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**ANNUAL FINANCIAL REPORT**  
**McKENZIE SPECIAL SCHOOL DISTRICT**



**FOR THE YEAR ENDED JUNE 30, 2013**



**ANNUAL FINANCIAL REPORT  
McKENZIE SPECIAL SCHOOL DISTRICT  
FOR THE YEAR ENDED JUNE 30, 2013**

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

***DIVISION OF LOCAL GOVERNMENT AUDIT  
JAMES R. ARNETTE  
Director***

***JAN PAGE, CPA, CFE  
Audit Manager***

***HORACE B. WISEMAN, CGFM  
Auditor 4***

***JUSTIN NEAL, CPA  
KELSEY SCHWEITZER  
B. KEITH RICE, CGFM  
State Auditors***

This financial report is available at [www.comptroller.tn.gov](http://www.comptroller.tn.gov)

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## McKENZIE SPECIAL SCHOOL DISTRICT

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***Audit Highlights***  
Annual Financial Report  
McKenzie Special School District  
For the Year Ended June 30, 2013

***Scope***

We have audited the basic financial statements of the McKenzie Special School District as of and for the year ended June 30, 2013.

***Results***

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

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

***Finding and Best Practice***

The following is a summary of the audit finding and best practice:

- ◆ Expenditures exceeded appropriations.

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**BEST PRACTICE**

McKenzie Special School District does not have an Audit Committee. The Division of Local Government Audit strongly believes that an Audit Committee is a best practice that should be adopted 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.

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# INTRODUCTORY SECTION

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McKenzie Special School District Officials  
June 30, 2013

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**Officials**

Lynn Watkins, Director of Schools  
Stan George, Finance Director

**Board of Directors**

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

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## FINANCIAL SECTION

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

Independent Auditor's Report

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

To the Director of Schools and Board of Directors:

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the McKenzie Special School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the district's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the McKenzie Special School District, as of June 30, 2013, and the respective changes in financial position and the respective budgetary comparison for the General Purpose School Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

We draw attention to Note I.D.9. in the financial statements, which describes a restatement to the beginning balance of the government-wide financial statements totaling \$71,503. This restatement was necessary because prior to July 1, 2012, debt issuance costs were deferred and amortized over the life of the debt; however, with the implementation of Governmental Accounting Standards Board (GASB) Statement No. 65, debt issuance costs become period costs.

As described in Note V.B., the McKenzie Special School District has adopted the provisions of GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*; Statement No. 61, *The Financial Reporting Entity: Omnibus (an amendment of GASB Statements No. 14 and No. 34)*; Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; and Statement No. 63, *Reporting Deferred Outflows, Deferred Inflows and Net Position*, which became effective for the year ended June 30, 2013. The McKenzie Special School District early implemented Statement No. 65, *Items Previously Reported as Assets and Liabilities* and Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*, which have an effective date of June 30, 2014.

## ***Other Matters***

### *Required Supplementary Information*

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 schedules of funding progress – pension plan and other postemployment benefits plan on pages 47-49 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.

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the McKenzie Special School District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds and the Education Debt Service Fund, and miscellaneous schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds and the Education Debt Service Fund, and 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds and the Education Debt Service Fund, and

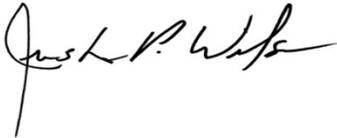
miscellaneous schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2014, on our consideration of the McKenzie Special School District's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering McKenzie Special School District's internal control over financial reporting and compliance.

Very truly yours,



Justin P. Wilson  
Comptroller of the Treasury  
Nashville, Tennessee

March 11, 2014

JPW/kp

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# BASIC FINANCIAL STATEMENTS

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Exhibit A

McKenzie Special School District  
Statement of Net Position  
June 30, 2013

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Equity in Pooled Cash and Investments	\$ 4,376,227
Inventories	66,013
Accounts Receivable	6,676
Due from Other Governments	288,045
Property Taxes Receivable	1,382,383
Allowance for Uncollectible Property Taxes	(48,608)
Prepaid Items	118,661
Capital Assets:	
Assets Not Depreciated:	
Land	412,477
Assets Net of Accumulated Depreciation:	
Buildings and Improvements	6,181,347
Other Capital Assets	303,896
Total Assets	<u>\$ 13,087,117</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Deferred Charge on Refunding	\$ 5,766
Total Deferred Outflows of Resources	<u>\$ 5,766</u>
<u>LIABILITIES</u>	
Accounts Payable	\$ 2,845
Accrued Payroll	2,272
Payroll Deductions Payable	280,854
Contracts Payable	14,521
Due to State of Tennessee	413
Accrued Interest Payable	60,800
Noncurrent Liabilities:	
Due Within One Year	534,662
Due in More Than One Year (net of unamortized premium on debt)	5,862,379
Total Liabilities	<u>\$ 6,758,746</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Deferred Current Property Taxes	\$ 1,296,560
Total Deferred Inflows of Resources	<u>\$ 1,296,560</u>
<u>NET POSITION</u>	
Net Investment in Capital Assets	\$ 797,741
Restricted for:	
Education	164,242
Operation of Non-Instructional Services	236,617
Debt Service	952,039
Unrestricted	<u>2,886,938</u>
Total Net Position	<u>\$ 5,037,577</u>

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

Exhibit B

McKenzie Special School District  
Statement of Activities  
For the Year Ended June 30, 2013

Functions/Programs	Program Revenues		Expenses	Net (Expense) Revenue and Changes in Net Position	
	Charges for Services	Operating Grants and Contributions		Total Governmental	Activities
Governmental Activities:					
Instruction	\$ 6,385,275	\$ 10,059	\$ 573,752	\$ (5,801,464)	
Support Services	2,789,610	13,158	66,265	(2,710,187)	
Operation of Non-Instructional Services	1,047,715	232,553	762,511	(52,651)	
Interest on Long-term Debt	257,203	2,297	0	(254,906)	
Other Debt Service	500	0	0	(500)	
Total Governmental Activities	\$ 10,480,303	\$ 258,067	\$ 1,402,528	\$ (8,19,708)	
General Revenues:					
Taxes:					
Property Taxes Levied for General Purposes				\$ 773,071	
Property Taxes Levied for Debt Service				582,604	
Local Option Sales Taxes				734,444	
Interstate Telecommunications Tax				751	
Grants and Contributions Not Restricted to Specific Programs				6,846,874	
Unrestricted Investment Income				22,161	
Miscellaneous				3,270	
Total General Revenues				\$ 8,963,175	
Change in Net Position				\$ 143,467	
Net Position, July 1, 2012				4,965,613	
Restatement - See Note I.D.9.				(71,503)	
Net Position, June 30, 2013				\$ 5,037,577	

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

McKenzie Special School District  
Balance Sheet - Governmental Funds  
June 30, 2013

	Major Funds		Nonmajor Funds	Total Governmental Funds
	General Purpose School	Education Debt Service	Other Govern- mental Funds	
<b>ASSETS</b>				
Equity in Pooled Cash and Investments	\$ 3,216,113	\$ 986,337	\$ 173,777	\$ 4,376,227
Inventories	0	0	66,013	66,013
Accounts Receivable	6,676	0	0	6,676
Due from Other Governments	209,650	4,666	73,729	288,045
Due from Other Funds	60,551	0	0	60,551
Property Taxes Receivable	785,445	596,938	0	1,382,383
Allowance for Uncollectible Property Taxes	(27,618)	(20,990)	0	(48,608)
Prepaid Items	117,557	0	1,104	118,661
<b>Total Assets</b>	<b>\$ 4,368,374</b>	<b>\$ 1,566,951</b>	<b>\$ 314,623</b>	<b>\$ 6,249,948</b>
<b>LIABILITIES</b>				
Accounts Payable	\$ 0	\$ 0	\$ 2,845	\$ 2,845
Accrued Payroll	2,272	0	0	2,272
Payroll Deductions Payable	280,854	0	0	280,854
Contracts Payable	14,521	0	0	14,521
Due to Other Funds	0	0	60,551	60,551
Due to State of Tennessee	0	0	413	413
<b>Total Liabilities</b>	<b>\$ 297,647</b>	<b>\$ 0</b>	<b>\$ 63,809</b>	<b>\$ 361,456</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred Current Property Taxes	\$ 736,682	\$ 559,878	\$ 0	\$ 1,296,560
Deferred Delinquent Property Taxes	18,598	14,134	0	32,732
Other Deferred/Unavailable Revenue	64,016	0	0	64,016
<b>Total Deferred Inflows of Resources</b>	<b>\$ 819,296</b>	<b>\$ 574,012</b>	<b>\$ 0</b>	<b>\$ 1,393,308</b>
<b>FUND BALANCES</b>				
Nonspendable:				
Inventory	\$ 0	\$ 0	\$ 66,013	\$ 66,013
Prepaid Items	117,557	0	1,104	118,661
Restricted:				
Restricted for Education	32,488	0	14,197	46,685
Restricted for Operation of Non-Instructional Services	0	0	169,500	169,500
Restricted for Debt Service	0	992,939	0	992,939
Assigned:				
Assigned for Education	217,560	0	0	217,560
Unassigned	2,883,826	0	0	2,883,826
<b>Total Fund Balances</b>	<b>\$ 3,251,431</b>	<b>\$ 992,939</b>	<b>\$ 250,814</b>	<b>\$ 4,495,184</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 4,368,374</b>	<b>\$ 1,566,951</b>	<b>\$ 314,623</b>	<b>\$ 6,249,948</b>

