	3,476	3,476	0	100	1,711	0
7-1-07	3,148	3,148	0	100	1,698	0

Exhibit D-3

Paris 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 Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Local Education Group	7-1-09	\$ 0	\$ 1,072	\$ 1,072	0%	\$ 4,733	23%
"	7-1-10	0	1,106	1,106	0	4,981	22
"	7-1-11	0	1,226	1,226	0	5,034	24

PARIS 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, Special Education Program, Student Body Education Program, Attendance, etc.). Management may make revisions within major categories, but only the district's board of directors may transfer appropriations between major categories. During the year, several supplementary appropriations were necessary.

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

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

Nonmajor Governmental Funds

Special Revenue Funds

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

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

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

Debt Service Fund

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

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

Exhibit E-1

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

	<u>Special Revenue Funds</u>			<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>School Federal Projects</u>	<u>Central Cafeteria</u>	<u>Total</u>	<u>Education Debt Service</u>	
<u>ASSETS</u>					
Cash	\$ 102,364	\$ 193,406	\$ 295,770	\$ 307,016	\$ 602,786
Investments	0	106,699	106,699	250,894	357,593
Due from Other Governments	0	0	0	1,124	1,124
Property Taxes Receivable	0	0	0	309,125	309,125
Allowance for Uncollectible Property Taxes	0	0	0	(7,466)	(7,466)
Total Assets	\$ 102,364	\$ 300,105	\$ 402,469	\$ 860,693	\$ 1,263,162
<u>LIABILITIES AND FUND BALANCES</u>					
<u>Liabilities</u>					
Accounts Payable	\$ 0	\$ 4,912	\$ 4,912	\$ 0	\$ 4,912
Deferred Revenue - Current Property Taxes	0	0	0	283,185	283,185
Deferred Revenue - Delinquent Property Taxes	0	0	0	17,788	17,788
Total Liabilities	\$ 0	\$ 4,912	\$ 4,912	\$ 300,973	\$ 305,885
<u>Fund Balances</u>					
<u>Restricted:</u>					
Restricted for Education	\$ 2,364	\$ 0	\$ 2,364	\$ 0	\$ 2,364
Restricted for Operation of Non-Instructional Services	0	295,193	295,193	0	295,193
Restricted for Debt Service	0	0	0	552,119	552,119
<u>Committed:</u>					
Committed for Debt Service	0	0	0	7,601	7,601
<u>Assigned:</u>					
Assigned for Education	100,000	0	100,000	0	100,000
Total Fund Balances	\$ 102,364	\$ 295,193	\$ 397,557	\$ 559,720	\$ 957,277
Total Liabilities and Fund Balances	\$ 102,364	\$ 300,105	\$ 402,469	\$ 860,693	\$ 1,263,162

Exhibit E-2

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

	<u>Special Revenue Funds</u>			<u>Debt</u> <u>Service</u> <u>Fund</u>	<u>Total</u> <u>Nonmajor</u> <u>Governmental</u> <u>Funds</u>
	<u>School</u> <u>Federal</u> <u>Projects</u>	<u>Central</u> <u>Cafeteria</u>	<u>Total</u>	<u>Education</u> <u>Debt</u> <u>Service</u>	
<u>Revenues</u>					
Local Taxes	\$ 0	\$ 0	\$ 0	\$ 282,734	\$ 282,734
Charges for Current Services	0	251,787	251,787	0	251,787
Other Local Revenues	0	16,580	16,580	310	16,890
State of Tennessee	0	10,632	10,632	0	10,632
Federal Government	1,277,232	714,424	1,991,656	0	1,991,656
Total Revenues	<u>\$ 1,277,232</u>	<u>\$ 993,423</u>	<u>\$ 2,270,655</u>	<u>\$ 283,044</u>	<u>\$ 2,553,699</u>
<u>Expenditures</u>					
Current:					
Instruction	\$ 1,002,063	\$ 0	\$ 1,002,063	\$ 0	\$ 1,002,063
Support Services	206,921	6,270	213,191	5,680	218,871
Operation of Non-Instructional Services	69,561	969,332	1,038,893	0	1,038,893
Debt Service:					
Principal on Debt	0	0	0	180,000	180,000
Interest on Debt	0	0	0	62,659	62,659
Total Expenditures	<u>\$ 1,278,545</u>	<u>\$ 975,602</u>	<u>\$ 2,254,147</u>	<u>\$ 248,339</u>	<u>\$ 2,502,486</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (1,313)</u>	<u>\$ 17,821</u>	<u>\$ 16,508</u>	<u>\$ 34,705</u>	<u>\$ 51,213</u>
Net Change in Fund Balances	<u>\$ (1,313)</u>	<u>\$ 17,821</u>	<u>\$ 16,508</u>	<u>\$ 34,705</u>	<u>\$ 51,213</u>
Fund Balance, July 1, 2011	<u>103,677</u>	<u>277,372</u>	<u>381,049</u>	<u>525,015</u>	<u>906,064</u>
Fund Balance, June 30, 2012	<u>\$ 102,364</u>	<u>\$ 295,193</u>	<u>\$ 397,557</u>	<u>\$ 559,720</u>	<u>\$ 957,277</u>

