

ANNUAL FINANCIAL REPORT
MCKENZIE SPECIAL SCHOOL DISTRICT
FOR THE YEAR ENDED JUNE 30, 2015



DIVISION OF LOCAL GOVERNMENT AUDIT



ANNUAL FINANCIAL REPORT
McKENZIE SPECIAL SCHOOL DISTRICT
FOR THE YEAR ENDED JUNE 30, 2015

COMPTROLLER OF THE TREASURY
JUSTIN P. WILSON

DIVISION OF LOCAL GOVERNMENT AUDIT
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This financial report is available at www.comptroller.tn.gov

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Summary of Audit Findings

Annual Financial Report
McKenzie Special School District
For the Year Ended June 30, 2015

Scope

We have audited the basic financial statements of the McKenzie Special School District as of and for the year ended June 30, 2015.

Results

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

Our audit resulted in no findings and recommendations.

INTRODUCTORY SECTION

McKenzie Special School District Officials
June 30, 2015

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

FINANCIAL SECTION



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COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
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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, 2015, 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, 2015, 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.

Change in Accounting Principles

As described in Note V.B., the McKenzie Special School District has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*; GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*; and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

Emphasis of Matter

We draw attention to Note I.D.9. to the financial statements, which describes a restatement decreasing the beginning Governmental Activities net position by \$1,644,916 on the Government-wide Statement of Activities. This restatement was necessary because of the transitional requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

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 schedule of changes in the district's net pension liability (asset) and related ratios, schedules of district contributions, schedule of the district's proportionate share of the net pension asset, and schedule of funding progress - other postemployment benefits plan on pages 56-62 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.

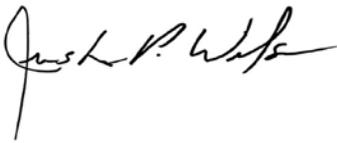
The combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds and the Education Debt Service Fund, and miscellaneous schedules, are the responsibility of management and were derived from and relate directly to the underlying accounting 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 fund financial statements, the 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 7, 2016, 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,

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

Justin P. Wilson
Comptroller of the Treasury
Nashville, Tennessee

March 7, 2016

JPW/yu

BASIC FINANCIAL STATEMENTS

Exhibit A

McKenzie Special School District
Statement of Net Position
June 30, 2015

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| <u>ASSETS</u> | |
| Cash | \$ 20 |
| Equity in Pooled Cash and Investments | 3,034,085 |
| Inventories | 53,035 |
| Accounts Receivable | 13,691 |
| Due from Other Governments | 229,796 |
| Property Taxes Receivable | 1,423,499 |
| Allowance for Uncollectible Property Taxes | (62,130) |
| Prepaid Items | 107,906 |
| Net Pension Asset - Agent Plan | 193,831 |
| Net Pension Asset - Cost-sharing Plan | 21,213 |
| Capital Assets: | |
| Assets Not Depreciated: | |
| Land | 412,477 |
| Assets Net of Accumulated Depreciation: | |
| Buildings and Improvements | 6,688,234 |
| Other Capital Assets | <u>247,777</u> |
| Total Assets | <u>\$ 12,363,434</u> |
| <u>DEFERRED OUTFLOWS OF RESOURCES</u> | |
| Deferred Charge on Refunding | \$ 3,725 |
| Pension Changes in Experience | 51,500 |
| Pension Contributions After Measurement Date | 507,806 |
| Pension Other Deferrals | 42,399 |
| Total Deferred Outflows of Resources | <u>\$ 605,430</u> |
| <u>LIABILITIES</u> | |
| Accounts Payable | \$ 4,800 |
| Payroll Deductions Payable | 327,033 |
| Accrued Interest Payable | 50,100 |
| Noncurrent Liabilities: | |
| Due Within One Year | 604,442 |
| Due in More Than One Year (net of unamortized premium on debt) | 4,726,221 |
| Total Liabilities | <u>\$ 5,712,596</u> |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | |
| Deferred Current Property Taxes | \$ 1,318,210 |
| Pension Changes in Experience | 49,494 |
| Pension Changes in Investment Earnings | 1,879,283 |
| Total Deferred Inflows of Resources | <u>\$ 3,246,987</u> |
| <u>NET POSITION</u> | |
| Net Investment in Capital Assets | \$ 2,323,103 |
| Restricted for: | |
| Education | 327,153 |
| Operation of Non-instructional Services | 279,936 |
| Debt Service | 840,482 |
| Unrestricted | <u>238,607</u> |
| Total Net Position | <u>\$ 4,009,281</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, 2015

| Functions/Programs | Expenses | Program Revenues | | Net (Expense) |
|--|----------------------|----------------------------|---|--|
| | | Charges for Services | Operating Grants and Contributions | Revenue and Changes in Net Position Total Governmental Activities |
| Governmental Activities: | | | | |
| Instruction | \$ 6,120,329 | \$ 7,322 | \$ 608,595 | \$ (5,504,412) |
| Support Services | 2,868,757 | 13,284 | 69,087 | (2,786,386) |
| Operation of Non-instructional Services | 993,942 | 225,074 | 742,595 | (26,273) |
| Interest on Long-term Debt | 217,875 | 2,297 | 0 | (215,578) |
| Total Governmental Activities | \$ 10,200,903 | \$ 247,977 | \$ 1,420,277 | \$ (8,532,649) |
| General Revenues: | | | | |
| Taxes: | | | | |
| Property Taxes Levied for General Purposes | | | | \$ 745,992 |
| Property Taxes Levied for Debt Service | | | | 570,454 |
| Local Option Sales Taxes | | | | 760,085 |
| Other Local Taxes | | | | 1,282 |
| Grants and Contributions Not Restricted to Specific Programs | | | | 7,001,972 |
| Unrestricted Investment Income | | | | 11,647 |
| Miscellaneous | | | | 2,236 |
| Pension Income | | | | 25,082 |
| Total General Revenues | | | | \$ 9,118,750 |
| Change in Net Position | | | | \$ 586,101 |
| Net Position, July 1, 2014 | | | | 5,068,096 |
| Restatement - Pension Liability (See Note I.D.9) | | | | (1,644,916) |
| Net Position, June 30, 2015 | | | | \$ 4,009,281 |

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

Exhibit C-1

McKenzie Special School District
Balance Sheet
Governmental Funds
June 30, 2015

| | Major Funds | | Nonmajor Funds | Total Governmental Funds |
|--|------------------------------|------------------------------|-------------------------------------|--------------------------------|
| | General Purpose School | Education Debt Service | Other Govern- mental Funds | |
| <u>ASSETS</u> | | | | |
| Cash | \$ 0 | \$ 0 | \$ 20 | \$ 20 |
| Equity in Pooled Cash and Investments | 1,909,618 | 862,280 | 262,187 | 3,034,085 |
| Inventories | 0 | 0 | 53,035 | 53,035 |
| Accounts Receivable | 13,691 | 0 | 0 | 13,691 |
| Due from Other Governments | 191,084 | 5,940 | 32,772 | 229,796 |
| Due from Other Funds | 62,533 | 0 | 0 | 62,533 |
| Property Taxes Receivable | 808,806 | 614,693 | 0 | 1,423,499 |
| Allowance for Uncollectible Property Taxes | (35,301) | (26,829) | 0 | (62,130) |
| Prepaid Items | 106,626 | 0 | 1,280 | 107,906 |
| Total Assets | <u>\$ 3,057,057</u> | <u>\$ 1,456,084</u> | <u>\$ 349,294</u> | <u>\$ 4,862,435</u> |
| <u>LIABILITIES</u> | | | | |
| Accounts Payable | \$ 2,799 | \$ 0 | \$ 2,001 | \$ 4,800 |
| Payroll Deductions Payable | 327,033 | 0 | 0 | 327,033 |
| Due to Other Funds | 0 | 0 | 62,533 | 62,533 |
| Total Liabilities | <u>\$ 329,832</u> | <u>\$ 0</u> | <u>\$ 64,534</u> | <u>\$ 394,366</u> |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | | | | |
| Deferred Current Property Taxes | \$ 748,983 | \$ 569,227 | \$ 0 | \$ 1,318,210 |
| Deferred Delinquent Property Taxes | 21,470 | 16,317 | 0 | 37,787 |
| Other Deferred/Unavailable Revenue | 57,536 | 0 | 355 | 57,891 |
| Total Deferred Inflows of Resources | <u>\$ 827,989</u> | <u>\$ 585,544</u> | <u>\$ 355</u> | <u>\$ 1,413,888</u> |

(Continued)

Exhibit C-1

McKenzie Special School District
Balance Sheet - Governmental Funds (Cont.)