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

Exhibit C-2

McKenzie Special School District  
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position  
June 30, 2013

Amounts reported for governmental activities in the statement of net position (Exhibit A) are different because:

Total fund balances - balance sheet - governmental funds (Exhibit C-1)		\$ 4,495,184
(1) Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Add: land	\$ 412,477	
Add: buildings and improvements net of accumulated depreciation	6,181,347	
Add: other capital assets net of accumulated depreciation	<u>303,896</u>	6,897,720
(2) Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.		
Less: bonds payable	\$ (6,080,000)	
Add: deferred amount on refunding	5,766	
Less: compensated absences payable	(48,873)	
Less: other postemployment benefits liability	(248,189)	
Less: accrued interest on bonds	(60,800)	
Less: other deferred revenue - premium on debt	<u>(19,979)</u>	(6,452,075)
(3) Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the governmental funds.		<u>96,748</u>
Net position of governmental activities (Exhibit A)		<u>\$ 5,037,577</u>

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

Exhibit C-3

McKenzie Special School District  
Statement of Revenues, Expenditures,  
and Changes in Fund Balances -  
Governmental Funds  
 For the Year Ended June 30, 2013

	Major Funds		Nonmajor	Total
	General Purpose School	Education Debt Service	Other Governmental Funds	
<u>Revenues</u>				
Local Taxes	\$ 1,506,386	\$ 581,628	\$ 0	\$ 2,088,014
Licenses and Permits	523	0	0	523
Charges for Current Services	10,059	0	232,553	242,612
Other Local Revenues	40,757	0	1,323	42,080
State of Tennessee	6,851,046	0	9,046	6,860,092
Federal Government	9,565	0	1,400,491	1,410,056
<b>Total Revenues</b>	<b>\$ 8,418,336</b>	<b>\$ 581,628</b>	<b>\$ 1,643,413</b>	<b>\$ 10,643,377</b>
<u>Expenditures</u>				
Current:				
Instruction	\$ 5,188,534	\$ 0	\$ 705,141	\$ 5,893,675
Support Services	2,638,251	11,622	79,321	2,729,194
Operation of Non-Instructional Services	99,079	0	922,071	1,021,150
Capital Outlay	14,521	0	0	14,521
Debt Service:				
Principal on Debt	0	490,000	0	490,000
Interest on Debt	0	260,350	0	260,350
Other Debt Service	0	500	0	500
<b>Total Expenditures</b>	<b>\$ 7,940,385</b>	<b>\$ 762,472</b>	<b>\$ 1,706,533</b>	<b>\$ 10,409,390</b>
Excess (Deficiency) of Revenues Over Expenditures	\$ 477,951	\$ (180,844)	\$ (63,120)	\$ 233,987
<u>Other Financing Sources (Uses)</u>				
Insurance Recovery	\$ 9,799	\$ 0	\$ 0	\$ 9,799
Transfers In	0	172,888	0	172,888
Transfers Out	(172,888)	0	0	(172,888)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (163,089)</b>	<b>\$ 172,888</b>	<b>\$ 0</b>	<b>\$ 9,799</b>
Net Change in Fund Balances	\$ 314,862	\$ (7,956)	\$ (63,120)	\$ 243,786
Fund Balance, July 1, 2012	2,936,569	1,000,895	313,934	4,251,398
<b>Fund Balance, June 30, 2013</b>	<b>\$ 3,251,431</b>	<b>\$ 992,939</b>	<b>\$ 250,814</b>	<b>\$ 4,495,184</b>

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

Exhibit C-4

McKenzie Special School District  
Reconciliation of the Statement of Revenues, Expenditures, and Changes in  
Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2013

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)		\$ 243,786	
(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:			
Less: current-year depreciation expense			(514,482)
(2) Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.			
Add: deferred delinquent property taxes and other deferred June 30, 2013	\$ 96,748		
Less: deferred delinquent property taxes and other deferred June 30, 2012	<u>(118,652)</u>		(21,904)
(3) The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.			
Add: principal payments on bonds	\$ 490,000		
Add: change in premium on debt issuances	2,297		
Less: change in deferred amount on refunding debt	<u>(1,141)</u>		491,156
(4) Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.			
Change in accrued interest payable	\$ 4,288		
Change in compensated absences payable	(2,890)		
Change in other postemployment benefits liability	<u>(56,487)</u>		<u>(55,089)</u>
Change in net position of governmental activities (Exhibit B)			<u>\$ 143,467</u>

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

Exhibit C-5

McKenzie Special School District  
Statement of Revenues, Expenditures, and Changes  
in Fund Balance - Actual (Budgetary Basis) and Budget  
General Purpose School Fund  
For the Year Ended June 30, 2013

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2012	Add: Encumbrances 6/30/2013	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
<b>Revenues</b>							
Local Taxes	\$ 1,506,386	\$ 0	\$ 0	\$ 1,506,386	\$ 1,249,423	\$ 1,249,423	\$ 256,963
Licenses and Permits	523	0	0	523	300	300	223
Charges for Current Services	10,059	0	0	10,059	10,000	10,000	59
Other Local Revenues	40,757	0	0	40,757	46,500	46,500	(5,743)
State of Tennessee	6,851,046	0	0	6,851,046	6,772,736	6,847,491	3,555
Federal Government	9,565	0	0	9,565	3,000	10,400	(835)
<b>Total Revenues</b>	<b>\$ 8,418,336</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 8,418,336</b>	<b>\$ 8,081,959</b>	<b>\$ 8,164,114</b>	<b>\$ 254,222</b>
<b>Expenditures</b>							
<b>Instruction</b>							
Regular Instruction Program	\$ 4,472,671	\$ (12,157)	\$ 76,249	\$ 4,536,763	\$ 4,609,251	\$ 4,631,691	\$ 94,928
Alternative Instruction Program	18,818	0	0	18,818	21,000	21,000	2,182
Special Education Program	421,601	0	213	421,814	415,030	427,510	5,696
Vocational Education Program	275,444	0	0	275,444	278,923	279,123	3,679
<b>Support Services</b>							
Health Services	91,895	0	0	91,895	94,378	94,378	2,483
Other Student Support	260,678	0	0	260,678	264,929	265,713	5,035
Regular Instruction Program	478,287	(226)	9,604	487,665	476,203	492,613	4,948
Special Education Program	35,738	0	0	35,738	36,159	36,159	421
Vocational Education Program	5,669	0	0	5,669	6,045	6,045	376
Other Programs	53,955	0	0	53,955	0	53,955	0
Board of Education	106,173	0	872	107,045	102,256	109,188	2,143
Director of Schools	147,803	(2,631)	260	145,432	150,889	150,889	5,457
Office of the Principal	497,783	0	0	497,783	508,122	508,672	10,889
Fiscal Services	112,229	(354)	0	111,875	108,805	112,935	1,060
Operation of Plant	583,318	0	0	583,318	620,135	620,135	36,817
Maintenance of Plant	264,723	(50,752)	44,373	258,344	234,535	258,996	652

(Continued)