Exhibit E-3

Paris Special School District
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
School Federal Projects Fund
For the Year Ended June 30, 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>						
Federal Government	\$ 1,277,232	\$ 0	\$ 1,277,232	\$ 1,565,855	\$ 1,363,257	\$ (86,025)
Total Revenues	\$ 1,277,232	\$ 0	\$ 1,277,232	\$ 1,565,855	\$ 1,363,257	\$ (86,025)
<u>Expenditures</u>						
<u>Instruction</u>						
Regular Instruction Program	\$ 631,448	\$ 0	\$ 631,448	\$ 697,830	\$ 644,347	\$ 12,899
Special Education Program	370,615	(3,456)	367,159	526,723	419,935	52,776
<u>Support Services</u>						
Other Student Support	11,400	0	11,400	16,973	11,402	2
Regular Instruction Program	158,557	(148)	158,409	221,756	177,979	19,570
Special Education Program	6,137	0	6,137	9,194	9,194	3,057
Office of the Principal	5,447	0	5,447	5,404	5,447	0
Operation of Plant	15,923	0	15,923	8,909	15,923	0
Transportation	7,417	0	7,417	6,303	7,417	0
Central and Other	2,040	0	2,040	2,057	2,040	0
<u>Operation of Non-Instructional Services</u>						
Food Service	12,971	0	12,971	12,335	12,971	0
Community Services	56,590	0	56,590	58,371	56,590	0
Total Expenditures	\$ 1,278,545	\$ (3,604)	\$ 1,274,941	\$ 1,565,855	\$ 1,363,245	\$ 88,304
Excess (Deficiency) of Revenues Over Expenditures	\$ (1,313)	\$ 3,604	\$ 2,291	\$ 0	\$ 12	\$ 2,279
Net Change in Fund Balance Fund Balance, July 1, 2011	\$ (1,313)	\$ 3,604	\$ 2,291	\$ 0	\$ 12	\$ 2,279
	103,677	(3,604)	100,073	100,073	100,073	0
Fund Balance, June 30, 2012	\$ 102,364	\$ 0	\$ 102,364	\$ 100,073	\$ 100,085	\$ 2,279

Exhibit E-4

Paris Special School District
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
Central Cafeteria Fund
For the Year Ended June 30, 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	\$ 251,787	\$ 0	\$ 251,787	\$ 246,648	\$ 251,784	\$ 3
Other Local Revenues	16,580	0	16,580	15,345	16,478	102
State of Tennessee	10,632	0	10,632	10,353	10,632	0
Federal Government	714,424	0	714,424	592,749	714,422	2
Total Revenues	\$ 993,423	\$ 0	\$ 993,423	\$ 865,095	\$ 993,316	\$ 107
<u>Expenditures</u>						
<u>Support Services</u>						
Board of Education	\$ 6,270	\$ 0	\$ 6,270	\$ 6,270	\$ 6,270	\$ 0
<u>Operation of Non-Instructional Services</u>						
Food Service	969,332	(22,224)	947,108	858,825	960,055	12,947
Total Expenditures	\$ 975,602	\$ (22,224)	\$ 953,378	\$ 865,095	\$ 966,325	\$ 12,947
Excess (Deficiency) of Revenues Over Expenditures	\$ 17,821	\$ 22,224	\$ 40,045	\$ 0	\$ 26,991	\$ 13,054
Net Change in Fund Balance Fund Balance, July 1, 2011	\$ 17,821	\$ 22,224	\$ 40,045	\$ 0	\$ 26,991	\$ 13,054
	277,372	(22,224)	255,148	255,148	255,148	0
Fund Balance, June 30, 2012	\$ 295,193	\$ 0	\$ 295,193	\$ 255,148	\$ 282,139	\$ 13,054

Exhibit E-5

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

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 282,734	\$ 280,674	\$ 280,899	\$ 1,835
Other Local Revenues	310	524	283	27
Total Revenues	<u>\$ 283,044</u>	<u>\$ 281,198</u>	<u>\$ 281,182</u>	<u>\$ 1,862</u>
<u>Expenditures</u>				
<u>Support Services</u>				
Board of Education	\$ 5,680	\$ 7,000	\$ 7,000	\$ 1,320
<u>Principal on Debt</u>				
Education	180,000	180,000	180,000	0
<u>Interest on Debt</u>				
Education	62,659	62,755	62,660	1
Total Expenditures	<u>\$ 248,339</u>	<u>\$ 249,755</u>	<u>\$ 249,660</u>	<u>\$ 1,321</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 34,705</u>	<u>\$ 31,443</u>	<u>\$ 31,522</u>	<u>\$ 3,183</u>
Net Change in Fund Balance	\$ 34,705	\$ 31,443	\$ 31,522	\$ 3,183
Fund Balance, July 1, 2011	<u>525,015</u>	<u>525,015</u>	<u>525,015</u>	<u>0</u>
Fund Balance, June 30, 2012	<u><u>\$ 559,720</u></u>	<u><u>\$ 556,458</u></u>	<u><u>\$ 556,537</u></u>	<u><u>\$ 3,183</u></u>