| | <u>Major Funds</u> | | <u>Nonmajor</u> | <u>Total</u> |
|---|---------------------|---------------------|-------------------|---------------------|
| | <u>General</u> | <u>Education</u> | <u>Funds</u> | |
| | <u>Purpose</u> | <u>Debt</u> | <u>Other</u> | <u>Governmental</u> |
| | <u>School</u> | <u>Service</u> | <u>Funds</u> | <u>Funds</u> |
| <u>FUND BALANCES</u> | | | | |
| Nonspendable: | | | | |
| Inventory | \$ 0 | \$ 0 | \$ 53,035 | \$ 53,035 |
| Prepaid Items | 106,626 | 0 | 1,280 | 107,906 |
| Restricted: | | | | |
| Restricted for Education | 1,014 | 0 | 4,469 | 5,483 |
| Restricted for Operation of Non-instructional Services | 0 | 0 | 225,621 | 225,621 |
| Restricted for Debt Service | 0 | 870,540 | 0 | 870,540 |
| Assigned: | | | | |
| Assigned for Education | 109,428 | 0 | 0 | 109,428 |
| Unassigned | 1,682,168 | 0 | 0 | 1,682,168 |
| Total Fund Balances | <u>\$ 1,899,236</u> | <u>\$ 870,540</u> | <u>\$ 284,405</u> | <u>\$ 3,054,181</u> |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | <u>\$ 3,057,057</u> | <u>\$ 1,456,084</u> | <u>\$ 349,294</u> | <u>\$ 4,862,435</u> |

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

Exhibit C-2

McKenzie Special School District
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2015

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) | | \$ 3,054,181 | |
| (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 | | 6,688,234 | |
| Add: other capital assets net of accumulated depreciation | | <u>247,777</u> | 7,348,488 |
| (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 | \$ | (5,010,000) | |
| Add: deferred amount on refunding | | 3,725 | |
| Less: compensated absences payable | | (48,140) | |
| Less: other postemployment benefits liability | | (257,138) | |
| Less: accrued interest on bonds | | (50,100) | |
| Less: other deferred revenue - premium on debt | | <u>(15,385)</u> | (5,377,038) |
| (3) Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be amortized and recognized as components of pension expense in future years. | | | |
| Add: deferred outflows of resources related to pensions | \$ | 601,705 | |
| Less: deferred inflows of resources related to pensions | | <u>(1,928,777)</u> | (1,327,072) |
| (4) Net pension assets are not current financial resources and therefore are not reported in the governmental funds. | | | |
| Add: net pension asset - agent plan | \$ | 193,831 | |
| Add: net pension asset - cost-sharing plan | | <u>21,213</u> | 215,044 |
| (5) Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the governmental funds. | | | <u>95,678</u> |
| Net position of governmental activities (Exhibit A) | | | <u>\$ 4,009,281</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, 2015

| | Major Funds | | Nonmajor Funds | Total Governmental Funds |
|--|------------------------------|------------------------------|-------------------------------------|--------------------------------|
| | General Purpose School | Education Debt Service | Other Govern- mental Funds | |
| <u>Revenues</u> | | | | |
| Local Taxes | \$ 1,517,426 | \$ 572,856 | \$ 0 | \$ 2,090,282 |
| Licenses and Permits | 475 | 0 | 0 | 475 |
| Charges for Current Services | 7,322 | 0 | 224,719 | 232,041 |
| Other Local Revenues | 51,081 | 0 | 2,690 | 53,771 |
| State of Tennessee | 6,982,835 | 0 | 8,628 | 6,991,463 |
| Federal Government | 21,923 | 0 | 1,381,784 | 1,403,707 |
| Total Revenues | <u>\$ 8,581,062</u> | <u>\$ 572,856</u> | <u>\$ 1,617,821</u> | <u>\$ 10,771,739</u> |
| <u>Expenditures</u> | | | | |
| Current: | | | | |
| Instruction | \$ 5,311,341 | \$ 0 | \$ 676,325 | \$ 5,987,666 |
| Support Services | 2,917,344 | 11,401 | 74,221 | 3,002,966 |
| Operation of Non-instructional Services | 105,580 | 0 | 870,663 | 976,243 |
| Capital Outlay | 1,068,041 | 0 | 0 | 1,068,041 |
| Debt Service: | | | | |
| Principal on Debt | 0 | 550,000 | 0 | 550,000 |
| Interest on Debt | 0 | 222,400 | 0 | 222,400 |
| Other Debt Service | 0 | 500 | 0 | 500 |
| Total Expenditures | <u>\$ 9,402,306</u> | <u>\$ 784,301</u> | <u>\$ 1,621,209</u> | <u>\$ 11,807,816</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>\$ (821,244)</u> | <u>\$ (211,445)</u> | <u>\$ (3,388)</u> | <u>\$ (1,036,077)</u> |
| <u>Other Financing Sources (Uses)</u> | | | | |
| Insurance Recovery | \$ 31,230 | \$ 0 | \$ 1,348 | \$ 32,578 |
| Transfers In | 0 | 150,000 | 0 | 150,000 |
| Transfers Out | (150,000) | 0 | 0 | (150,000) |
| Total Other Financing Sources (Uses) | <u>\$ (118,770)</u> | <u>\$ 150,000</u> | <u>\$ 1,348</u> | <u>\$ 32,578</u> |
| Net Change in Fund Balances | \$ (940,014) | \$ (61,445) | \$ (2,040) | \$ (1,003,499) |
| Fund Balance, July 1, 2014 | <u>2,839,250</u> | <u>931,985</u> | <u>286,445</u> | <u>4,057,680</u> |
| Fund Balance, June 30, 2015 | <u>\$ 1,899,236</u> | <u>\$ 870,540</u> | <u>\$ 284,405</u> | <u>\$ 3,054,181</u> |

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, 2015

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) | | \$ (1,003,499) |
| | | |
| (1) Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their useful lives and reported as depreciation expense. The difference between capital outlays and depreciation is itemized as follows: | | |
| Add: capital assets purchased in the current period | \$ 1,085,124 | |
| Less: current-year depreciation expense | <u>(569,816)</u> | 515,308 |
| | | |
| (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, 2015 | \$ 95,678 | |
| Less: deferred delinquent property taxes and other deferred June 30, 2014 | <u>(107,792)</u> | (12,114) |
| | | |
| (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 | \$ 550,000 | |
| Add: change in premium on debt issuances | 2,297 | |
| Less: change in deferred amount on refunding debt | <u>(975)</u> | 551,322 |
| | | |
| (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 | \$ 5,500 | |
| Change in compensated absences payable | 4,409 | |
| Change in other postemployment benefits liability | (7,713) | |
| Change in net pension asset - agent plan | 194,911 | |
| Change in net pension asset - cost-sharing plan | 1,665,049 | |
| Change in deferred outflows related to pensions | 601,705 | |
| Change in deferred inflows related to pensions | <u>(1,928,777)</u> | <u>535,084</u> |
| | | |
| Change in net position of governmental activities (Exhibit B) | | <u>\$ 586,101</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, 2015

| | Actual (GAAP Basis) | Less: Encumbrances 7/1/2014 | Add: Encumbrances 6/30/2015 | Actual Revenues/ Expenditures (Budgetary Basis) | Budgeted Amounts | | Variance with Final Budget - Positive (Negative) |
|--|---------------------------|-----------------------------------|-----------------------------------|---|---------------------|---------------------|--|
| | | | | | Original | Final | |
| <u>Revenues</u> | | | | | | | |
| Local Taxes | \$ 1,517,426 | \$ 0 | \$ 0 | \$ 1,517,426 | \$ 1,405,620 | \$ 1,406,370 | \$ 111,056 |
| Licenses and Permits | 475 | 0 | 0 | 475 | 400 | 400 | 75 |
| Charges for Current Services | 7,322 | 0 | 0 | 7,322 | 7,100 | 7,100 | 222 |
| Other Local Revenues | 51,081 | 0 | 0 | 51,081 | 28,600 | 53,404 | (2,323) |
| State of Tennessee | 6,982,835 | 0 | 0 | 6,982,835 | 6,926,239 | 6,985,962 | (3,127) |
| Federal Government | 21,923 | 0 | 0 | 21,923 | 22,000 | 29,900 | (7,977) |
| Total Revenues | \$ 8,581,062 | \$ 0 | \$ 0 | \$ 8,581,062 | \$ 8,389,959 | \$ 8,483,136 | \$ 97,926 |
| <u>Expenditures</u> | | | | | | | |
| <u>Instruction</u> | | | | | | | |
| Regular Instruction Program | \$ 4,561,425 | \$ (52,226) | \$ 94,999 | \$ 4,604,198 | \$ 4,728,151 | \$ 4,701,609 | \$ 97,411 |
| Alternative Instruction Program | 19,815 | 0 | 0 | 19,815 | 22,000 | 22,000 | 2,185 |
| Special Education Program | 436,366 | 0 | 0 | 436,366 | 419,988 | 444,288 | 7,922 |
| Vocational Education Program | 293,735 | 0 | 0 | 293,735 | 301,737 | 301,737 | 8,002 |
| <u>Support Services</u> | | | | | | | |
| Health Services | 97,373 | 0 | 0 | 97,373 | 101,215 | 101,215 | 3,842 |
| Other Student Support | 279,150 | 0 | 0 | 279,150 | 276,224 | 286,124 | 6,974 |
| Regular Instruction Program | 490,989 | (1,881) | 700 | 489,808 | 492,133 | 494,853 | 5,045 |
| Special Education Program | 36,977 | 0 | 0 | 36,977 | 35,779 | 39,779 | 2,802 |
| Vocational Education Program | 5,891 | 0 | 0 | 5,891 | 6,169 | 6,169 | 278 |
| Other Programs | 39,281 | 0 | 0 | 39,281 | 0 | 39,281 | 0 |
| Board of Education | 118,315 | (135) | 408 | 118,588 | 113,640 | 122,998 | 4,410 |
| Director of Schools | 147,698 | 0 | 273 | 147,971 | 152,802 | 152,802 | 4,831 |
| Office of the Principal | 655,402 | 0 | 0 | 655,402 | 659,700 | 659,700 | 4,298 |
| Fiscal Services | 119,429 | 0 | 0 | 119,429 | 123,615 | 123,615 | 4,186 |
| Operation of Plant | 614,776 | 0 | 0 | 614,776 | 624,697 | 624,697 | 9,921 |
| Maintenance of Plant | 312,063 | (2,647) | 9,706 | 319,122 | 213,952 | 338,282 | 19,160 |
| <u>Operation of Non-Instructional Services</u> | | | | | | | |
| Early Childhood Education | 105,580 | (5,174) | 3,342 | 103,748 | 104,825 | 104,825 | 1,077 |