Exhibit C-5

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

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2012	Add: Encumbrances 6/30/2013	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
<u>Expenditures (Cont.)</u>							
Operation of Non-Instructional Services							
Early Childhood Education	\$ 99,079	\$ 0	\$ 4,864	\$ 103,943	\$ 117,941	\$ 117,941	\$ 13,998
Capital Outlay	14,521	0	81,125	95,646	0	93,492	(2,154)
Regular Capital Outlay							
Total Expenditures	\$ 7,940,385	\$ (66,120)	\$ 217,560	\$ 8,091,825	\$ 8,044,601	\$ 8,280,435	\$ 188,610
Excess (Deficiency) of Revenues Over Expenditures	\$ 477,951	\$ 66,120	\$ (217,560)	\$ 326,511	\$ 37,358	\$ (116,321)	\$ 442,832
<u>Other Financing Sources (Uses)</u>							
Insurance Recovery	\$ 9,799	\$ 0	\$ 0	\$ 9,799	\$ 0	\$ 0	\$ 9,799
Transfers Out	(172,888)	0	0	(172,888)	(172,888)	(172,888)	0
Total Other Financing Sources	\$ (163,089)	\$ 0	\$ 0	\$ (163,089)	\$ (172,888)	\$ (172,888)	\$ 9,799
Net Change in Fund Balance Fund Balance, July 1, 2012	\$ 314,862	\$ 66,120	\$ (217,560)	\$ 163,422	\$ (135,530)	\$ (289,209)	\$ 452,631
Fund Balance, July 1, 2012	2,936,569	(66,120)	0	2,870,449	2,936,569	2,936,569	(66,120)
Fund Balance, June 30, 2013	\$ 3,251,431	\$ 0	\$ (217,560)	\$ 3,033,871	\$ 2,801,039	\$ 2,647,360	\$ 386,511

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

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**McKENZIE SPECIAL SCHOOL DISTRICT**  
**Index of Notes to the Financial Statements**

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**MCKENZIE SPECIAL SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2013**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

**A. Reporting Entity**

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

**B. Government-wide and Fund Financial Statements**

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

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

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

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

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

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

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

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

Property taxes for the period levied, in-lieu-of tax payments, sales taxes, interest, and miscellaneous taxes are all considered to be susceptible to accrual and have been recognized as revenues of the current period.

Applicable state-shared excise taxes are not susceptible to accrual since they are not measurable (reasonably estimable). All other revenue items are considered to be measurable and available only when the district receives cash.

The district reports the following major governmental funds:

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

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

Additionally, the district reports the following fund type:

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

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, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance**

**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 position as Equity in Pooled Cash and Investments. Income from these pooled investments is assigned to the General Purpose School and Central Cafeteria funds. The district has adopted a policy of reporting U.S. Treasury obligations,

U.S. agency obligations, and repurchase agreements with maturities of one year or less when purchased on the balance sheet at amortized cost. Certificates of deposit are reported at cost. Investments in the State Treasurer's Investment Pool are reported at fair value. 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. Accordingly, the pool qualifies as a 2a7-like pool and is reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method. 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.

## **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 1.84 percent of total taxes levied.

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

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

Additional costs attach to delinquent taxes after a court suit has been filed.

**3. Inventories and Prepaid Items**

Inventories consist of food and food-related items held for consumption and are valued at cost based on the first-in, first-out method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Inventories are offset in the nonspendable fund balance account in governmental funds.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as an expenditure when consumed rather than when purchased. Prepaids are offset in the nonspendable fund balance account in governmental funds.

**4. Capital Assets**

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

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

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

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

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

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

5. **Deferred Outflows/Inflows of Resources**

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has items that qualify for reporting in this category. Accordingly, the items are reported in the government-wide Statement of Net Position and the governmental funds balance sheet. These revenues are from the following sources: current and delinquent property taxes and various receivables for revenues, which do not meet the availability criteria in governmental funds. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

6. **Compensated Absences**

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

7. **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 Position. Debt premiums and discounts are deferred and amortized over the life of the new debt using the straight-line method. Debt issuance costs are expensed in the period incurred. In refunding transactions, the difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow of resources or a deferred inflow of

resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the refunded debt or the life of the new debt issued, whichever is shorter.

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

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

## **8. Net Position and Fund Balance**

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

- a. Net investment in capital assets – 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 position – Consists of net position 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 position – All other net position that does not meet the definition of restricted or net investment in capital assets.

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

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

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

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

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

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

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

## **9. Restatement**

Prior to July 1, 2012, debt issuance costs were deferred and amortized over the life of the debt; however, with the implementation of GASB Statement No. 65, debt issuance costs become period costs. A restatement to beginning net position totaling \$71,503 has been recognized for accumulated debt issuance costs on the government-wide financial statements.

## 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 Position**

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 Position.

### 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 position of governmental activities reported in the government-wide Statement of Activities.

## III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

### A. **Budgetary Information**

In prior years, the budgetary statements for the General Purpose School Fund and major special revenue funds were presented as required supplementary information in the financial statements of its external financial report. Effective for the year ended June 30, 2013, these budgetary statements are presented as part of the basic financial statements. This change in presentation was done to be consistent in the presentation of the information for both municipal and county governments in Tennessee.

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

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

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

of Directors may transfer appropriations between major categories. During the year, several supplementary appropriations were necessary.

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

At June 30, 2013, the McKenzie Special School District reported the following significant encumbrances in the General Purpose School Fund:

<u>Description</u>	<u>Amount</u>
Security Doors	\$ 81,125
Textbooks	70,375
Window Replacement	24,260
HVAC Unit	12,495

**B. Expenditures Exceeded Appropriations**

Expenditures exceeded appropriations approved by the Board of Directors in the Regular Capital Outlay major appropriation category (the legal level of control) of the General Purpose School Fund by \$2,154. Expenditures that exceed appropriations are a violation of state statutes. These expenditures in excess of appropriations were funded by available fund balance in the General Purpose School Fund.

**IV. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

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

**Deposits**

**Legal Provisions.** All deposits with financial institutions must be secured by one of two methods. One method involves financial institutions that participate in the bank collateral pool administered by the state treasurer. Participating banks determine the aggregate balance of their public fund accounts for the State of Tennessee and its political subdivisions. The amount of collateral required to secure these public deposits must equal at least 105 percent of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the state treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in

the aggregate rather than against each account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for the purposes of credit risk disclosure.

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

**Investments**

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

**Investment Balances.** As of June 30, 2013, the district had the following investments carried at fair value. All investments are in the district’s investment pool.

Investment	Weighted Average Maturity (days)	Fair Value
State Treasurer's Investment Pool	11 to 138	\$ 557,781

**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, 2013, 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, 2013, was as follows:

**Governmental Activities:**

	Balance 7-1-12	Increases	Balance 6-30-13
<b>Capital Assets Not Depreciated:</b>			
Land	\$ 412,477	\$ 0	\$ 412,477
<b>Total Capital Assets Not Depreciated</b>	<b>\$ 412,477</b>	<b>\$ 0</b>	<b>\$ 412,477</b>
<b>Capital Assets Depreciated:</b>			
Buildings and Improvements	\$ 15,974,905	\$ 0	\$ 15,974,905
Other Capital Assets	1,076,144	0	1,076,144
<b>Total Capital Assets Depreciated</b>	<b>\$ 17,051,049</b>	<b>\$ 0</b>	<b>\$ 17,051,049</b>
<b>Less Accumulated Depreciation For:</b>			
Buildings and Improvements	\$ 9,326,364	\$ 467,194	\$ 9,793,558
Other Capital Assets	724,960	47,288	772,248
<b>Total Accumulated Depreciation</b>	<b>\$ 10,051,324</b>	<b>\$ 514,482</b>	<b>\$ 10,565,806</b>
<b>Total Capital Assets Depreciated, Net</b>	<b>\$ 6,999,725</b>	<b>\$ (514,482)</b>	<b>\$ 6,485,243</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 7,412,202</b>	<b>\$ (514,482)</b>	<b>\$ 6,897,720</b>

There were no decreases in capital assets during the year ended June 30, 2013.

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

**Governmental Activities:**

Instruction	\$ 465,249
Support Services	24,594
Operation of Non-Instructional Services	<u>24,639</u>
 Total Depreciation Expense - Governmental Activities	 <u><u>\$ 514,482</u></u>

**C. Interfund Receivables, Payables, and Transfers**

The composition of interfund balances as of June 30, 2013, was as follows:

**Due to/from Other Funds:**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Purpose School	Nonmajor governmental	\$ 60,551

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

**Interfund Transfers:**

Interfund transfers for the year ended June 30, 2013, consisted of the following amount:

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

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

**D. Long-term Obligations**

General Obligation Bonds

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

General obligation bonds are direct obligations and pledge the full faith and credit of the district. General obligation bonds outstanding were issued for original terms of up to 14 years. Repayment terms are generally structured with increasing amounts of principal maturing as interest requirements decrease over the term of the debt. All bonds included in long-term debt as of June 30, 2013, will be retired from the Education Debt Service Fund.