MISCELLANEOUS SCHEDULES

Exhibit F-1

Paris Special School District
Schedule of Changes in Long-term Notes and 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>NOTES PAYABLE</u>								
<u>Payable through General Purpose School Fund</u>								
School Renovation	\$ 2,000,000	4.14 %	6-20-07	6-20-17	\$ 1,200,000	\$ 200,000	\$ 1,000,000	
School Renovation	1,000,000	3.9	6-26-09	6-30-19	829,649	90,239	739,410	
Total Notes Payable					\$ 2,029,649	\$ 290,239	\$ 1,739,410	
<u>BONDS PAYABLE</u>								
<u>Payable through Education Debt Service Fund</u>								
School Refunding Bonds, Series 2008	2,145,000	3.85	7-29-08	6-1-18	\$ 1,630,000	\$ 180,000	\$ 1,450,000	
Total Bonds Payable					\$ 1,630,000	\$ 180,000	\$ 1,450,000	

Exhibit F-2

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

Year Ending June 30	Notes		
	Principal	Interest	Total
2013	\$ 293,793	\$ 67,267	\$ 361,060
2014	297,486	55,294	352,780
2015	301,325	43,175	344,500
2016	305,315	30,939	336,254
2017	309,463	18,477	327,940
2018	113,773	7,951	121,724
2019	118,255	3,469	121,724
Total	<u>\$ 1,739,410</u>	<u>\$ 226,572</u>	<u>\$ 1,965,982</u>

Year Ending June 30	Bonds		
	Principal	Interest	Total
2013	\$ 205,000	\$ 55,825	\$ 260,825
2014	230,000	47,932	277,932
2015	250,000	39,078	289,078
2016	250,000	29,453	279,453
2017	245,000	19,827	264,827
2018	270,000	10,395	280,395
Total	<u>\$ 1,450,000</u>	<u>\$ 202,510</u>	<u>\$ 1,652,510</u>

Exhibit F-3

Paris 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 Capital Projects	School improvements	<u>\$ 959,263</u>
Total Transfers			<u><u>\$ 959,263</u></u>

Exhibit F-4

Paris 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 Paris Special School District Board of Directors	\$ 96,109 (1)	\$ 301,800	RLI Insurance Company
Employees' Blanket Bond			150,000	Tennessee Risk Management Trust

(1) Does not include \$1,759 life insurance allowance, \$5,220 medical insurance allowance, \$904 dental and vision insurance allowance, \$16,440 tax shelter annuity, and \$6,240 vehicle allowance.

Paris 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	Education Capital Projects	Total
<u>Local Taxes</u>						
<u>County Property Taxes</u>						
Current Property Tax	\$ 2,221,718	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,221,718
Trustee's Collections - Prior Year	102,267	0	0	0	0	102,267
Trustee's Collections - Bankruptcy	11,652	0	0	0	0	11,652
Circuit/Clerk & Master Collections - Prior Years	27,093	0	0	0	0	27,093
Interest and Penalty	17,766	0	0	0	0	17,766
Pick-up Taxes	2,924	0	0	0	0	2,924
Payments in-Lieu-of Taxes - T.V.A.	1,593	0	0	0	0	1,593
Payments in-Lieu-of Taxes - Other	71,902	0	0	0	0	71,902
<u>County Local Option Taxes</u>						
Local Option Sales Tax	1,383,741	0	0	0	0	1,383,741
Business Tax	42,477	0	0	0	0	42,477
<u>Statutory Local Taxes</u>						
Bank Excise Tax	33,457	0	0	0	0	33,457
Interstate Telecommunications Tax	653	0	0	0	0	653
<u>City/School District Property Taxes</u>						
Current Property Tax	664,373	0	0	265,790	0	930,163
Prior Year Property Tax	25,103	0	0	8,147	0	33,250
Interest and Penalty	4,736	0	0	1,648	0	6,384
Payments in-Lieu-of Taxes	17,873	0	0	7,149	0	25,022
Total Local Taxes	\$ 4,629,328	\$ 0	\$ 0	\$ 282,734	\$ 0	\$ 4,912,062
<u>Licenses and Permits</u>						
<u>Licenses</u>						
Marriage Licenses	\$ 913	\$ 0	\$ 0	\$ 0	\$ 0	\$ 913
Total Licenses and Permits	\$ 913	\$ 0	\$ 0	\$ 0	\$ 0	\$ 913
<u>Charges for Current Services</u>						
<u>Education Charges</u>						
Tuition - Regular Day Students	\$ 31,530	\$ 0	\$ 0	\$ 0	\$ 0	\$ 31,530
Lunch Payments - Children	0	0	183,670	0	0	183,670
Lunch Payments - Adults	0	0	47,868	0	0	47,868
Income from Breakfast	0	0	11,394	0	0	11,394
Special Milk Sales	0	0	3,516	0	0	3,516

(Continued)