(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 7/1/2014 | Add: Encumbrances 6/30/2015 | Actual Revenues/ Expenditures (Budgetary Basis) | Budgeted Amounts | | Variance with Final Budget - Positive (Negative) |
|--|---------------------------|-----------------------------------|-----------------------------------|---|------------------|----------------|--|
| | | | | | Original | Final | |
| <u>Expenditures (Cont.)</u> | | | | | | | |
| <u>Capital Outlay</u> | | | | | | | |
| Regular Capital Outlay | \$ 1,068,041 | \$ (22,384) | \$ 0 | \$ 1,045,657 | \$ 0 | \$ 1,046,669 | \$ 1,012 |
| Total Expenditures | \$ 9,402,306 | \$ (84,447) | \$ 109,428 | \$ 9,427,287 | \$ 8,376,627 | \$ 9,610,643 | \$ 183,356 |
| Excess (Deficiency) of Revenues Over Expenditures | \$ (821,244) | \$ 84,447 | \$ (109,428) | \$ (846,225) | \$ 13,332 | \$ (1,127,507) | \$ 281,282 |
| <u>Other Financing Sources (Uses)</u> | | | | | | | |
| Insurance Recovery | \$ 31,230 | \$ 0 | \$ 0 | \$ 31,230 | \$ 0 | \$ 31,230 | \$ 0 |
| Transfers Out | (150,000) | 0 | 0 | (150,000) | (150,000) | (150,000) | 0 |
| Total Other Financing Sources | \$ (118,770) | \$ 0 | \$ 0 | \$ (118,770) | \$ (150,000) | \$ (118,770) | \$ 0 |
| Net Change in Fund Balance | \$ (940,014) | \$ 84,447 | \$ (109,428) | \$ (964,995) | \$ (136,668) | \$ (1,246,277) | \$ 281,282 |
| Fund Balance, July 1, 2014 | 2,839,250 | (84,447) | 0 | 2,754,803 | 2,670,865 | 2,670,865 | 83,938 |
| Fund Balance, June 30, 2015 | \$ 1,899,236 | \$ 0 | \$ (109,428) | \$ 1,789,808 | \$ 2,534,197 | \$ 1,424,588 | \$ 365,220 |

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

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, 2015**

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. All other investments are reported at fair value.

2. Receivables and Payables

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

Property taxes receivable are shown with an allowance for uncollectibles. The allowance for uncollectible property taxes is equal to 2.35 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. Deferred outflows of resources represent 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 has

items that qualify for reporting in this category. Accordingly, the items are reported in the government-wide Statement of Net Position. These items are for the deferred charge on refunding, pension changes in experience, employer contributions made to the pension plan after the measurement date, and pension changes in proportionate share of contributions.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represent 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 items are from the following sources: current and delinquent property taxes, pension changes in experience and investment earnings, 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

In prior years, the district was not required to recognize a liability for its defined benefit pension plans. However, with the implementation of GASB Statement No. 68, government employers are required to recognize a net pension liability in their Statement of Net Position. Therefore, a restatement decreasing McKenzie Special School District’s beginning net position by \$1,644,916 has been recognized on the Statement of Activities for liabilities of the pension agent plan (\$1,080) and the pension cost-sharing plan (\$1,643,836).

E. Pension Plans

Non-certified Employees

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the district’s participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from the district’s fiduciary net position have been determined on the same basis as they

are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

Certified Employees

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teacher Retirement Plan and the Teacher Legacy Pension Plan in the Tennessee Consolidated Retirement System, and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Teacher Retirement Plan and the Teacher Legacy Pension Plan. Investments are reported at fair value.

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

Budgetary Information

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

The district is required by state statute to adopt annual budgets. Annual budgets are prepared on the basis in which current available funds must be sufficient to meet current expenditures. Expenditures and encumbrances may not legally exceed

appropriations authorized by the Board of Directors and any authorized revisions. Unencumbered appropriations lapse at the end of each fiscal year.

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

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

At June 30, 2015, the McKenzie Special School District reported significant encumbrances of \$88,517 in the General Purpose School Fund for textbooks.

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, 2015, 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 | 3 to 139 | \$ 58,367 |

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, 2015, 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, 2015, was as follows:

Governmental Activities:

| | Balance 7-1-14 | Increases | Decreases | Balance 6-30-15 |
|--|----------------------|---------------------|---------------------|----------------------|
| Capital Assets Not Depreciated: | | | | |
| Land | \$ 412,477 | \$ 0 | \$ 0 | \$ 412,477 |
| Construction in Progress | 358,012 | 0 | (358,012) | 0 |
| Total Capital Assets Not Depreciated | \$ 770,489 | \$ 0 | \$ (358,012) | \$ 412,477 |
| Capital Assets Depreciated: | | | | |
| Buildings and Improvements | \$ 16,060,510 | \$ 1,424,777 | \$ 0 | \$ 17,485,287 |
| Other Capital Assets | 1,076,144 | 18,359 | 0 | 1,094,503 |
| Total Capital Assets Depreciated | \$ 17,136,654 | \$ 1,443,136 | \$ 0 | \$ 18,579,790 |
| Less Accumulated Depreciation For: | | | | |
| Buildings and Improvements | \$ 10,263,392 | \$ 533,661 | \$ 0 | \$ 10,797,053 |
| Other Capital Assets | 810,571 | 36,155 | 0 | 846,726 |
| Total Accumulated Depreciation | \$ 11,073,963 | \$ 569,816 | \$ 0 | \$ 11,643,779 |
| Total Capital Assets Depreciated, Net | \$ 6,062,691 | \$ 873,320 | \$ 0 | \$ 6,936,011 |
| Governmental Activities Capital Assets, Net | \$ 6,833,180 | \$ 873,320 | \$ (358,012) | \$ 7,348,488 |

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

Governmental Activities:

| | |
|---|--------------------------|
| Instruction | \$ 476,471 |
| Support Services | 59,717 |
| Operation of Non-instructional Services | <u>33,628</u> |
| Total Depreciation Expense - Governmental Activities | <u>\$ 569,816</u> |

C. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of June 30, 2015, was as follows:

Due to/from Other Funds:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|-----------------------|---------------|
| General Purpose School | Nonmajor governmental | \$ 62,533 |

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, 2015, consisted of the following amount:

| <u>Transfer Out</u> | <u>Transfer In</u> Education Debt Service Fund |
|-----------------------------|--|
| General Purpose School Fund | \$ 150,000 |

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, 2015, will be retired from the Education Debt Service Fund.

General obligation bonds outstanding as of June 30, 2015, for governmental activities are as follows:

| Type | Interest Rates | Final Maturity | Original Amount of Issue | Balance 6-30-15 |
|------------------------|----------------|----------------|--------------------------|-----------------|
| G.O. Bonds - Refunding | 3.5 to 4 % | 4-1-22 | \$ 8,255,000 | \$ 5,010,000 |

The annual requirements to amortize all general obligation bonds outstanding as of June 30, 2015, including interest payments, are presented in the following table:

| Year Ending June 30 | Bonds | | |
|------------------------|--------------|------------|--------------|
| | Principal | Interest | Total |
| 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 |
| 2021-2022 | 1,650,000 | 100,000 | 1,750,000 |
| Total | \$ 5,010,000 | \$ 850,200 | \$ 5,860,200 |

There is \$870,540 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, 2015, was as follows:

Governmental Activities:

| | Bonds | Compensated Absences |
|-----------------------------|--------------|----------------------|
| Balance, July 1, 2014 | \$ 5,560,000 | \$ 52,549 |
| Additions | 0 | 11,346 |
| Reductions | (550,000) | (15,755) |
| Balance, June 30, 2015 | \$ 5,010,000 | \$ 48,140 |
| Balance Due Within One Year | \$ 590,000 | \$ 14,442 |

| | <u>Other Postemployment Benefits</u> |
|-----------------------------|--|
| Balance, July 1, 2014 | \$ 249,425 |
| Additions | 59,257 |
| Reductions | <u>(51,544)</u> |
| Balance, June 30, 2015 | <u>\$ 257,138</u> |
| Balance Due Within One Year | <u>\$ 0</u> |

Analysis of Noncurrent Liabilities Presented on Exhibit A:

| | |
|---|---------------------|
| Total Noncurrent Liabilities, June 30, 2015 | \$ 5,315,278 |
| Less: Due Within One Year | (604,442) |
| Add: Unamortized Premium on Debt | <u>15,385</u> |
| Noncurrent Liabilities - Due in More Than One Year - Exhibit A | <u>\$ 4,726,221</u> |

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

E. On-Behalf Payments

The State of Tennessee pays health insurance premiums for retired teachers on-behalf of the McKenzie Special School District. These payments are made by the state to the Local Education Group Insurance Plan and the Medicare Supplement Plan. Both of these plans are administered by the State of Tennessee and reported in the state's Comprehensive Annual Financial Report. Payments by the state to the Local Education Group Insurance Plan and the Medicare Supplement Plan for the year ended June 30, 2015, were \$19,731 and \$19,550, 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. 68, *Accounting and Financial Reporting for Pensions-an Amendment of GASB Statement No. 27*; Statement No. 69, *Government Combinations and Disposals of Government Operations*; and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an Amendment of GASB Statement No. 68* became effective for the year ended June 30, 2015.