General obligation bonds outstanding as of June 30, 2013, for governmental activities are as follows:

Type	Interest Rates	Final Maturity	Original Amount of Issue	Balance 6-30-13
G.O. Bonds - Refunding		4-1-22	\$ 8,255,000	\$ 6,080,000

The annual requirements to amortize all general obligation bonds outstanding as of June 30, 2013, including interest payments, are presented in the following table:

Year Ending June 30	Bonds		
	Principal	Interest	Total
2014	\$ 520,000	\$ 243,200	\$ 763,200
2015	550,000	222,400	772,400
2016	590,000	200,400	790,400
2017	630,000	176,800	806,800
2018	665,000	151,600	816,600
2019-2022	3,125,000	321,400	3,446,400
Total	\$ 6,080,000	\$ 1,315,800	\$ 7,395,800

There is \$992,939 available in the Education Debt Service Fund to service long-term debt.

Changes in Long-term Obligations

Long-term obligations activity for the year ended June 30, 2013, was as follows:

Governmental Activities:

	<u>Bonds</u>	<u>Compensated Absences</u>
Balance, July 1, 2012	\$ 6,570,000	\$ 45,983
Additions	0	13,047
Reductions	(490,000)	(10,157)
	<hr/>	<hr/>
Balance, June 30, 2013	\$ 6,080,000	\$ 48,873
	<hr/> <hr/>	<hr/> <hr/>
Balance Due Within One Year	\$ 520,000	\$ 14,662
	<hr/> <hr/>	<hr/> <hr/>

	<u>Other Postemployment Benefits</u>
Balance, July 1, 2012	\$ 191,702
Additions	105,528
Reductions	(49,041)
	<hr/>
Balance, June 30, 2013	\$ 248,189
	<hr/> <hr/>
Balance Due Within One Year	\$ 0
	<hr/> <hr/>

Analysis of Noncurrent Liabilities Presented on Exhibit A:

Total Noncurrent Liabilities, June 30, 2013	\$ 6,377,062
Less: Due Within One Year	(534,662)
Add: Unamortized Premium on Debt	19,979
	<hr/>
Noncurrent Liabilities - Due in More Than One Year - Exhibit A	\$ 5,862,379
	<hr/> <hr/>

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

**E. On-Behalf Payments**

The State of Tennessee pays health insurance premiums for retired teachers on-behalf of the McKenzie Special School District. These payments are made by the state to the Local Education Group Insurance Plan and the Medicare

Supplement Plan. Both of these plans are administered by the State of Tennessee and reported in the state's Comprehensive Annual Financial Report. Payments by the state to the Local Education Group Insurance Plan and the Medicare Supplement Plan for the year ended June 30, 2013, were \$32,468 and \$21,487, respectively. The district has recognized these on-behalf payments as revenues and expenditures in the General Purpose School Fund.

**V. OTHER INFORMATION**

**A. Risk Management**

**Employee Health Insurance**

Employees of the district participate in the Local Education Group Insurance Fund (LEGIF), a public entity risk pool established to provide a program of health insurance coverage for employees of local education agencies. In accordance with Section 8-27-301, *Tennessee Code Annotated (TCA)*, all local education agencies are eligible to participate. The LEGIF is included in the Comprehensive Annual Financial Report of the State of Tennessee, but the state does not retain any risk for losses by this fund. Section 8-27-303, *TCA*, provides for the LEGIF to be self-sustaining through member premiums.

**General Liability, Property, Casualty, and Workers' Compensation Insurance**

The district participates in the Tennessee Risk Management Trust (TN-RMT), which is a public entity risk pool created under the auspices of the Tennessee Governmental Tort Liability Act to provide governmental insurance coverage. The district pays annual premiums to the TN-RMT for its general liability, property, casualty, and workers' compensation insurance coverage. The creation of the TN-RMT provides for it to be self-sustaining through member premiums.

**B. Accounting Changes**

Provisions of Governmental Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*; Statement No. 61, *The Financial Reporting Entity: Omnibus (an amendment of GASB Statements No. 14 and No. 34)*; Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; and Statement No. 63, *Reporting Deferred Outflows, Deferred Inflows and Net Position* became effective for the year ended June 30, 2013. The McKenzie Special School District early implemented Statement No. 65, *Items Previously Reported as Assets and Liabilities* and Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*, which have an effective date of June 30, 2014.

GASB Statement No. 60 provides accounting and financial reporting guidance related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The standard establishes criteria for determining whether a SCA exists, how to account for SCAs, and requires certain disclosures associated with a SCA.

GASB Statement No. 61 amends Statements No. 14 and No. 34 and modifies certain requirements for inclusion of component units in the financial reporting entity to ensure that the reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. Statement No. 61 also clarifies the criteria for blending component units and presenting business-type component units.

GASB Statement No. 62 incorporates into GASB's literature the provisions in Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants' Committee on Accounting Procedure issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements. The option to use subsequent FASB guidance has been removed.

GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources that were introduced and defined by Concepts Statement No. 4, *Elements of Financial Statements*. Previous financial reporting standards did not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. In addition, the previous Statement of Net Assets was renamed to a Statement of Financial Position.

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassifies, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

GASB Statement No. 66 resolves conflicting guidance by removing the provision that limits fund based reporting of an entity's risk financing activities to the General Fund and the internal service fund type. Under Statement No. 66 decisions about fund type classifications are based on the nature of the activity to be reported as required by Statements No. 54 and No. 34. This statement also modifies guidance on operating lease payments, purchased loans, and servicing fees related to mortgage loans.

### **C. Contingent Liabilities**

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

## **D. Retirement Commitments**

### **Plan Description**

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

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

### **Funding Policy**

The McKenzie Special School District requires employees to contribute five percent of their earnable compensation to the plan. The district is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2013, was 6.91 percent of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the county is established and may be amended by the TCRS Board of Trustees.

### **Annual Pension Cost**

For the year ended June 30, 2013, the McKenzie Special School District's annual pension cost of \$55,276 to TCRS was equal to the district's required and actual contributions. The required contribution was determined as part

of the July 1, 2011, 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, 2011, was one year. 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
6-30-13	\$55,276	100%	\$0
6-30-12	60,233	100	0
6-30-11	55,518	100	0

#### **Funded Status and Funding Progress**

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

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

## **SCHOOL TEACHERS**

### **Plan Description**

The McKenzie Special School District contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979, are vested after five years of service. Members joining prior to July 1, 1979, are vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly. A cost of living adjustment (COLA) is provided to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent. The annual COLA is capped at three percent.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the 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](http://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, 2013, was 8.88 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, 2013, 2012, and 2011, were \$439,419, \$437,358, and \$424,159, respectively, equal to the required contributions for each year.

**E. Other Postemployment Benefits (OPEB)**

Plan Description

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

Funding Policy

The premium requirements of plan members are established and may be amended by the insurance committee. The 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 a contribution policy in terms of subsidizing active employees or retired employees' premiums since the committee is not prescriptive on that issue. The state does provide a partial subsidy to Local Education Agency pre-65 teachers and a full subsidy based on years of service for post-65 teachers in the Medicare Supplement Plan. During the year ended June 30, 2013, the district contributed \$49,041 for postemployment health care.

Annual OPEB Cost and Net OPEB Obligation

	Local Education Group Plan
	<hr/>
ARC	\$ 106,000
Interest on the NOPEBO	7,668
Adjustment to the ARC	(8,140)
Annual OPEB cost	<hr/> \$ 105,528
Less: Amount of contribution	(49,041)
Increase/decrease in NOPEBO	<hr/> \$ 56,487
Net OPEB obligation, 7-1-12	<hr/> 191,702
Net OPEB obligation, 6-30-13	<hr/> <hr/> \$ 248,189

Fiscal Year Ended	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End
6-30-11	Local Education Group	\$ 80,241	60%	\$ 133,771
6-30-12	"	104,671	45	191,702
6-30-13	"	105,528	46	248,189

Funded Status and Funding Progress

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

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

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about

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

#### Actuarial Methods and Assumptions

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

In the July 1, 2011, actuarial valuation for the Local Education Group Plan, the projected unit credit actuarial cost method was used and the actuarial assumptions included a four percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 8.75 percent for fiscal year 2013. The trend will decrease to 8.25 percent in fiscal year 2014 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 July 1, 2007.

#### **F. Purchasing Law**

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

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**REQUIRED SUPPLEMENTARY  
INFORMATION**

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Exhibit D-1

McKenzie Special School District  
Schedule of Funding Progress – Pension Plan  
June 30, 2013

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Frozen Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7-1-11	\$ 1,595	\$ 1,623	\$ 28	98.27 %	\$ 799	3.52 %
7-1-09	1,210	1,243	33	97.35	836	3.94
7-1-07	1,001	1,038	37	96.44	725	5.1

Exhibit D-2

McKenzie Special School District  
Schedule of Funding Progress – Other Postemployment Benefits Plan  
June 30, 2013

(Dollar amounts in thousands)

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

**MCKENZIE SPECIAL SCHOOL DISTRICT**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**For the Year Ended June 30, 2013**

**BUDGETARY INFORMATION**

In prior years, the budgetary statements for the General Purpose School Fund and major special revenue funds were presented as required supplementary information in the financial statements of its external financial report. Effective for the year ended June 30, 2013, these budgetary statements are presented as part of the basic financial statements. This change in presentation was done to be consistent in presenting the information for both municipal and county governments in Tennessee.