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

	General Purpose School	School Federal Projects	Central Cafeteria	Education Debt Service	Education Capital Projects	Total
<u>Charges for Current Services (Cont.)</u>						
<u>Education Charges (Cont.)</u>						
A la carte Sales	\$ 0	\$ 0	\$ 5,339	\$ 0	\$ 0	\$ 5,339
Receipts from Individual Schools	59,261	0	0	0	0	59,261
Community Service Fees - Children	227,254	0	0	0	0	227,254
Total Charges for Current Services	\$ 318,045	\$ 0	\$ 251,787	\$ 0	\$ 0	\$ 569,832
<u>Other Local Revenues</u>						
<u>Recurring Items</u>						
Investment Income	\$ 10,752	\$ 0	\$ 1,111	\$ 310	\$ 0	\$ 12,173
Refund of Telecommunication & Internet Fees (E-Rate)	10,410	0	0	0	0	10,410
Miscellaneous Refunds	3,952	0	15,469	0	0	19,421
<u>Nonrecurring Items</u>						
Damages Recovered from Individuals	573	0	0	0	0	573
Contributions and Gifts	20,162	0	0	0	44,417	64,579
<u>Other Local Revenues</u>						
Other Local Revenues	3,960	0	0	0	0	3,960
Total Other Local Revenues	\$ 49,809	\$ 0	\$ 16,580	\$ 310	\$ 44,417	\$ 111,116
<u>State of Tennessee</u>						
<u>General Government Grants</u>						
On-Behalf Contributions for OPEB	\$ 62,813	\$ 0	\$ 0	\$ 0	\$ 0	\$ 62,813
<u>State Education Funds</u>						
Basic Education Program	7,227,000	0	0	0	0	7,227,000
Early Childhood Education	281,539	0	0	0	0	281,539
School Food Service	0	0	10,632	0	0	10,632
Energy Efficient School Initiative	10,000	0	0	0	0	10,000
Other State Education Funds	97,938	0	0	0	0	97,938
Family Resource Centers - ARRA	29,612	0	0	0	0	29,612
Career Ladder Program	69,979	0	0	0	0	69,979
Career Ladder - Extended Contract	39,600	0	0	0	0	39,600
<u>Other State Revenues</u>						
Income Tax	80,226	0	0	0	0	80,226
Mixed Drink Tax	6,593	0	0	0	0	6,593
Other State Revenues	2,389	0	0	0	0	2,389
Total State of Tennessee	\$ 7,907,689	\$ 0	\$ 10,632	\$ 0	\$ 0	\$ 7,918,321

(Continued)

Exhibit F-5

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

	General Purpose School	School Federal Projects	Central Cafeteria	Education Debt Service	Education Capital Projects	Total
Federal Government						
Federal Through State						
USDA School Lunch Program	\$ 0	\$ 0	\$ 490,362	\$ 0	\$ 0	\$ 490,362
USDA - Commodities	0	0	48,465	0	0	48,465
Breakfast	0	0	154,166	0	0	154,166
USDA - Other	0	0	21,431	0	0	21,431
Title I Grants to Local Education Agencies	0	335,534	0	0	0	335,534
Special Education - Grants to States	0	336,153	0	0	0	336,153
Special Education Preschool Grants	0	13,516	0	0	0	13,516
Rural Education	0	32,940	0	0	0	32,940
Eisenhower Professional Development State Grants	0	77,276	0	0	0	77,276
Race-to-the-Top - ARRA	0	113,143	0	0	0	113,143
Other Federal through State	0	368,670	0	0	0	368,670
Direct Federal Revenue	17,854	0	0	0	872,239	890,093
Other Direct Federal Revenue	\$ 17,854	\$ 1,277,232	\$ 714,424	\$ 0	\$ 872,239	\$ 2,881,749
Total Federal Government	\$ 12,923,638	\$ 1,277,232	\$ 993,423	\$ 283,044	\$ 916,656	\$ 16,393,993

Exhibit F-6

Paris 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	\$ 4,333,473	
Career Ladder Program	53,335	
Career Ladder Extended Contracts	32,209	
Homebound Teachers	2,592	
Educational Assistants	200,813	
Other Salaries and Wages	82,168	
Certified Substitute Teachers	37,844	
Non-certified Substitute Teachers	42,084	
Social Security	275,334	
State Retirement	416,469	
Life Insurance	17,275	
Medical Insurance	506,293	
Employer Medicare	65,017	
Other Contracted Services	155,830	
Instructional Supplies and Materials	92,390	
Textbooks	94,978	
Other Supplies and Materials	79,853	
Other Charges	8,049	
Regular Instruction Equipment	490,773	
Total Regular Instruction Program		\$ 6,986,779

Special Education Program

Teachers	\$ 301,620	
Homebound Teachers	5,500	
Educational Assistants	26,500	
Speech Pathologist	41,610	
Social Security	21,653	
State Retirement	31,606	
Medical Insurance	26,259	
Employer Medicare	5,064	
Other Contracted Services	19,208	
Total Special Education Program		479,020

Student Body Education Program

Other Salaries and Wages	\$ 180
Social Security	11
State Retirement	16
Employer Medicare	3
Other Contracted Services	10,811

(Continued)

Exhibit F-6

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

General Purpose School Fund (Cont.)

Instruction (Cont.)

Student Body Education Program (Cont.)