GASB Statement No. 68 replaces the requirements of Statements No. 27 and No. 50 as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this statement. This statement establishes standards for measuring and recognizing liabilities, deferred outflows/inflows, and expenses/expenditures.

GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations such as mergers, acquisitions, and transfer of operations.

GASB Statement No. 71 addresses issues related to amounts of contributions made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

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

Tennessee Consolidated Retirement System (TCRS)

Non-certified Employees

General Information About the Pension Plan

Plan Description. Employees of McKenzie Special School District are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under *Tennessee Code Annotated (TCA)*, Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits Provided. TCA, Title 8, Chapters 34-37 establish the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with five years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available to vested members at age 55. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced ten percent and include projected service credits. A variety of death benefits is available under various eligibility criteria.

Member and beneficiary annuitants are entitled to an automatic cost of living adjustment (COLA) after retirement. A COLA is granted each July for annuitants retired prior to the second of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at three percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest

Employees Covered by Benefit Terms. At the measurement date of June 30, 2014, the following employees were covered by the benefit terms:

| | |
|--|------------------|
| Inactive Employees or Beneficiaries Currently Receiving Benefits | 13 |
| Inactive Employees Entitled to But Not Yet Receiving Benefits | 29 |
| Active Employees | <u>39</u> |
| Total | <u><u>81</u></u> |

Contributions. Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute five percent of salary. McKenzie Special School District makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2015, employer contributions for McKenzie Special School District were \$11,628 based on a rate of 6.68 percent of pensionable payroll. By law, employer contributions are required to be paid. The TCRS may intercept McKenzie Special School District's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability (Asset)

McKenzie Special School District's net pension liability (asset) was measured as of June 30, 2014, and the total pension liability (asset) used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

Actuarial Assumptions. The total pension liability as of the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|---|
| Inflation | 3% |
| Salary Increases | Graded Salary Ranges from 8.97% to 3.71% Based on Age, Including Inflation, Averaging 4.25% |
| Investment Rate of Return | 7.5%, Net of Pension Plan Investment Expenses, Including Inflation |
| Cost of Living Adjustment | 2.5% |

Mortality rates were based on actual experience from the June 30, 2012, actuarial experience study, adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2014, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012, actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rate of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rate of return by the target asset allocation percentage and by adding inflation of three percent. The target allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Percentage Long-term Expected Real Rate of Return | Percentage Target Allocations |
|-----------------------|---|-------------------------------------|
| U.S. Equity | 6.46 % | 33 % |
| Developed Market | | |
| International Equity | 6.26 | 17 |
| Emerging Market | | |
| International Equity | 6.40 | 5 |
| Private Equity and | | |
| Strategic Lending | 4.61 | 8 |
| U.S. Fixed Income | 0.98 | 29 |
| Real Estate | 4.73 | 7 |
| Short-term Securities | 0.00 | 1 |
| Total | | 100 % |

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount Rate. The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumes that employee contributions will be made at the current rate and

that contributions from McKenzie Special School District will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability (Asset)

| | Increase (Decrease) | | |
|---|--------------------------------------|--|--|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a)-(b) |
| Balance, July 1, 2013 | \$ 1,885,133 | \$ 1,831,226 | \$ 53,907 |
| Changes for the year: | | | |
| Service Cost | \$ 62,743 | \$ 0 | \$ 62,743 |
| Interest | 141,576 | 0 | 141,576 |
| Differences Between Expected and Actual Experience | (61,868) | 0 | (61,868) |
| Contributions-Employer | 0 | 52,827 | (52,827) |
| Contributions-Employees | 0 | 38,226 | (38,226) |
| Net Investment Income | 0 | 300,516 | (300,516) |
| Benefit Payments, Including Refunds of Employee Contributions | (120,400) | (120,400) | 0 |
| Administrative Expense | 0 | (1,380) | 1,380 |
| Other Changes | 0 | 0 | 0 |
| Net Changes | <u>\$ 22,051</u> | <u>\$ 269,789</u> | <u>\$ (247,738)</u> |
| Balance, June 30, 2014 | <u>\$ 1,907,184</u> | <u>\$ 2,101,015</u> | <u>\$ (193,831)</u> |

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate. The following presents the net pension liability (asset) of McKenzie Special School District calculated using the discount rate of 7.5 percent, as well as what the net pension liability (asset) would be if it was calculated using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate:

| | | | |
|------------------|----------|----------|----------|
| | 1% | Current | 1% |
| McKenzie Special | Decrease | Discount | Increase |
| School District | 6.5% | Rate | 8.5% |
| | | 7.5% | |

Net Pension Liability \$ 74,646 \$ (193,831) \$ (415,208)

Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

Pension Income. For the year ended June 30, 2015, McKenzie Special School District recognized pension income of \$13,956.

Deferred Outflows of Resources and Deferred Inflows of Resources. For the year ended June 30, 2015, McKenzie Special School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred | Deferred |
|--|---------------------|----------------------|
| | Outflows | Inflows |
| | of | of |
| | Resources | Resources |
| Differences Between Expected and Actual Experience | \$ 0 | \$ 49,494 |
| Net Difference Between Projected and Actual Earnings on Pension Plan Investments | 0 | 131,461 |
| Contributions Subsequent to the Measurement Date of June 30, 2014 (1) | 11,628 | N/A |
| Total | <u>\$ 11,628</u> | <u>\$ 180,955</u> |

- (1) The amount shown above for “Contributions Subsequent to the Measurement Date of June 30, 2014,” will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

Amounts reported as deferred outflows of resources, with the exception of contributions after the measurement date, and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ending June 30 | Amount |
|------------------------|-------------|
| 2016 | \$ (45,239) |
| 2017 | (45,239) |
| 2018 | (45,239) |
| 2019 | (45,238) |
| 2020 | 0 |
| Thereafter | 0 |

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

Certified Employees

Teacher Retirement Plan

General Information About the Pension Plan

Plan Description. Teachers of the McKenzie Special School District with membership in the TCRS before July 1, 2014, are provided with pensions through the Teacher Legacy Pension Plan, a cost-sharing multiple-employer pension plan administered by the TCRS. The Teacher Legacy Pension Plan is closed to new membership. Teachers with membership in the TCRS after June 30, 2014, are provided with pensions through a legally separate plan referred to as the Teacher Retirement Plan, a cost-sharing multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under *Tennessee Code Annotated (TCA)*, Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits Provided. TCA, Title 8, Chapters 34-37 establish the benefit terms and can be amended only by the Tennessee General Assembly. Members are eligible to retire at age 65 with five years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Members of the Teachers Retirement Plan are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced ten percent and include projected service credits. A variety of death benefits is available under various eligibility criteria. Member and beneficiary annuitants are entitled to an automatic cost of living adjustment

(COLA) after retirement. A COLA is granted each July for annuitants retired prior to the second of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at three percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest. Under the Teacher Retirement Plan, benefit terms and conditions, including COLA, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

Contributions. Contributions for teachers are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Teachers contribute five percent of salary. The Local Education Agencies (LEAs) make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing TCRS, the employer contribution rate cannot be less than four percent, except in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, employer contributions for the Teacher Retirement Plan are required to be paid. The TCRS may intercept the state shared taxes of the sponsoring governmental entity of the LEA if the required employer contributions are not remitted. Employer contributions for the year ended June 30, 2015, to the Teacher Retirement Plan were \$4,468, which is four percent of pensionable payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension Liabilities. Since the measurement date is June 30, 2014, which is prior to the July 1, 2014, inception of the Teacher Retirement Plan, there is no net pension liability to report at June 30, 2015.

Pension Expense. Since the measurement date is June 30, 2014, the McKenzie Special School District did not recognize any pension expense at June 30, 2015.