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

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# Nonmajor Governmental Funds

## Special Revenue Fund

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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.

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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.

McKenzie Special School District  
Combining Balance Sheet - Nonmajor Governmental Funds  
June 30, 2013

	<u>Special Revenue Funds</u>		Total
	School Federal Projects	Central Cafeteria	Nonmajor Governmental Funds
<u>ASSETS</u>			
Equity in Pooled Cash and Investments	\$ 1,717	\$ 172,060	\$ 173,777
Inventories	0	66,013	66,013
Due from Other Governments	50,678	23,051	73,729
Prepaid Items	0	1,104	1,104
Total Assets	<u>\$ 52,395</u>	<u>\$ 262,228</u>	<u>\$ 314,623</u>
<u>LIABILITIES</u>			
Accounts Payable	\$ 1,000	\$ 1,845	\$ 2,845
Due to Other Funds	36,785	23,766	60,551
Due to State of Tennessee	413	0	413
Total Liabilities	<u>\$ 38,198</u>	<u>\$ 25,611</u>	<u>\$ 63,809</u>
<u>FUND BALANCES</u>			
Nonspendable:			
Inventory	\$ 0	\$ 66,013	\$ 66,013
Prepaid Items	0	1,104	1,104
Restricted:			
Restricted for Education	14,197	0	14,197
Restricted for Operation of Non-Instructional Services	0	169,500	169,500
Total Fund Balances	<u>\$ 14,197</u>	<u>\$ 236,617</u>	<u>\$ 250,814</u>
Total Liabilities and Fund Balances	<u>\$ 52,395</u>	<u>\$ 262,228</u>	<u>\$ 314,623</u>

McKenzie Special School District  
Combining Statement of Revenues, Expenditures,  
and Changes in Fund Balances -  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2013

	Special Revenue Funds		Total Nonmajor Governmental Funds
	School Federal Projects	Central Cafeteria	
<u>Revenues</u>			
Charges for Current Services	\$ 0	\$ 232,553	\$ 232,553
Other Local Revenues	0	1,323	1,323
State of Tennessee	0	9,046	9,046
Federal Government	770,052	630,439	1,400,491
Total Revenues	<u>\$ 770,052</u>	<u>\$ 873,361</u>	<u>\$ 1,643,413</u>
<u>Expenditures</u>			
Current:			
Instruction	\$ 705,141	\$ 0	\$ 705,141
Support Services	79,321	0	79,321
Operation of Non-Instructional Services	0	922,071	922,071
Total Expenditures	<u>\$ 784,462</u>	<u>\$ 922,071</u>	<u>\$ 1,706,533</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (14,410)</u>	<u>\$ (48,710)</u>	<u>\$ (63,120)</u>
Net Change in Fund Balances	\$ (14,410)	\$ (48,710)	\$ (63,120)
Fund Balance, July 1, 2012	28,607	285,327	313,934
Fund Balance, June 30, 2013	<u>\$ 14,197</u>	<u>\$ 236,617</u>	<u>\$ 250,814</u>

Exhibit E-3

McKenzie Special School District  
Schedule of Revenues, Expenditures, and Changes  
in Fund Balance - Actual (Budgetary Basis) and Budget  
School Federal Projects Fund  
For the Year Ended June 30, 2013

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2012	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
				Original	Final	
<b>Revenues</b>						
Federal Government	\$ 770,052 \$	0 \$	770,052 \$	823,986 \$	997,450 \$	(227,398)
Total Revenues	\$ 770,052 \$	0 \$	770,052 \$	823,986 \$	997,450 \$	(227,398)
<b>Expenditures</b>						
<u>Instruction</u>						
Regular Instruction Program	\$ 336,786 \$	0 \$	336,786 \$	382,019 \$	401,343 \$	64,557
Special Education Program	325,895	0	325,895	311,389	489,727	163,832
Vocational Education Program	42,460	(23,366)	19,094	19,444	19,444	350
<u>Support Services</u>						
Health Services	3,523	0	3,523	3,523	3,523	0
Other Student Support	4,986	0	4,986	5,095	5,095	109
Regular Instruction Program	54,205	(200)	54,005	86,127	90,319	36,314
Special Education Program	9,305	0	9,305	9,087	9,304	(1)
Vocational Education Program	819	0	819	819	819	0
Maintenance of Plant	6,483	0	6,483	6,483	6,483	0
Total Expenditures	\$ 784,462 \$	(23,566) \$	760,896 \$	823,986 \$	1,026,057 \$	265,161
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	\$ (14,410) \$	23,566 \$	9,156 \$	0 \$	(28,607) \$	37,763
<b>Other Financing Sources (Uses)</b>						
Transfers In	\$ 0 \$	0 \$	0 \$	50,498 \$	0 \$	0
Transfers Out	0	0	0	(50,498)	0	0
Total Other Financing Sources	\$ 0 \$	0 \$	0 \$	0 \$	0 \$	0

(Continued)

Exhibit E-3

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

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2012	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
				Original	Final	
Net Change in Fund Balance Fund Balance, July 1, 2012	\$ (14,410) \$ 28,607	23,566 \$ (23,566)	9,156 \$ 5,041	0 \$ 28,607	(28,607) \$ 28,607	37,763 (23,566)
Fund Balance, June 30, 2013	\$ 14,197 \$	0 \$	14,197 \$	28,607 \$	0 \$	14,197

Exhibit E-4

McKenzie Special School District  
Schedule of Revenues, Expenditures, and Changes  
in Fund Balance - Actual (Budgetary Basis) and Budget  
Central Cafeteria Fund  
For the Year Ended June 30, 2013

	Actual (GAAP Basis)	Add: Encumbrances 6/30/2013	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
				Original	Final	
<u>Revenues</u>						
Charges for Current Services	\$ 232,553	\$ 0	\$ 232,553	\$ 250,500	\$ 250,500	\$ (17,947)
Other Local Revenues	1,323	0	1,323	1,250	1,250	73
State of Tennessee	9,046	0	9,046	8,500	8,500	546
Federal Government	630,439	0	630,439	611,500	658,746	(28,307)
Total Revenues	\$ 873,361	\$ 0	\$ 873,361	\$ 871,750	\$ 918,996	\$ (45,635)
<u>Expenditures</u>						
<u>Operation of Non-Instructional Services</u>						
Food Service	\$ 922,071	\$ 150	\$ 922,221	\$ 894,178	\$ 941,424	\$ 19,203
Total Expenditures	\$ 922,071	\$ 150	\$ 922,221	\$ 894,178	\$ 941,424	\$ 19,203
Excess (Deficiency) of Revenues Over Expenditures	\$ (48,710)	\$ (150)	\$ (48,860)	\$ (22,428)	\$ (22,428)	\$ (26,432)
Net Change in Fund Balance Fund Balance, July 1, 2012	\$ (48,710)	\$ (150)	\$ (48,860)	\$ (22,428)	\$ (22,428)	\$ (26,432)
	285,327	0	285,327	262,899	262,899	22,428
Fund Balance, June 30, 2013	\$ 236,617	\$ (150)	\$ 236,467	\$ 240,471	\$ 240,471	\$ (4,004)

# **Major Governmental Fund**

## **Education Debt Service Fund**

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

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Exhibit F

McKenzie Special School District  
Schedule of Revenues, Expenditures, and Changes  
in Fund Balance - Actual and Budget  
Education Debt Service Fund  
For the Year Ended June 30, 2013

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 581,628	\$ 556,984	\$ 556,984	\$ 24,644
Total Revenues	\$ 581,628	\$ 556,984	\$ 556,984	\$ 24,644
<u>Expenditures</u>				
<u>Support Services</u>				
Board of Education	\$ 11,622	\$ 12,818	\$ 12,818	\$ 1,196
<u>Principal on Debt</u>				
Education	490,000	490,000	490,000	0
<u>Interest on Debt</u>				
Education	260,350	260,350	260,350	0
<u>Other Debt Service</u>				
Education	500	1,500	1,500	1,000
Total Expenditures	\$ 762,472	\$ 764,668	\$ 764,668	\$ 2,196
Excess (Deficiency) of Revenues Over Expenditures	\$ (180,844)	\$ (207,684)	\$ (207,684)	\$ 26,840
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 172,888	\$ 172,888	\$ 172,888	\$ 0
Total Other Financing Sources	\$ 172,888	\$ 172,888	\$ 172,888	\$ 0
Net Change in Fund Balance	\$ (7,956)	\$ (34,796)	\$ (34,796)	\$ 26,840
Fund Balance, July 1, 2012	1,000,895	1,000,895	1,000,895	0
Fund Balance, June 30, 2013	\$ 992,939	\$ 966,099	\$ 966,099	\$ 26,840