Other Supplies and Materials	\$	31,543	
Other Charges		14,239	
Total Student Body Education Program			\$ 56,803

Support Services

Attendance

Clerical Personnel	\$	13,710	
Social Security		711	
State Retirement		898	
Employer Medicare		166	
Total Attendance			15,485

Health Services

Medical Personnel	\$	56,799	
Other Salaries and Wages		55,267	
Social Security		6,922	
State Retirement		6,511	
Employer Medicare		1,619	
Travel		805	
Drugs and Medical Supplies		2,359	
Other Supplies and Materials		11,223	
In Service/Staff Development		1,128	
Total Health Services			142,633

Other Student Support

Career Ladder Program	\$	3,000	
Guidance Personnel		107,230	
Social Workers		52,950	
Assessment Personnel		51,216	
Clerical Personnel		12,514	
Social Security		13,798	
State Retirement		18,937	
Life Insurance		651	
Medical Insurance		9,674	
Employer Medicare		3,227	
Other Supplies and Materials		2,401	
Total Other Student Support			275,598

(Continued)

Exhibit F-6

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Regular Instruction Program

Supervisor/Director	\$	86,692	
Career Ladder Program		2,000	
Librarians		135,395	
Materials Supervisor		18,417	
Clerical Personnel		30,516	
Social Security		14,913	
State Retirement		23,485	
Life Insurance		672	
Medical Insurance		30,849	
Employer Medicare		3,488	
Travel		3,818	
Library Books/Media		4,881	
In Service/Staff Development		29,542	
Total Regular Instruction Program			\$ 384,668

Special Education Program

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

Other Programs

On-Behalf Payments to OPEB	\$	62,813	
Total Other Programs			62,813

Board of Education

Secretary to Board	\$	100	
Unemployment Compensation		11,857	
Audit Services		7,411	
Dues and Memberships		7,651	
Legal Services		98	
Travel		112	
Other Contracted Services		2,000	
Liability Insurance		14,475	
Premiums on Corporate Surety Bonds		1,056	
Trustee's Commission		74,936	
Workers' Compensation Insurance		39,581	
Criminal Investigation of Applicants - TBI		810	

(Continued)

Exhibit F-6

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Board of Education (Cont.)

Refund to Applicant for Criminal Investigation	\$	574	
Other Charges		7,829	
Total Board of Education			\$ 168,490

Director of Schools

County Official/Administrative Officer	\$	96,109	
Social Security		6,618	
State Retirement		11,464	
Life Insurance		1,759	
Medical Insurance		12,515	
Dental Insurance		904	
Employer Medicare		1,762	
Other Fringe Benefits		22,680	
Communication		2,716	
Postal Charges		2,526	
Travel		843	
Other Supplies and Materials		568	
Other Charges		990	
Total Director of Schools			161,454

Office of the Principal

Principals	\$	225,202	
Career Ladder Program		2,200	
Assistant Principals		125,000	
Secretary(ies)		64,482	
Social Security		18,099	
State Retirement		27,059	
Life Insurance		893	
Medical Insurance		19,281	
Employer Medicare		5,684	
Communication		9,259	
Postal Charges		2,000	
Travel		456	
Office Supplies		1,563	
Total Office of the Principal			501,178

Fiscal Services

Accountants/Bookkeepers	\$	53,721	
Clerical Personnel		29,548	

(Continued)

Exhibit F-6

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Fiscal Services (Cont.)

Other Salaries and Wages	\$	1,200	
Social Security		5,063	
State Retirement		5,533	
Life Insurance		270	
Medical Insurance		4,783	
Employer Medicare		1,184	
Travel		326	
Other Contracted Services		5,438	
Office Supplies		1,602	
Total Fiscal Services			\$ 108,668

Operation of Plant

Custodial Personnel	\$	222,070	
Social Security		13,527	
State Retirement		12,436	
Life Insurance		910	
Medical Insurance		1,472	
Employer Medicare		3,164	
Other Contracted Services		46,572	
Custodial Supplies		40,977	
Electricity		323,330	
Natural Gas		25,724	
Water and Sewer		18,486	
Other Supplies and Materials		26,699	
Boiler Insurance		1,564	
Building and Contents Insurance		36,839	
Other Charges		20,398	
Plant Operation Equipment		4,209	
Total Operation of Plant			798,377

Maintenance of Plant

Supervisor/Director	\$	63,677	
Maintenance Personnel		71,324	
Social Security		7,659	
State Retirement		8,843	
Life Insurance		425	
Medical Insurance		13,833	
Employer Medicare		1,791	
Maintenance and Repair Services - Buildings		9,138	

(Continued)

Exhibit F-6

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Maintenance of Plant (Cont.)