Deferred Outflows of Resources and Deferred Inflows of Resources. For the year ended June 30, 2015, the McKenzie Special School District reported deferred outflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| LEAs Contributions Subsequent to the Measurement Date of June 30, 2014 | \$ 4,468 | N/A |

The McKenzie Special School District’s employer contributions of \$4,468 reported as pension related deferred outflows of resources subsequent to the measurement date, will be recognized as a reduction of net pension liability in the year ending June 30, 2016.

Teacher Legacy Pension Plan

General Information About the Pension Plan

Plan Description. Teachers of the McKenzie Special School District with membership in the TCRS before July 1, 2014, are provided with pensions through the Teacher Legacy Pension Plan, a cost-sharing multiple-employer pension plan administered by the TCRS. The Teacher Legacy Pension Plan closed to new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, the Teacher Retirement Plan became effective for teachers employed by LEAs after June 30, 2014. The Teacher Retirement Plan is a separate cost-sharing, multiple-employer defined benefit plan. The TCRS was created by state statute under *Tennessee Code Annotated (TCA)*, Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits Provided. TCA, Title 8, Chapters 34-37 establish the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Teacher Legacy Pension Plan are eligible to retire with an unreduced benefit at age 60 with five years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member’s highest five consecutive year average compensation and the member’s years of service credit. A reduced early retirement benefit is available to vested members at age 55. Members are vested with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced ten percent and include projected service credits. A variety of death benefits is available under various eligibility criteria. Member and beneficiary annuitants are entitled to an automatic cost of living adjustment

(COLA) after retirement. A COLA is granted each July for annuitants retired prior to the second of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at three percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Contributions. Contributions for teachers are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Teachers contribute five percent of salary. The Local Education Agencies (LEAs) make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Teacher Legacy Pension Plan are required to be paid. The TCRS may intercept the state shared taxes of the sponsoring governmental entity of the LEA if the required employer contributions are not remitted. Employer contributions by the McKenzie Special School District for the year ended June 30, 2015, to the Teacher Legacy Pension Plan were \$491,710, which is 9.04 percent of pensionable payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension Asset. At June 30, 2015, the McKenzie Special School District reported an asset of \$21,213 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The McKenzie Special School District's proportion of the net pension asset was based on McKenzie Special School District's employer contributions to the pension plan during the year ended June 30, 2014, relative to the contributions of all LEAs for the year ended June 30, 2014. At the June 30, 2014, measurement date, the McKenzie Special School District's proportion was .130546 percent. The proportion measured as of June 30, 2013, was .127540 percent.

Pension Income. For the year ended June 30, 2015, the McKenzie Special School District recognized a pension income of \$11,126.

Deferred Outflows of Resources and Deferred Inflows of Resources. For the year ended June 30, 2015, the McKenzie Special School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Differences Between Expected and Actual Experience | \$ 51,500 | \$ 0 |
| Net Difference Between Projected and Actual Earnings on Pension Plan Investments | 0 | 1,747,822 |
| Changes in Proportion of Net Pension Liability (Asset) | 42,399 | 0 |
| LEAs Contributions Subsequent to the Measurement Date of June 30, 2014 | 491,710 | N/A |
| Total | \$ 585,609 | \$ 1,747,822 |

The McKenzie Special School District's employer contributions of \$491,710 reported as pension related deferred outflows of resources subsequent to the measurement date, will be recognized as an increase in net pension asset in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended June 30 | Amount |
|-----------------------|--------------|
| 2016 | \$ (421,306) |
| 2017 | (421,306) |
| 2018 | (421,306) |
| 2019 | (421,306) |
| 2020 | 15,650 |
| Thereafter | 15,651 |

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial Assumptions. The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|---|
| Inflation | 3% |
| Salary Increases | Graded Salary Ranges from 8.97% to 3.71% Based on Age, Including Inflation, Averaging 4.25% |
| Investment Rate of Return | 7.5%, Net of Pension Plan Investment Expenses, Including Inflation |
| Cost of Living Adjustment | 2.5% |

Mortality rates are customized based on the June 30, 2012, actuarial experience study and some included adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2014, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012, actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rate of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rate of return by the target asset allocation percentage and by adding inflation of three percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Percentage Long-term Expected Real Rate of Return | | Percentage Target Allocations | |
|-----------------------|---|---|-------------------------------------|---|
| U.S. Equity | 6.46 | % | 33 | % |
| Developed Market | | | | |
| International Equity | 6.26 | | 17 | |
| Emerging Market | | | | |
| International Equity | 6.40 | | 5 | |
| Private Equity and | | | | |
| Strategic Lending | 4.61 | | 8 | |
| U.S. Fixed Income | 0.98 | | 29 | |
| Real Estate | 4.73 | | 7 | |
| Short-term Securities | 0.00 | | 1 | |
| | | | 100 | % |
| Total | | | 100 | % |

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the four factors described above.

Discount Rate. The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumes that employee contributions will be made at the current rate and that contributions from all the LEAs will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of Net Pension Liability (Asset) to Changes in the Discount Rate. The following presents McKenzie Special School District's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what McKenzie Special School District's proportionate share of the net pension liability (asset) would be if it was calculated using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate:

| School Department's Proportionate Share of the Net Pension Liability (Asset) | 1% Decrease 6.5% | Current Discount Rate 7.5% | 1% Increase 8.5% |
|---|------------------------|-------------------------------------|------------------------|
|---|------------------------|-------------------------------------|------------------------|

Net Pension Liability \$ 3,577,823 \$ (21,213) \$ (3,000,825)

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report.

E. Other Postemployment Benefits (OPEB)

Plan Description

The district participates in the state-administered Local Education Group Insurance Plan for health care 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 plan for health care benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state administered Medicare Supplement Plan that does not include pharmacy. The plans are reported in the State of Tennessee Comprehensive Annual Financial Report (CAFR). The CAFR is available on the state's website at <http://tn.gov/finance/act/cafr.html>.

Funding Policy

The premium requirements of plan members are established and may be amended by the insurance committee. The plan is self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. The employer in the plan develops its own contribution policy in terms of subsidizing active employees or retired employees' premiums since the committee is not prescriptive on that issue. The state 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, 2015, the district contributed \$51,544 for postemployment benefits.

Annual OPEB Cost and Net OPEB Obligation

| | |
|------------------------------|-------------------------------------|
| | Local Education Group Plan |
| | <hr/> |
| ARC | \$ 59,000 |
| Interest on the NOPEBO | 9,977 |
| Adjustment to the ARC | (9,720) |
| Annual OPEB cost | <hr/> \$ 59,257 |
| Less: Amount of contribution | (51,544) |
| Increase/decrease in NOPEBO | <hr/> \$ 7,713 |
| Net OPEB obligation, 7-1-14 | <hr/> 249,425 |
| Net OPEB obligation, 6-30-15 | <hr/> <hr/> \$ 257,138 |

| Fiscal Year Ended | Plan | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation at Year End |
|-------------------|-----------------------|------------------|--|---------------------------------|
| 6-30-13 | Local Education Group | \$ 105,528 | 46 % | \$ 248,189 |
| 6-30-14 | " | 57,256 | 98 | 249,425 |
| 6-30-15 | " | 59,257 | 87 | 257,138 |

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2013, was as follows:

| | |
|---|-------------------------------------|
| | Local Education Group Plan |
| | <hr/> |
| Actuarial valuation date | 7-1-13 |
| Actuarial accrued liability (AAL) | \$ 561,000 |
| Actuarial value of plan assets | \$ 0 |
| Unfunded actuarial accrued liability (UAAL) | \$ 561,000 |
| Actuarial value of assets as a % of the AAL | 0% |
| Covered payroll (active plan members) | \$ 5,711,510 |
| UAAL as a % of covered payroll | 10% |

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, 2013, 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 seven percent for fiscal year 2015. The trend will decrease to 6.5 percent in fiscal year 2016 and then be reduced by decrements to an ultimate rate of 4.7 percent by fiscal year 2044. 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.

**REQUIRED SUPPLEMENTARY
INFORMATION**

Exhibit D-1

McKenzie Special School District
Schedule of Changes in Net Pension Liability (Asset) and Related Ratios Based on
Participation in the Teacher Pension Plan of TCRS - Non-certified Employees
For the Fiscal Year Ended June 30

| | <u>2014</u> |
|---|----------------------------|
| Total Pension Liability (Asset) | |
| Service Cost | \$ 62,743 |
| Interest | 141,576 |
| Differences Between Actual and Expected Experience | (61,868) |
| Benefit Payments, Including Refunds of Employee Contributions | <u>(120,400)</u> |
| Net Change in Total Pension Liability (Asset) | \$ 22,051 |
| Total Pension Liability (Asset), Beginning | <u>1,885,133</u> |
| | |
| Total Pension Liability (Asset), Ending (a) | <u>\$ 1,907,184</u> |
| | |
| Plan Fiduciary Net Position | |
| Contributions - Employer | \$ 52,827 |
| Contributions - Employee | 38,226 |
| Net Investment Income | 300,516 |
| Benefit Payments, Including Refunds of Employee Contributions | (120,400) |
| Administrative Expense | <u>(1,380)</u> |
| Net Change in Plan Fiduciary Net Position | \$ 269,789 |
| Plan Fiduciary Net Position, Beginning | <u>1,831,226</u> |
| | |
| Plan Fiduciary Net Position, Ending (b) | <u>\$ 2,101,015</u> |
| | |
| Net Pension Liability (Asset), Ending (a - b) | <u><u>\$ (193,831)</u></u> |
| | |
| Plan Fiduciary Net Position as a Percentage of Total Pension Liability | 110.16% |
| Covered Employee Payroll | \$ 764,510 |
| Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll | 25.35% |

Note: ten years of data will be presented when available.