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## MISCELLANEOUS SCHEDULES

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Exhibit G-1

McKenzie Special School District  
Schedule of Changes in Long-term Bonds  
For the Year Ended June 30, 2013

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding 7-1-12	Paid and/or	
						Matured During Period	Outstanding 6-30-13
<u>BONDS PAYABLE</u>							
<u>Payable through Education Debt Service Fund</u>							
School Refunding - Series 2008	\$ 8,255,000	3.5 to 4 %	9-18-08	4-1-22	\$ 6,570,000	\$ 490,000	\$ 6,080,000
Total Bonds Payable					<u>\$ 6,570,000</u>	<u>\$ 490,000</u>	<u>\$ 6,080,000</u>

Exhibit G-2

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

Year Ending June 30	Bonds		Total
	Principal	Interest	
2014	\$ 520,000	\$ 243,200	\$ 763,200
2015	550,000	222,400	772,400
2016	590,000	200,400	790,400
2017	630,000	176,800	806,800
2018	665,000	151,600	816,600
2019	715,000	125,000	840,000
2020	760,000	96,400	856,400
2021	800,000	66,000	866,000
2022	850,000	34,000	884,000
Total	\$ 6,080,000	\$ 1,315,800	\$ 7,395,800

Exhibit G-3

McKenzie Special School District  
Schedule of Transfers  
For the Year Ended June 30, 2013

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

Exhibit G-4

McKenzie Special School District  
Schedule of Salaries and Official Bonds of Principal Officials  
For the Year Ended June 30, 2013

Official	Authorization for Salary	Salary Paid During Period	Bond	Surety
Director of Schools	State Board of Education and McKenzie Special School District Board of Directors	\$ 85,312 (1)	\$ 283,150	Western Surety Company
Finance Director	McKenzie Special School District Board of Directors	62,409	150,000	Tennessee Risk Management Trust
Employees' Blanket Bond			150,000	"

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

Exhibit G-5

McKenzie Special School District  
 Schedule of Detailed Revenues -  
 All Governmental Fund Types  
 For the Year Ended June 30, 2013

	Special Revenue Funds			Debt Service	Total
	General Purpose School	School Federal Projects	Central Cafeteria	Fund Education Debt Service	
<u>Local Taxes</u>					
<u>County Local Option Taxes</u>					
Local Option Sales Tax	\$ 733,883	\$ 0	\$ 0	\$ 0	733,883
<u>Statutory Local Taxes</u>					
Interstate Telecommunications Tax	716	0	0	0	716
<u>City/School District Property Taxes</u>					
Current Property Tax	717,917	0	0	545,617	1,263,534
Prior Year Property Tax	39,757	0	0	25,608	65,365
Interest and Penalty	5,220	0	0	3,644	8,864
Payments in-Lieu-of Taxes	8,893	0	0	6,759	15,652
Total Local Taxes	\$ 1,506,386	\$ 0	\$ 0	\$ 581,628	\$ 2,088,014
<u>Licenses and Permits</u>					
<u>Licenses</u>					
Marriage Licenses	\$ 523	\$ 0	\$ 0	\$ 0	523
Total Licenses and Permits	\$ 523	\$ 0	\$ 0	\$ 0	523
<u>Charges for Current Services</u>					
<u>Fees</u>					
Vending Machine Collections	\$ 7,500	\$ 0	\$ 0	\$ 0	7,500
<u>Education Charges</u>					
Tuition - Other	2,559	0	0	0	2,559
Lunch Payments - Children	0	0	126,583	0	126,583
Lunch Payments - Adults	0	0	17,329	0	17,329
Income from Breakfast	0	0	1,685	0	1,685
A la carte Sales	0	0	78,815	0	78,815
<u>Other Charges for Services</u>					
Other Charges for Services	0	0	8,141	0	8,141
Total Charges for Current Services	\$ 10,059	\$ 0	\$ 232,553	\$ 0	\$ 242,612
<u>Other Local Revenues</u>					
<u>Recurring Items</u>					
Investment Income	\$ 21,805	\$ 0	\$ 356	\$ 0	22,161
Lease/Rentals	1,285	0	189	0	1,474
Refund of Telecommunication & Internet Fees (E-Rate)	11,684	0	0	0	11,684
Miscellaneous Refunds	2,461	0	675	0	3,136
<u>Nonrecurring Items</u>					
Sale of Equipment	0	0	103	0	103
Damages Recovered from Individuals	31	0	0	0	31
Contributions and Gifts	3,491	0	0	0	3,491
Total Other Local Revenues	\$ 40,757	\$ 0	\$ 1,323	\$ 0	\$ 42,080
<u>State of Tennessee</u>					
<u>General Government Grants</u>					
On-Behalf Contributions for OPEB	\$ 53,955	\$ 0	\$ 0	\$ 0	53,955
<u>State Education Funds</u>					
Basic Education Program	6,582,400	0	0	0	6,582,400
Early Childhood Education	103,518	0	0	0	103,518
School Food Service	0	0	9,046	0	9,046
Energy Efficient School Initiative	19,508	0	0	0	19,508
Driver Education	6,227	0	0	0	6,227
Other State Education Funds	9,881	0	0	0	9,881
Career Ladder Program	53,966	0	0	0	53,966
Career Ladder - Extended Contract	20,800	0	0	0	20,800
<u>Other State Revenues</u>					
Mixed Drink Tax	791	0	0	0	791
Total State of Tennessee	\$ 6,851,046	\$ 0	\$ 9,046	\$ 0	\$ 6,860,092

(Continued)

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

	Special Revenue Funds			Debt Service	Total
	General Purpose School	School Federal Projects	Central Cafeteria	Education Debt Service Fund	
<u>Federal Government</u>					
<u>Federal Through State</u>					
USDA School Lunch Program	\$ 0	\$ 0	\$ 413,881	\$ 0	\$ 413,881
USDA - Commodities	0	0	47,246	0	47,246
Breakfast	0	0	166,107	0	166,107
USDA - Other	0	0	3,205	0	3,205
Vocational Education - Basic Grants to States	0	16,379	0	0	16,379
Other Vocational	0	24,758	0	0	24,758
Title I Grants to Local Education Agencies	0	257,506	0	0	257,506
Special Education - Grants to States	0	288,893	0	0	288,893
Special Education Preschool Grants	0	19,043	0	0	19,043
English Language Acquisition Grants	0	1,675	0	0	1,675
Rural Education	0	21,126	0	0	21,126
Eisenhower Professional Development State Grants	0	38,999	0	0	38,999
Race-to-the-Top - ARRA	0	64,816	0	0	64,816
Other Federal through State	7,400	36,857	0	0	44,257
<u>Direct Federal Revenue</u>					
Public Law 874 - Maintenance and Operation	2,165	0	0	0	2,165
Total Federal Government	\$ 9,565	\$ 770,052	\$ 630,439	\$ 0	\$ 1,410,056
Total	\$ 8,418,336	\$ 770,052	\$ 873,361	\$ 581,628	\$ 10,643,377

Exhibit G-6

McKenzie Special School District  
Schedule of Detailed Expenditures -  
All Governmental Fund Types  
For the Year Ended June 30, 2013

General Purpose School Fund

Instruction

Regular Instruction Program

Teachers	\$	3,159,332	
Career Ladder Program		29,500	
Career Ladder Extended Contracts		25,488	
Homebound Teachers		1,180	
Educational Assistants		24,262	
Certified Substitute Teachers		42,317	
Non-certified Substitute Teachers		31,740	
Social Security		191,978	
State Retirement		293,966	
Medical Insurance		359,733	
Employer Medicare		45,132	
Evaluation and Testing		5,493	
Maintenance and Repair Services - Equipment		1,862	
Medical and Dental Services		52	
Printing, Stationery, and Forms		702	
Instructional Supplies and Materials		66,514	
Textbooks		77,794	
Fee Waivers		6,589	
Other Charges		25,528	
Furniture and Fixtures		2,896	
Regular Instruction Equipment		80,613	
Total Regular Instruction Program			\$ 4,472,671

Alternative Instruction Program

Contracts with Other School Systems	\$	18,818	
Total Alternative Instruction Program			18,818

Special Education Program

Teachers	\$	235,802	
Career Ladder Program		2,000	
Career Ladder Extended Contracts		750	
Educational Assistants		14,000	
Speech Pathologist		34,633	
Social Security		15,825	
State Retirement		24,259	
Medical Insurance		42,198	
Employer Medicare		3,701	
Contracts with Other School Systems		43,623	
Other Contracted Services		2,944	
Instructional Supplies and Materials		1,866	
Total Special Education Program			421,601

Vocational Education Program

Teachers	\$	207,665	
Career Ladder Program		3,000	
Social Security		11,346	
State Retirement		18,709	
Medical Insurance		30,820	
Employer Medicare		2,654	
Instructional Supplies and Materials		1,250	
Total Vocational Education Program			275,444

(Continued)

Exhibit G-6

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

General Purpose School Fund (Cont.)