Maintenance and Repair Services - Equipment	\$	2,496	
Other Contracted Services		27,224	
Equipment and Machinery Parts		16,393	
Other Supplies and Materials		21,513	
Maintenance Equipment		3,907	
Total Maintenance of Plant			\$ 248,223

Transportation

Mechanic(s)	\$	37,809	
Bus Drivers		154,221	
Other Salaries and Wages		41,616	
In-Service Training		150	
Social Security		14,182	
State Retirement		13,480	
Life Insurance		510	
Medical Insurance		281	
Employer Medicare		3,317	
Travel		55	
Other Contracted Services		3,765	
Diesel Fuel		64,175	
Gasoline		8,871	
Tires and Tubes		12,116	
Vehicle Parts		41,133	
Other Supplies and Materials		1,582	
Vehicle and Equipment Insurance		9,591	
In Service/Staff Development		750	
Other Charges		2,277	
Transportation Equipment		187,360	
Total Transportation			597,241

Central and Other

Data Processing Personnel	\$	131,231	
Social Security		7,189	
State Retirement		8,596	
Life Insurance		382	
Medical Insurance		17,776	
Employer Medicare		1,681	
Total Central and Other			166,855

(Continued)

Exhibit F-6

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

General Purpose School Fund (Cont.)

Operation of Non-Instructional Services

Community Services

Supervisor/Director	\$	43,357	
Other Salaries and Wages		127,488	
Social Security		8,169	
State Retirement		3,478	
Employer Medicare		2,472	
Travel		311	
Other Supplies and Materials		5,493	
Total Community Services			\$ 190,768

Early Childhood Education

Supervisor/Director	\$	5,500	
Teachers		128,100	
Other Salaries and Wages		56,898	
Certified Substitute Teachers		225	
Non-certified Substitute Teachers		1,250	
Social Security		11,903	
State Retirement		14,035	
Life Insurance		600	
Medical Insurance		22,535	
Employer Medicare		2,784	
Other Contracted Services		4,801	
Electricity		5,000	
Other Supplies and Materials		18,132	
In Service/Staff Development		3,640	
Other Equipment		20,245	
Total Early Childhood Education			295,648

Capital Outlay

Regular Capital Outlay

Building Improvements	\$	152,287	
Other Capital Outlay		49,395	
Total Regular Capital Outlay			201,682

Principal on Debt

Education

Principal on Notes	\$	290,239	
Total Education			290,239

(Continued)

Exhibit F-6

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

General Purpose School Fund (Cont.)

Interest on Debt

Education

Interest on Notes	\$ 79,225	
Total Education		\$ 79,225

Total General Purpose School Fund \$ 12,246,857

School Federal Projects Fund

Instruction

Regular Instruction Program

Teachers	\$ 129,720	
Educational Assistants	270,612	
Other Salaries and Wages	111,150	
Social Security	30,756	
State Retirement	37,304	
Medical Insurance	16,940	
Employer Medicare	7,201	
Instructional Supplies and Materials	27,765	
Total Regular Instruction Program		\$ 631,448

Special Education Program

Teachers	\$ 50,521	
Educational Assistants	196,297	
Speech Pathologist	45,400	
Social Security	15,931	
State Retirement	18,358	
Employer Medicare	4,095	
Evaluation and Testing	20,500	
Other Contracted Services	4,842	
Instructional Supplies and Materials	8,914	
Other Supplies and Materials	4,601	
Special Education Equipment	1,156	
Total Special Education Program		370,615

Support Services

Other Student Support

Other Salaries and Wages	\$ 9,267	
Social Security	553	
State Retirement	837	
Employer Medicare	130	
Other Charges	613	
Total Other Student Support		11,400

(Continued)

Exhibit F-6

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

School Federal Projects Fund (Cont.)

Support Services (Cont.)

Regular Instruction Program

Other Salaries and Wages	\$	94,669	
In-Service Training		3,211	
Social Security		5,846	
State Retirement		8,627	
Employer Medicare		1,367	
Other Contracted Services		11,400	
In Service/Staff Development		33,437	
Total Regular Instruction Program			\$ 158,557

Special Education Program

Other Salaries and Wages	\$	650	
Social Security		38	
State Retirement		58	
Employer Medicare		9	
Travel		1,155	
In Service/Staff Development		4,227	
Total Special Education Program			6,137

Office of the Principal

Principals	\$	1,800	
Assistant Principals		600	
Secretary(ies)		1,200	
Other Salaries and Wages		1,200	
Social Security		246	
State Retirement		335	
Employer Medicare		66	
Total Office of the Principal			5,447

Operation of Plant

Other Salaries and Wages	\$	14,000	
Social Security		847	
State Retirement		878	
Employer Medicare		198	
Total Operation of Plant			15,923

Transportation

Other Salaries and Wages	\$	6,600
Social Security		408
State Retirement		314

(Continued)

Exhibit F-6

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

School Federal Projects Fund (Cont.)

Support Services (Cont.)

Transportation (Cont.)

Employer Medicare	\$ 95	
Total Transportation		\$ 7,417

Central and Other

Other Salaries and Wages	\$ 1,800	
Social Security	99	
State Retirement	118	
Employer Medicare	23	
Total Central and Other		2,040

Operation of Non-Instructional Services

Food Service

Other Salaries and Wages	\$ 11,400	
Social Security	700	
State Retirement	707	
Employer Medicare	164	
Total Food Service		12,971

Community Services

Other Salaries and Wages	\$ 50,115	
Social Security	3,044	
State Retirement	2,706	
Employer Medicare	725	
Total Community Services		56,590

Total School Federal Projects Fund \$ 1,278,545

Central Cafeteria Fund

Support Services

Board of Education

Workers' Compensation Insurance	\$ 6,270	
Total Board of Education		\$ 6,270

Operation of Non-Instructional Services

Food Service

Cafeteria Personnel	\$ 274,431
Other Salaries and Wages	35,110
Social Security	18,429
State Retirement	18,541

(Continued)

Exhibit F-6

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

Central Cafeteria Fund (Cont.)