Exhibit D-2

McKenzie Special School District
Schedule of Contributions Based on Participation in the Public
Employee Pension Plan of TCRS - Non-certified Employees
For the Fiscal Year Ended June 30

| | 2014 | 2015 |
|---|-----------------|-----------------|
| Actuarially Determined Contribution | \$ 52,827 | \$ 11,628 |
| Less Contributions in Relation to the Actuarially Determined Contribution | <u>(52,827)</u> | <u>(11,628)</u> |
| Contribution Deficiency (Excess) | <u>\$ 0</u> | <u>\$ 0</u> |
| Covered Employee Payroll | \$ 764,510 | \$ 303,122 |
| Contributions as a Percentage of Covered Employee Payroll | 6.91% | 3.84% |

Note: ten years of data will be presented when available.

Exhibit D-3

McKenzie Special School District
Schedule of Contributions Based on Participation in the Teacher
Retirement Plan of TCRS - Certified Employees
For the Fiscal Year Ended June 30

| | <u>2015</u> |
|---|-------------------|
| Actuarially Determined Contribution | \$ 2,793 |
| Less Contributions in Relation to the Actuarially Determined Contribution | <u>(4,468)</u> |
| Contribution Deficiency (Excess) | <u>\$ (1,675)</u> |
| Covered Employee Payroll | \$ 111,706 |
| Contributions as a Percentage of Covered Employee Payroll | 4.00% |

Note: ten years of data will be presented when available.

Exhibit D-4

McKenzie Special School District
Schedule of Contributions Based on Participation in the Teacher
Legacy Pension Plan of TCRS - Certified Employees
For the Fiscal Year Ended June 30

| | <u>2014</u> | <u>2015</u> |
|---|------------------|------------------|
| Actuarially Determined Contribution | \$ 455,003 | \$ 491,710 |
| Less Contributions in Relation to the Actuarially Determined Contribution | <u>(455,003)</u> | <u>(491,710)</u> |
| Contribution Deficiency (Excess) | <u>\$ 0</u> | <u>\$ 0</u> |
| Covered Employee Payroll | \$ 5,123,901 | \$ 5,664,232 |
| Contributions as a Percentage of Covered Employee Payroll | 8.88% | 8.68% |

Note: ten years of data will be presented when available.

Exhibit D-5

McKenzie Special School District
Schedule of Proportionate Share of the Net Pension Asset
in the Teacher Legacy Pension Plan of TCRS - Certified Employees
For the Fiscal Year Ended June 30 *

| | <u>2014</u> |
|--|--------------|
| School Department's Proportion of the Net Pension Asset | 0.130546% |
| School Department's Proportionate Share of the Net Pension Asset | \$ 21,213 |
| Covered Employee Payroll | \$ 5,123,901 |
| School Department's Proportionate Share of the Net Pension Asset as a Percentage of its Covered Employee Payroll | 0.41% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 100.08% |

* The amounts presented were determined as of June 30 of the prior fiscal year.

Note: ten years of data will be presented when available.

Exhibit D-6

McKenzie Special School District
Schedule of Funding Progress – Other Postemployment Benefits Plan
June 30, 2015

(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 | 7-1-10 | \$ 0 | \$ 763 | \$ 763 | 0% | \$ 3,572 | 21% |
| " | 7-1-11 | 0 | 869 | 869 | 0 | 5,665 | 15 |
| " | 7-1-13 | 0 | 561 | 561 | 0 | 5,712 | 10 |

**MCKENZIE SPECIAL SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2015**

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

Valuation Date: Actuarially determined contribution rates for 2015 were calculated based on the July 1, 2013, actuarial valuation.

Methods and assumptions used to determine contribution rates:

| | |
|-------------------------------|--|
| Actuarial Cost Method | Frozen Initial Liability |
| Amortization Method | Level Dollar, Closed (Not to Exceed 20 Years) |
| Remaining Amortization Period | 2 Years |
| Asset Valuation | 10-Year Smoothed Within a 20% Corridor to Market Value |
| Inflation | 3% |
| Salary Increases | Graded Salary Ranges from 8.97% to 3.71% Based on Age, Including Inflation |
| Investment Rate of Return | 7.5%, Net of Investment Expense, Including Inflation |
| Retirement Age | Pattern of Retirement Determined by Experience Study |
| Mortality | Customized Table Based on Actual Experience Including an Adjustment for Some Anticipated Improvement |
| Cost of Living Adjustment | 2.5% |

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

Nonmajor Governmental Funds

Special Revenue Funds

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

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

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

Exhibit E-1

McKenzie Special School District
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2015

| | <u>Special Revenue Funds</u> | | Total |
|---|------------------------------|-------------------|-------------------|
| | School | Central | Nonmajor |
| | Federal | Cafeteria | Governmental |
| | Projects | | Funds |
| <u>ASSETS</u> | | | |
| Cash | \$ 0 | \$ 20 | \$ 20 |
| Equity in Pooled Cash and Investments | 25,737 | 236,450 | 262,187 |
| Inventories | 0 | 53,035 | 53,035 |
| Due from Other Governments | 17,009 | 15,763 | 32,772 |
| Prepaid Items | 0 | 1,280 | 1,280 |
| Total Assets | <u>\$ 42,746</u> | <u>\$ 306,548</u> | <u>\$ 349,294</u> |
| <u>LIABILITIES</u> | | | |
| Accounts Payable | \$ 337 | \$ 1,664 | \$ 2,001 |
| Due to Other Funds | 37,940 | 24,593 | 62,533 |
| Total Liabilities | <u>\$ 38,277</u> | <u>\$ 26,257</u> | <u>\$ 64,534</u> |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | | | |
| Other Deferred/Unavailable Revenue | \$ 0 | \$ 355 | \$ 355 |
| Total Deferred Inflows of Resources | <u>\$ 0</u> | <u>\$ 355</u> | <u>\$ 355</u> |
| <u>FUND BALANCES</u> | | | |
| Nonspendable: | | | |
| Inventory | \$ 0 | \$ 53,035 | \$ 53,035 |
| Prepaid Items | 0 | 1,280 | 1,280 |
| Restricted: | | | |
| Restricted for Education | 4,469 | 0 | 4,469 |
| Restricted for Operation of Non-instructional Services | 0 | 225,621 | 225,621 |
| Total Fund Balances | <u>\$ 4,469</u> | <u>\$ 279,936</u> | <u>\$ 284,405</u> |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | <u>\$ 42,746</u> | <u>\$ 306,548</u> | <u>\$ 349,294</u> |

Exhibit E-2

McKenzie Special School District
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2015

| | <u>Special Revenue Funds</u> | | Total |
|--|-------------------------------|----------------------|-----------------------------------|
| | School Federal Projects | Central Cafeteria | Nonmajor Governmental Funds |
| <u>Revenues</u> | | | |
| Charges for Current Services | \$ 0 | \$ 224,719 | \$ 224,719 |
| Other Local Revenues | 0 | 2,690 | 2,690 |
| State of Tennessee | 0 | 8,628 | 8,628 |
| Federal Government | 753,135 | 628,649 | 1,381,784 |
| Total Revenues | <u>\$ 753,135</u> | <u>\$ 864,686</u> | <u>\$ 1,617,821</u> |
| <u>Expenditures</u> | | | |
| Current: | | | |
| Instruction | \$ 676,325 | \$ 0 | \$ 676,325 |
| Support Services | 74,221 | 0 | 74,221 |
| Operation of Non-instructional Services | 0 | 870,663 | 870,663 |
| Total Expenditures | <u>\$ 750,546</u> | <u>\$ 870,663</u> | <u>\$ 1,621,209</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>\$ 2,589</u> | <u>\$ (5,977)</u> | <u>\$ (3,388)</u> |
| <u>Other Financing Sources (Uses)</u> | | | |
| Insurance Recovery | \$ 0 | \$ 1,348 | \$ 1,348 |
| Total Other Financing Sources (Uses) | <u>\$ 0</u> | <u>\$ 1,348</u> | <u>\$ 1,348</u> |
| Net Change in Fund Balances | \$ 2,589 | \$ (4,629) | \$ (2,040) |
| Fund Balance, July 1, 2014 | 1,880 | 284,565 | 286,445 |
| Fund Balance, June 30, 2015 | <u>\$ 4,469</u> | <u>\$ 279,936</u> | <u>\$ 284,405</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, 2015