Support Services

Health Services

Medical Personnel	\$	78,476	
Social Security		4,807	
State Retirement		5,317	
Employer Medicare		1,124	
Drugs and Medical Supplies		1,031	
Office Supplies		59	
In Service/Staff Development		1,081	
Total Health Services			\$ 91,895

Other Student Support

Career Ladder Program	\$	3,000	
Guidance Personnel		154,472	
Other Salaries and Wages		15,545	
Social Security		9,431	
State Retirement		15,253	
Medical Insurance		29,385	
Employer Medicare		2,206	
Communication		882	
Contracts with Government Agencies		24,000	
Other Contracted Services		3,674	
Instructional Supplies and Materials		127	
Office Supplies		842	
In Service/Staff Development		1,412	
Other Equipment		449	
Total Other Student Support			260,678

Regular Instruction Program

Supervisor/Director	\$	66,590	
Career Ladder Program		3,000	
Career Ladder Extended Contracts		5,500	
Librarians		139,045	
Instructional Computer Personnel		65,343	
Educational Assistants		29,124	
Social Security		17,418	
State Retirement		26,879	
Medical Insurance		28,042	
Employer Medicare		4,074	
Communication		383	
Data Processing Services		64,749	
Licenses		7,280	
Travel		519	
Other Contracted Services		81	
Instructional Supplies and Materials		28	
Library Books/Media		9,035	
Office Supplies		980	
In Service/Staff Development		9,976	
Other Equipment		241	
Total Regular Instruction Program			478,287

(Continued)

Exhibit G-6

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Special Education Program

Supervisor/Director	\$	23,759	
Social Security		1,384	
State Retirement		2,119	
Medical Insurance		3,601	
Employer Medicare		324	
Travel		4,259	
In Service/Staff Development		292	
Total Special Education Program			\$ 35,738

Vocational Education Program

Supervisor/Director	\$	4,658	
Social Security		289	
State Retirement		414	
Employer Medicare		68	
In Service/Staff Development		240	
Total Vocational Education Program			5,669

Other Programs

On-Behalf Payments to OPEB	\$	53,955	
Total Other Programs			53,955

Board of Education

Election Commission	\$	350	
Unemployment Compensation		5,695	
Employer Medicare		31	
Payments to Retirees		2,115	
Audit Services		13,084	
Dues and Memberships		4,786	
Legal Services		4,055	
Postal Charges		328	
Maintenance and Repair Services - Records		2,000	
Office Supplies		906	
Liability Insurance		25,938	
Premiums on Corporate Surety Bonds		991	
Trustee's Commission		22,651	
Workers' Compensation Insurance		17,022	
In Service/Staff Development		1,508	
Refund to Applicant for Criminal Investigation		474	
Other Charges		4,239	
Total Board of Education			106,173

Director of Schools

County Official/Administrative Officer	\$	84,312	
Career Ladder Program		1,000	
Secretary(ies)		15,500	
Social Security		6,166	
State Retirement		8,101	
Medical Insurance		18,203	
Employer Medicare		1,435	

(Continued)

Exhibit G-6

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Director of Schools (Cont.)

Advertising	\$	376	
Communication		3,965	
Dues and Memberships		1,189	
Legal Notices, Recording, and Court Costs		438	
Postal Charges		1,132	
Rentals		1,960	
Office Supplies		131	
Periodicals		64	
In Service/Staff Development		652	
Administration Equipment		548	
Furniture and Fixtures		2,631	
Total Director of Schools			\$ 147,803

Office of the Principal

Principals	\$	212,143	
Career Ladder Program		3,000	
Accountants/Bookkeepers		64,329	
Assistant Principals		66,372	
Secretary(ies)		36,892	
Social Security		23,083	
State Retirement		31,993	
Medical Insurance		38,178	
Employer Medicare		5,398	
Communication		4,868	
Dues and Memberships		725	
Rentals		7,838	
Office Supplies		59	
Periodicals		36	
In Service/Staff Development		2,869	
Total Office of the Principal			497,783

Fiscal Services

Supervisor/Director	\$	62,409	
Purchasing Personnel		15,500	
Social Security		4,733	
State Retirement		4,831	
Medical Insurance		10,083	
Employer Medicare		1,107	
Data Processing Services		8,751	
Dues and Memberships		25	
Printing, Stationery, and Forms		175	
Travel		135	
Office Supplies		407	
Periodicals		57	
In Service/Staff Development		1,230	
Administration Equipment		1,293	
Furniture and Fixtures		1,493	
Total Fiscal Services			112,229

(Continued)

Exhibit G-6

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Operation of Plant

Janitorial Services	\$	267,643	
Disposal Fees		5,683	
Electricity		214,879	
Natural Gas		30,496	
Water and Sewer		23,625	
Boiler Insurance		2,132	
Building and Contents Insurance		38,860	
Total Operation of Plant			\$ 583,318

Maintenance of Plant

Maintenance Personnel	\$	97,714	
Social Security		6,019	
State Retirement		6,752	
Employer Medicare		1,408	
Communication		983	
Maintenance and Repair Services - Buildings		112,792	
Maintenance and Repair Services - Vehicles		2,742	
Pest Control		3,300	
Gasoline		6,372	
Other Charges		270	
Heating and Air Conditioning Equipment		17,950	
Other Equipment		8,421	
Total Maintenance of Plant			264,723

Operation of Non-Instructional Services

Early Childhood Education

Teachers	\$	44,351	
Educational Assistants		29,244	
Social Security		4,521	
State Retirement		5,959	
Employer Medicare		1,057	
Food Supplies		1,004	
Instructional Supplies and Materials		11,052	
In Service/Staff Development		1,749	
Regular Instruction Equipment		142	
Total Early Childhood Education			99,079

Capital Outlay

Regular Capital Outlay

Building Improvements	\$	14,521	
Total Regular Capital Outlay			14,521

Total General Purpose School Fund \$ 7,940,385

School Federal Projects Fund

Instruction

Regular Instruction Program

Teachers	\$	219,341	
Career Ladder Extended Contracts		662	

(Continued)

Exhibit G-6

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

School Federal Projects Fund (Cont.)

Instruction (Cont.)

Regular Instruction Program (Cont.)

Educational Assistants	\$	39,453	
Social Security		11,523	
State Retirement		16,645	
Medical Insurance		30,494	
Employer Medicare		3,421	
Other Contracted Services		11,632	
Instructional Supplies and Materials		3,305	
Regular Instruction Equipment		310	
Total Regular Instruction Program			\$ 336,786

Special Education Program

Teachers	\$	42,735	
Educational Assistants		123,302	
Speech Pathologist		14,843	
Social Security		10,798	
State Retirement		12,206	
Medical Insurance		3,214	
Employer Medicare		2,525	
Contracts with Other School Systems		63,387	
Other Contracted Services		49,490	
Instructional Supplies and Materials		3,195	
Special Education Equipment		200	
Total Special Education Program			325,895

Vocational Education Program

Teachers	\$	12,528	
Social Security		777	
State Retirement		1,110	
Medical Insurance		1,579	
Employer Medicare		182	
Instructional Supplies and Materials		19,310	
Vocational Instruction Equipment		6,974	
Total Vocational Education Program			42,460

Support Services

Health Services

Medical Personnel	\$	3,075	
Social Security		191	
State Retirement		212	
Employer Medicare		45	
Total Health Services			3,523

Other Student Support

Bus Drivers	\$	1,000	
Travel		3,986	
Total Other Student Support			4,986

Regular Instruction Program

Supervisor/Director	\$	37,492	
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(Continued)

Exhibit G-6

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

School Federal Projects Fund (Cont.)

Support Services (Cont.)

Regular Instruction Program (Cont.)