Operation of Non-Instructional Services (Cont.)

Food Service (Cont.)

Life Insurance	\$	1,800	
Medical Insurance		8,410	
Employer Medicare		4,310	
Maintenance and Repair Services - Equipment		725	
Transportation - Other than Students		4,802	
Travel		101	
Other Contracted Services		10,318	
Food Supplies		456,235	
Uniforms		2,025	
USDA - Commodities		48,465	
Other Supplies and Materials		41,652	
In Service/Staff Development		1,000	
Other Charges		240	
Food Service Equipment		<u>42,738</u>	
Total Food Service			<u>\$ 969,332</u>

Total Central Cafeteria Fund \$ 975,602

Education Debt Service Fund

Support Services

Board of Education

Trustee's Commission	\$	<u>5,680</u>	
Total Board of Education			\$ 5,680

Principal on Debt

Education

Principal on Bonds	\$	<u>180,000</u>	
Total Education			180,000

Interest on Debt

Education

Interest on Bonds	\$	<u>62,659</u>	
Total Education			<u>62,659</u>

Total Education Debt Service Fund 248,339

(Continued)

Exhibit F-6

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

Education Capital Projects Fund

Capital Projects

Education Capital Projects

Architects	\$	70,555	
Printing, Stationery, and Forms		1,210	
Rentals		201	
Concrete		7,847	
Food Supplies		184	
Water and Sewer		126	
Other Supplies and Materials		938	
Building Construction		866,380	
Site Development		<u>3,154</u>	
Total Education Capital Projects			<u>\$ 950,595</u>

Total Education Capital Projects Fund \$ 950,595

Total Governmental Funds - Paris Special School District \$ 15,699,938

SINGLE AUDIT SECTION



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF LOCAL GOVERNMENT AUDIT
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REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

March 13, 2013

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

To the Director of Schools and Board of Directors:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Paris Special School District as of and for the year ended June 30, 2012, which collectively comprise the Paris Special School District's basic financial statements and have issued our report thereon dated March 13, 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 Paris Special School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Paris Special School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Paris Special School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Paris Special School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in

internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness: 12.01.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency: 12.02.

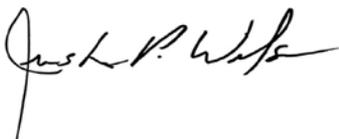
Compliance and Other Matters

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

Paris Special School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Paris Special School District's responses and, accordingly, we express no opinion on the responses.

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

Very truly yours,



Justin P. Wilson
Comptroller of the Treasury

JPW/yu



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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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 13, 2013

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

To the Director of Schools and Board of Directors:

Compliance

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

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

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

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

Internal Control Over Compliance

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Paris Special School District as of and for the year ended June 30, 2012, and have issued our report thereon dated March 13, 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.

The Paris Special School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Paris Special School District's responses and, accordingly, we express no opinion on the responses.

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

Very truly yours,

A handwritten signature in black ink, appearing to read "Justin P. Wilson". The signature is fluid and cursive, with a long vertical stroke extending downwards from the end.

Justin P. Wilson
Comptroller of the Treasury

JPW/yu

Paris Special School District
Schedule of Expenditures of Federal Awards and State Grants (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	\$ 154,166
National School Lunch Program	10.555	N/A	490,362 (3)
Special Milk Program for Children	10.556	N/A	21,431
Passed-through State Department of Agriculture:			
National School Lunch Program (Commodities - Noncash Assistance)	10.555	N/A	48,465 (3)
Total U.S. Department of Agriculture			<u>\$ 714,424</u>
U.S. Department of Education:			
Passed-through State Department of Education:			
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	N/A	\$ 333,613
Title I Grants to Local Educational Agencies, Recovery Act	84.389	N/A	412
Special Education Cluster:			
Special Education - Grants to States	84.027	N/A	335,440
Special Education - Preschool Grants	84.173	N/A	13,516
Special Education - Grants to States, Recovery Act	84.391	N/A	3,399
Education Technology State Grants Cluster:			
Education Technology State Grants	84.318	(2)	319
Education Technology State Grants, Recovery Act	84.386	(2)	572
Rural Education	84.358	N/A	32,940
Improving Teacher Quality State Grants	84.367	N/A	77,276
State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	N/A	113,143
State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	N/A	29,612
Education Jobs Fund	84.410	N/A	367,915
Total U.S. Department of Education			<u>\$ 1,308,157</u>
U.S. Department of Homeland Security:			
Passed-through State Department of Military:			
Hazard Mitigation Grant	97.039	FEMA 1851-0001	\$ 747,633
Total U.S. Department of Homeland Security			<u>\$ 747,633</u>
Total Expenditures of Federal Awards			<u>\$ 2,770,214</u>
<u>State Grants</u>			
Energy Efficient School Initiative - State Department of Education	N/A	(2)	\$ 10,000
Early Childhood Education - State Department of Education	N/A	(2)	281,539
Coordinated School Health - State Department of Education	N/A	(2)	82,000
Safe Schools - State Department of Education	N/A	(2)	8,100
Connect Tenn - State Department of Education	N/A	(2)	5,835
ACT/Explore - State Department of Education	N/A	(2)	2,003
Hazard Mitigation Grant Program - State Department of Military	N/A	(2)	124,606
Total State Grants			<u>\$ 514,083</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 \$538,827.