| | Actual (GAAP Basis) | Less: Encumbrances 7/1/2014 | Add: Encumbrances 6/30/2015 | Actual Revenues/ Expenditures (Budgetary Basis) | Budgeted Amounts | | Variance with Final Budget - Positive (Negative) |
|--|---------------------------|-----------------------------------|-----------------------------------|---|------------------|------------|--|
| | | | | | Original | Final | |
| <u>Revenues</u> | | | | | | | |
| Federal Government | \$ 753,135 | \$ 0 | \$ 0 | \$ 753,135 | \$ 756,163 | \$ 810,469 | \$ (57,334) |
| Total Revenues | \$ 753,135 | \$ 0 | \$ 0 | \$ 753,135 | \$ 756,163 | \$ 810,469 | \$ (57,334) |
| <u>Expenditures</u> | | | | | | | |
| <u>Instruction</u> | | | | | | | |
| Regular Instruction Program | \$ 243,420 | \$ 0 | \$ 0 | \$ 243,420 | \$ 280,198 | \$ 281,182 | \$ 37,762 |
| Special Education Program | 371,597 | 0 | 131 | 371,728 | 366,064 | 379,002 | 7,274 |
| Vocational Education Program | 61,308 | (1,704) | 2,580 | 62,184 | 10,531 | 63,231 | 1,047 |
| <u>Support Services</u> | | | | | | | |
| Other Student Support | 5,826 | 0 | 0 | 5,826 | 5,133 | 5,828 | 2 |
| Regular Instruction Program | 58,332 | 0 | 0 | 58,332 | 71,118 | 70,119 | 11,787 |
| Special Education Program | 10,063 | 0 | 0 | 10,063 | 11,107 | 11,107 | 1,044 |
| Total Expenditures | \$ 750,546 | \$ (1,704) | \$ 2,711 | \$ 751,553 | \$ 744,151 | \$ 810,469 | \$ 58,916 |
| Excess (Deficiency) of Revenues Over Expenditures | \$ 2,589 | \$ 1,704 | \$ (2,711) | \$ 1,582 | \$ 12,012 | \$ 0 | \$ 1,582 |
| <u>Other Financing Sources (Uses)</u> | | | | | | | |
| Transfers In | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 47,564 | \$ 0 | \$ 0 |
| Transfers Out | 0 | 0 | 0 | 0 | (47,564) | 0 | 0 |
| Total Other Financing Sources | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Net Change in Fund Balance | \$ 2,589 | \$ 1,704 | \$ (2,711) | \$ 1,582 | \$ 12,012 | \$ 0 | \$ 1,582 |
| Fund Balance, July 1, 2014 | 1,880 | (1,704) | 0 | 176 | 1,880 | 1,880 | (1,704) |
| Fund Balance, June 30, 2015 | \$ 4,469 | \$ 0 | \$ (2,711) | \$ 1,758 | \$ 13,892 | \$ 1,880 | \$ (122) |

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, 2015

| | Actual (GAAP Basis) | Less: Encumbrances 7/1/2014 | Add: Encumbrances 6/30/2015 | Actual Revenues/ Expenditures (Budgetary Basis) | Budgeted Amounts | | Variance with Final Budget - Positive (Negative) |
|--|---------------------------|-----------------------------------|-----------------------------------|---|--------------------|--------------------|--|
| | | | | | Original | Final | |
| <u>Revenues</u> | | | | | | | |
| Charges for Current Services | \$ 224,719 | \$ 0 | \$ 0 | \$ 224,719 | \$ 238,000 | \$ 238,000 | \$ (13,281) |
| Other Local Revenues | 2,690 | 0 | 0 | 2,690 | 4,100 | 4,100 | (1,410) |
| State of Tennessee | 8,628 | 0 | 0 | 8,628 | 8,700 | 8,700 | (72) |
| Federal Government | 628,649 | 0 | 0 | 628,649 | 598,500 | 657,118 | (28,469) |
| Total Revenues | \$ 864,686 | \$ 0 | \$ 0 | \$ 864,686 | \$ 849,300 | \$ 907,918 | \$ (43,232) |
| <u>Expenditures</u> | | | | | | | |
| <u>Operation of Non-instructional Services</u> | | | | | | | |
| Food Service | \$ 870,663 | \$ (2,447) | \$ 450 | \$ 868,666 | \$ 871,726 | \$ 930,344 | \$ 61,678 |
| Total Expenditures | \$ 870,663 | \$ (2,447) | \$ 450 | \$ 868,666 | \$ 871,726 | \$ 930,344 | \$ 61,678 |
| Excess (Deficiency) of Revenues Over Expenditures | \$ (5,977) | \$ 2,447 | \$ (450) | \$ (3,980) | \$ (22,426) | \$ (22,426) | \$ 18,446 |
| <u>Other Financing Sources (Uses)</u> | | | | | | | |
| Insurance Recovery | \$ 1,348 | \$ 0 | \$ 0 | \$ 1,348 | \$ 0 | \$ 0 | \$ 1,348 |
| Total Other Financing Sources | \$ 1,348 | \$ 0 | \$ 0 | \$ 1,348 | \$ 0 | \$ 0 | \$ 1,348 |
| Net Change in Fund Balance | \$ (4,629) | \$ 2,447 | \$ (450) | \$ (2,632) | \$ (22,426) | \$ (22,426) | \$ 19,794 |
| Fund Balance, July 1, 2014 | 284,565 | (2,447) | 0 | 282,118 | 213,500 | 213,500 | 68,618 |
| Fund Balance, June 30, 2015 | \$ 279,936 | \$ 0 | \$ (450) | \$ 279,486 | \$ 191,074 | \$ 191,074 | \$ 88,412 |

Major Governmental Fund

Education Debt Service Fund

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

Exhibit F

McKenzie Special School District
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
Education Debt Service Fund
For the Year Ended June 30, 2015

| | Actual | Budgeted Amounts | | Variance with Final Budget - Positive (Negative) |
|--|--------------|------------------|--------------|--|
| | | Original | Final | |
| <u>Revenues</u> | | | | |
| Local Taxes | \$ 572,856 | \$ 562,920 | \$ 562,920 | \$ 9,936 |
| Total Revenues | \$ 572,856 | \$ 562,920 | \$ 562,920 | \$ 9,936 |
| <u>Expenditures</u> | | | | |
| <u>Support Services</u> | | | | |
| Board of Education | \$ 11,401 | \$ 12,818 | \$ 12,818 | \$ 1,417 |
| <u>Principal on Debt</u> | | | | |
| Education | 550,000 | 550,000 | 550,000 | 0 |
| <u>Interest on Debt</u> | | | | |
| Education | 222,400 | 222,400 | 222,400 | 0 |
| <u>Other Debt Service</u> | | | | |
| Education | 500 | 1,500 | 1,500 | 1,000 |
| Total Expenditures | \$ 784,301 | \$ 786,718 | \$ 786,718 | \$ 2,417 |
| Excess (Deficiency) of Revenues Over Expenditures | \$ (211,445) | \$ (223,798) | \$ (223,798) | \$ 12,353 |
| <u>Other Financing Sources (Uses)</u> | | | | |
| Transfers In | \$ 150,000 | \$ 150,000 | \$ 150,000 | \$ 0 |
| Total Other Financing Sources | \$ 150,000 | \$ 150,000 | \$ 150,000 | \$ 0 |
| Net Change in Fund Balance | \$ (61,445) | \$ (73,798) | \$ (73,798) | \$ 12,353 |
| Fund Balance, July 1, 2014 | 931,985 | 927,396 | 927,396 | 4,589 |
| Fund Balance, June 30, 2015 | \$ 870,540 | \$ 853,598 | \$ 853,598 | \$ 16,942 |

MISCELLANEOUS SCHEDULES

Exhibit G-1

McKenzie Special School District
Schedule of Changes in Long-term Bonds
For the Year Ended June 30, 2015

| <u>Description of Indebtedness</u> | <u>Original Amount of Issue</u> | <u>Interest Rate</u> | <u>Date of Issue</u> | <u>Last Maturity Date</u> | <u>Outstanding 7-1-14</u> | <u>Paid and/or Matured During Period</u> | <u>Outstanding 6-30-15</u> |
|---------------------------------------|---|--------------------------|------------------------------|-----------------------------------|-------------------------------|--|--------------------------------|
| <u>BONDS PAYABLE</u> | | | | | | | |
| <u>Payable through Education Debt</u> | | | | | | | |
| <u>Service Fund</u> | | | | | | | |
| School Refunding - Series 2008 | \$ 8,255,000 | 3.5 to 4 % | 9-18-08 | 4-1-22 | \$ 5,560,000 | \$ 550,000 | \$ 5,010,000 |
| Total Bonds Payable | | | | | <u>\$ 5,560,000</u> | <u>\$ 550,000</u> | <u>\$ 5,010,000</u> |

Exhibit G-2

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

| Year Ending June 30 | Bonds | | Total |
|---------------------------|--------------|------------|--------------|
| | Principal | Interest | |
| 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 | \$ 5,010,000 | \$ 850,200 | \$ 5,860,200 |

Exhibit G-3

McKenzie Special School District
Schedule of Transfers
For the Year Ended June 30, 2015

| <u>From Fund</u> | <u>To Fund</u> | <u>Purpose</u> | <u>Amount</u> |
|------------------------|------------------------|----------------|--------------------------|
| General Purpose School | Education Debt Service | Debt payments | <u>\$ 150,000</u> |
| Total Transfers | | | <u><u>\$ 150,000</u></u> |