Career Ladder Extended Contracts	\$	625	
Social Security		2,174	
State Retirement		3,336	
Medical Insurance		5,760	
Employer Medicare		508	
In Service/Staff Development		4,310	
Total Regular Instruction Program			\$ 54,205

Special Education Program

Supervisor/Director	\$	6,630	
Social Security		367	
State Retirement		580	
Medical Insurance		508	
Employer Medicare		86	
In Service/Staff Development		1,134	
Total Special Education Program			9,305

Vocational Education Program

Travel	\$	819	
Total Vocational Education Program			819

Maintenance of Plant

Maintenance Personnel	\$	5,659	
Social Security		351	
State Retirement		391	
Employer Medicare		82	
Total Maintenance of Plant			6,483

Total School Federal Projects Fund \$ 784,462

Central Cafeteria Fund

Operation of Non-Instructional Services

Food Service

Supervisor/Director	\$	34,993	
Cafeteria Personnel		245,700	
Social Security		17,096	
State Retirement		15,550	
Medical Insurance		3,643	
Unemployment Compensation		900	
Employer Medicare		3,998	
Advertising		75	
Audit Services		1,203	
Communication		1,576	
Data Processing Services		7,514	
Dues and Memberships		210	
Maintenance and Repair Services - Equipment		15,717	
Medical and Dental Services		468	
Pest Control		600	
Postal Charges		475	

(Continued)

Exhibit G-6

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

Central Cafeteria Fund (Cont.)

Operation of Non-Instructional Services (Cont.)

Food Service (Cont.)

Printing, Stationery, and Forms	\$	236	
Travel		2,035	
Disposal Fees		8,815	
Permits		240	
Custodial Supplies		4,427	
Food Preparation Supplies		29,583	
Food Supplies		406,368	
Office Supplies		889	
Uniforms		2,007	
Utilities		48,000	
USDA - Commodities		47,246	
Refunds		100	
Workers' Compensation Insurance		6,723	
In Service/Staff Development		1,078	
Refund to Applicant for Criminal Investigation		84	
Other Charges		376	
Food Service Equipment		14,146	
Total Food Service			\$ 922,071

Total Central Cafeteria Fund \$ 922,071

Education Debt Service Fund

Support Services

Board of Education

Trustee's Commission	\$	11,622	
Total Board of Education			\$ 11,622

Principal on Debt

Education

Principal on Bonds	\$	490,000	
Total Education			490,000

Interest on Debt

Education

Interest on Bonds	\$	260,350	
Total Education			260,350

Other Debt Service

Education

Other Debt Service	\$	500	
Total Education			500

Total Education Debt Service Fund 762,472

Total Governmental Funds - McKenzie Special School District \$ 10,409,390

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## SINGLE AUDIT SECTION

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

**Report on Internal Control Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial Statements Performed in  
Accordance With *Government Auditing Standards***

Independent Auditor's Report

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

To the Director of Schools and Board of Directors:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the McKenzie Special School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the McKenzie Special School District's basic financial statements, and have issued our report thereon dated March 11, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the McKenzie Special School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the McKenzie Special School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the McKenzie Special School District's internal control.

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 a 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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

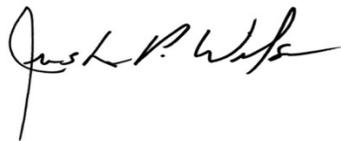
### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the McKenzie Special School District's financial statements are free from 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and is described in the accompanying Schedule of Findings and Questioned Costs as item 2013-001.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the McKenzie Special School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Very truly yours,



Justin P. Wilson  
Comptroller of the Treasury  
Nashville, Tennessee

March 11, 2014

JPW/kp



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

**Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

Independent Auditor's Report

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

To the Director of Schools and Board of Directors:

**Report on Compliance for Each Major Federal Program**

We have audited the McKenzie Special School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the McKenzie Special School District's major federal programs for the year ended June 30, 2013. McKenzie Special School District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the McKenzie Special School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local*

*Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the McKenzie Special School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the McKenzie Special School District's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the McKenzie Special School District complied, in all material respects, with the types of compliance 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, 2013.

### **Report on Internal Control Over Compliance**

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

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

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we

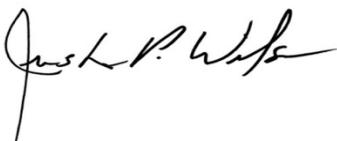
consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

**Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the McKenzie Special School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the McKenzie Special School District's basic financial statements. We issued our report thereon dated March 11, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the 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 Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Very truly yours,



Justin P. Wilson  
Comptroller of the Treasury  
Nashville, Tennessee

March 11, 2014

JPW/kp

McKenzie Special School District  
Schedule of Expenditures of Federal Awards and State Grants (1)  
For the Year Ended June 30, 2013

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	\$ 166,107
National School Lunch Program	10.555	N/A	417,086 (3)
Passed-through State Department of Agriculture:			
National School Lunch Program (Commodities - Noncash Assistance)	10.555	N/A	47,246 (3)
Total U.S. Department of Agriculture			<u>\$ 630,439</u>
U.S. Department of Education:			
Direct Program:			
Impact Aid	84.041	N/A	\$ 2,165
Passed-through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	N/A	256,624
Special Education Cluster:			
Special Education - Grants to States	84.027	N/A	304,359
Special Education - Preschool Grants	84.173	N/A	23,902
Career and Technical Education - Basic Grants to States	84.048	N/A	39,283
Safe and Drug-free Schools and Communities - State Grants	84.186	(2)	7,400
Rural Education	84.358	N/A	18,977
English Language Acquisition State Grants	84.365	N/A	1,675
Improving Teacher Quality State Grants	84.367	N/A	39,203
State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	N/A	65,007
Education Jobs Fund	84.410	N/A	35,432
Total U.S. Department of Education			<u>\$ 794,027</u>
Total Expenditures of Federal Awards			<u>\$ 1,424,466</u>
State Grants:			
		<u>Contract Number</u>	
Early Childhood Education - State Department of Education	N/A	(2)	\$ 103,518
Energy Efficient School Initiative - State Department of Education	N/A	(2)	19,508
ACT/EXPLORE/PLAN - State Department of Education	N/A	(2)	1,656
Statewide Student Management System - State Department of Education	N/A	(2)	3,644
ConnecTenn - State Department of Education	N/A	(2)	4,581
Total State Grants			<u>\$ 132,907</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 \$464,332.

McKenzie Special School District  
Schedule of Audit Findings Not Corrected  
June 30, 2013

*Government Auditing Standards* require auditors to report the status of uncorrected findings from prior audits. There were no findings from the Annual Financial Report for the McKenzie Special School District, for the year ended June 30, 2012, which had not been corrected.

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**MCKENZIE SPECIAL SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended June 30, 2013**

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**PART I, SUMMARY OF AUDITOR'S RESULTS**

1. Our report on the financial statements of the McKenzie Special School District is unmodified.
2. The audit of the financial statements of the McKenzie Special School District disclosed no significant deficiencies in internal control.
3. The audit disclosed no instances of noncompliance that were material to the financial statements of the McKenzie Special School District.
4. The audit disclosed no significant deficiencies in internal control over major programs.
5. An unmodified opinion was issued on compliance for major programs.
6. The audit revealed no findings that are required to be reported under Section 510(a) of OMB Circular A-133.
7. The Child Nutrition Cluster: School Breakfast Program and National School Lunch Program (CFDA Nos. 10.553 and 10.555) and the Special Education Cluster: Special Education – Grants to States and Special Education-Preschool Grants (CFDA Nos. 84.027 and 84.173) were determined to be major programs.
8. A \$300,000 threshold was used to distinguish between Type A and Type B federal programs.
9. The McKenzie Special School District did qualify as a low-risk auditee.

## PART II, FINDINGS RELATING TO THE FINANCIAL STATEMENTS

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

### FINDING 2013-001

#### **EXPENDITURES EXCEEDED APPROPRIATIONS** (Noncompliance Under *Government Auditing Standards*)

Expenditures exceeded appropriations in one of 19 major appropriation categories (the legal level of control) of the General Purpose School Fund: Regular Capital Outlay by \$2,154. This deficiency exists because management failed to hold spending to the limits authorized by the Board of Directors, which resulted in unauthorized expenditures.

### RECOMMENDATION

Expenditures should be held within appropriations approved by the Board of Directors.

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### **BEST PRACTICE**

#### **McKENZIE SPECIAL SCHOOL DISTRICT SHOULD ESTABLISH AN AUDIT COMMITTEE**

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

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

There were no findings and questioned costs for federal awards.

**McKENZIE SPECIAL SCHOOL DISTRICT  
AUDITEE REPORTING RESPONSIBILITIES  
For the Year Ended June 30, 2013**

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