Paris 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. Presented below is a finding from the Annual Financial Report for the Paris Special School District for the year ended June 30, 2011, which has not been corrected.

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
11.01	83	Material audit adjustments were required for proper financial statement presentation

PARIS 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 Paris Special School District is unqualified.
2. The audit of the financial statements of the Paris Special School District disclosed significant deficiencies in internal control. One of these deficiencies was considered to be a material weakness.
3. The audit disclosed no instances of noncompliance that were material to the financial statements of the Paris Special School District.
4. The audit disclosed no significant deficiencies in internal control over major programs.
5. An unqualified opinion was issued on compliance for major programs.
6. The audit revealed no findings that are required to be reported under Section 510(a) of OMB Circular A-133.
7. The Child Nutrition Cluster: School Breakfast Program, National School Lunch Program, and Special Milk Program for Children (CFDA Nos. 10.553, 10.555, and 10.556); Education Jobs Program (CFDA No. 84.410); and the Hazard Mitigation Grant (CFDA No. 97.039) were determined to be major programs.
8. A \$300,000 threshold was used to distinguish between Type A and Type B federal programs.
9. The Paris Special School District did not qualify as a low-risk auditee.

PART II, FINDINGS RELATING TO THE FINANCIAL STATEMENTS

Findings and recommendations, as a result of our examination, are presented below. We reviewed these findings and recommendations with management to provide an opportunity for their response. The director of schools provided written responses to the findings, which are paraphrased in this report.

FINDING 12.01 **MATERIAL AUDIT ADJUSTMENTS WERE REQUIRED FOR PROPER FINANCIAL STATEMENT PRESENTATION**
(Internal Control – Material Weakness Under *Government Auditing Standards*)

At June 30, 2012, certain general ledger account balances of the Education Capital Projects Fund were not materially correct, and audit adjustments were required for the financial statements to be materially correct at year-end. Generally accepted accounting principles require the Paris Special School District to have adequate internal controls over the maintenance of its accounting records. Material audit adjustments were required because the district's financial reporting system did not prevent, detect or correct potential misstatements in the accounting records. It is a strong indicator of a material weakness in internal controls if the entity has ineffective controls over the maintenance of its accounting records, which are used to prepare the financial statements, including the related notes to the financial statements. This deficiency is the result of management's failure to correct the finding noted in the prior-year audit report. We presented audit adjustments to management that they approved and posted to properly present the financial statements in this report.

RECOMMENDATION

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

MANAGEMENT'S RESPONSE – DIRECTOR OF SCHOOLS

The Paris Special School District booked contracts for the Rhea School courtyard project as payables in order to avoid the recurrence of a potential audit finding from the previous year. However, the project was not completed on schedule during the current year, which resulted in the audit finding since they should not have been payables. All education capital projects will be completed and closed by the end of the 2012-2013 school year, and this finding will not recur.

FINDING 12.02 **DEFICIENCIES WERE NOTED WITH THE PURCHASE OF GIFT CARDS GIVEN TO EMPLOYEES**
(Internal Control – Significant Deficiency Under *Government Auditing Standards*)

The following deficiencies were noted with the purchase of gift cards given to employees of the school district as Christmas gifts:

- A. In November 2011, 286 gift cards were purchased from Wal-Mart totaling \$5,720 (\$20 per card) and given to employees as Christmas gifts. There was no documentation maintained to support the disposition of the gift cards. Sound business practices dictate that documentation should be on file to support all payments. This deficiency is the result of a lack of management oversight. The practice of issuing gift cards without adequate documentation increases the risks of fraud and abuse.
- B. There was no documentation in the minutes of the Board of Directors that the purchase of the Christmas gifts had been approved. However, the business manager advised us that the Board of Directors did discuss the payments and approve them as part of the budget process.

RECOMMENDATION

Documentation should be on file indicating which employees received the gift cards. Documentation should also be in the minutes of the Board of Directors indicating the board's approval for providing these benefits to its employees.

MANAGEMENT'S RESPONSE – DIRECTOR OF SCHOOLS

The Paris Special School District has historically given gift cards in December. The system will adhere to the finding by having a signature list of employees receiving the gift cards beginning in the 2013-2014 school year if the board approves the expenditure. The Paris Special School District will also document in the minutes of the board the approval of the gift cards.

BEST PRACTICE

**PARIS SPECIAL SCHOOL DISTRICT SHOULD ESTABLISH
AN AUDIT COMMITTEE**

The Paris Special School District does not have an Audit Committee. Sound business practices dictate that establishing an Audit Committee would significantly improve management oversight and accountability. The absence of an Audit Committee has been a management decision by the board of directors. The Division of 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.

**PARIS 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.