Exhibit G-4

McKenzie Special School District
Schedule of Salaries and Official Bonds of Principal Officials
For the Year Ended June 30, 2015

| 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 | \$ 85,562 | \$ 283,150 | Western Surety Company |
| Finance Director | McKenzie Special School District Board of Directors | 66,330 | 150,000 | Tennessee Risk Management Trust |
| Employees' Blanket Bond | | | 150,000 | " |

Exhibit G-5

McKenzie Special School District
Schedule of Detailed Revenues -
All Governmental Fund Types
For the Year Ended June 30, 2015

| | General Purpose School | Special Revenue Funds | | Debt Service Fund | Total |
|--|------------------------------|-------------------------------|----------------------|------------------------------|---------------------|
| | | School Federal Projects | Central Cafeteria | Education Debt Service | |
| <u>Local Taxes</u> | | | | | |
| <u>County Local Option Taxes</u> | | | | | |
| Local Option Sales Tax | \$ 766,970 | \$ 0 | \$ 0 | \$ 0 | \$ 766,970 |
| Mixed Drink Tax | 478 | 0 | 0 | 0 | 478 |
| <u>Statutory Local Taxes</u> | | | | | |
| Interstate Telecommunications Tax | 826 | 0 | 0 | 0 | 826 |
| <u>City/School District Property Taxes</u> | | | | | |
| Current Property Tax | 691,078 | 0 | 0 | 528,477 | 1,219,555 |
| Prior Year's Property Tax | 44,599 | 0 | 0 | 33,895 | 78,494 |
| Interest and Penalty | 4,536 | 0 | 0 | 3,691 | 8,227 |
| Payments in-Lieu-of Taxes | 8,939 | 0 | 0 | 6,793 | 15,732 |
| Total Local Taxes | <u>\$ 1,517,426</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 572,856</u> | <u>\$ 2,090,282</u> |
| <u>Licenses and Permits</u> | | | | | |
| <u>Licenses</u> | | | | | |
| Marriage Licenses | \$ 475 | \$ 0 | \$ 0 | \$ 0 | \$ 475 |
| Total Licenses and Permits | <u>\$ 475</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 475</u> |
| <u>Charges for Current Services</u> | | | | | |
| <u>Fees</u> | | | | | |
| Vending Machine Collections | \$ 5,972 | \$ 0 | \$ 0 | \$ 0 | \$ 5,972 |
| <u>Education Charges</u> | | | | | |
| Tuition - Other | 1,350 | 0 | 0 | 0 | 1,350 |
| Lunch Payments - Children | 0 | 0 | 125,708 | 0 | 125,708 |
| Lunch Payments - Adults | 0 | 0 | 17,334 | 0 | 17,334 |
| Income from Breakfast | 0 | 0 | 4,456 | 0 | 4,456 |
| A la carte Sales | 0 | 0 | 70,374 | 0 | 70,374 |

(Continued)

Exhibit G-5

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

| | General Purpose School | Special Revenue Funds | | Debt Service Fund | Total |
|---|------------------------------|-------------------------------|----------------------|------------------------------|------------|
| | | School Federal Projects | Central Cafeteria | Education Debt Service | |
| <u>Charges for Current Services (Cont.)</u> | | | | | |
| <u>Other Charges for Services</u> | | | | | |
| Other Charges for Services | \$ 0 | \$ 0 | \$ 6,847 | \$ 0 | \$ 6,847 |
| Total Charges for Current Services | \$ 7,322 | \$ 0 | \$ 224,719 | \$ 0 | \$ 232,041 |
| <u>Other Local Revenues</u> | | | | | |
| <u>Recurring Items</u> | | | | | |
| Investment Income | \$ 11,405 | \$ 0 | \$ 242 | \$ 0 | \$ 11,647 |
| Lease/Rentals | 1,561 | 0 | 0 | 0 | 1,561 |
| E-Rate Funding | 11,723 | 0 | 0 | 0 | 11,723 |
| Miscellaneous Refunds | 505 | 0 | 648 | 0 | 1,153 |
| <u>Nonrecurring Items</u> | | | | | |
| Sale of Equipment | 660 | 0 | 0 | 0 | 660 |
| Damages Recovered from Individuals | 423 | 0 | 0 | 0 | 423 |
| Contributions and Gifts | 24,804 | 0 | 1,800 | 0 | 26,604 |
| Total Other Local Revenues | \$ 51,081 | \$ 0 | \$ 2,690 | \$ 0 | \$ 53,771 |
| <u>State of Tennessee</u> | | | | | |
| <u>General Government Grants</u> | | | | | |
| On-behalf Contributions for OPEB | \$ 39,281 | \$ 0 | \$ 0 | \$ 0 | \$ 39,281 |
| <u>State Education Funds</u> | | | | | |
| Basic Education Program | 6,760,994 | 0 | 0 | 0 | 6,760,994 |
| Early Childhood Education | 103,518 | 0 | 0 | 0 | 103,518 |
| School Food Service | 0 | 0 | 8,628 | 0 | 8,628 |
| Energy Efficient School Initiative | 4,920 | 0 | 0 | 0 | 4,920 |
| Driver Education | 6,204 | 0 | 0 | 0 | 6,204 |

(Continued)

Exhibit G-5

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

| | General Purpose School | Special Revenue Funds | | Debt Service | Total |
|--|------------------------------|-------------------------------|----------------------|--------------------------------------|----------------------|
| | | School Federal Projects | Central Cafeteria | Fund Education Debt Service | |
| <u>State of Tennessee (Cont.)</u> | | | | | |
| <u>State Education Funds (Cont.)</u> | | | | | |
| Other State Education Funds | \$ 3,976 | \$ 0 | \$ 0 | \$ 0 | \$ 3,976 |
| Career Ladder Program | 43,022 | 0 | 0 | 0 | 43,022 |
| Career Ladder - Extended Contract | 16,420 | 0 | 0 | 0 | 16,420 |
| <u>Other State Revenues</u> | | | | | |
| Other State Revenues | 4,500 | 0 | 0 | 0 | 4,500 |
| Total State of Tennessee | <u>\$ 6,982,835</u> | <u>\$ 0</u> | <u>\$ 8,628</u> | <u>\$ 0</u> | <u>\$ 6,991,463</u> |
| <u>Federal Government</u> | | | | | |
| <u>Federal Through State</u> | | | | | |
| USDA School Lunch Program | \$ 0 | \$ 0 | \$ 384,401 | \$ 0 | \$ 384,401 |
| USDA - Commodities | 0 | 0 | 40,156 | 0 | 40,156 |
| Breakfast | 0 | 0 | 167,270 | 0 | 167,270 |
| USDA - Other | 0 | 0 | 18,360 | 0 | 18,360 |
| USDA Food Service Equipment Grant | 0 | 0 | 18,462 | 0 | 18,462 |
| Vocational Education - Basic Grants to States | 0 | 69,058 | 0 | 0 | 69,058 |
| Title I Grants to Local Education Agencies | 0 | 238,136 | 0 | 0 | 238,136 |
| Special Education - Grants to States | 11,656 | 364,579 | 0 | 0 | 376,235 |
| Special Education Preschool Grants | 0 | 18,711 | 0 | 0 | 18,711 |
| Rural Education | 0 | 22,303 | 0 | 0 | 22,303 |
| Eisenhower Professional Development State Grants | 0 | 38,880 | 0 | 0 | 38,880 |
| Other Federal through State | 7,900 | 1,468 | 0 | 0 | 9,368 |
| <u>Direct Federal Revenue</u> | | | | | |
| Public Law 874 - Maintenance and Operation | 2,367 | 0 | 0 | 0 | 2,367 |
| Total Federal Government | <u>\$ 21,923</u> | <u>\$ 753,135</u> | <u>\$ 628,649</u> | <u>\$ 0</u> | <u>\$ 1,403,707</u> |
| Total | <u>\$ 8,581,062</u> | <u>\$ 753,135</u> | <u>\$ 864,686</u> | <u>\$ 572,856</u> | <u>\$ 10,771,739</u> |

Exhibit G-6

McKenzie Special School District
Schedule of Detailed Expenditures -
All Governmental Fund Types
For the Year Ended June 30, 2015

General Purpose School Fund

Instruction

Regular Instruction Program

| | | |
|---|--------------|--------------|
| Teachers | \$ 3,298,403 | |
| Career Ladder Program | 24,000 | |
| Career Ladder Extended Contracts | 12,962 | |
| Homebound Teachers | 1,420 | |
| Educational Assistants | 13,195 | |
| Certified Substitute Teachers | 15,843 | |
| Non-certified Substitute Teachers | 44,962 | |
| Social Security | 194,303 | |
| Pensions | 300,818 | |
| Medical Insurance | 353,305 | |
| Employer Medicare | 45,583 | |
| Evaluation and Testing | 5,579 | |
| Maintenance and Repair Services - Equipment | 345 | |
| Printing, Stationery, and Forms | 1,183 | |
| Instructional Supplies and Materials | 91,165 | |
| Textbooks | 53,311 | |
| Fee Waivers | 6,875 | |
| Other Charges | 24,256 | |
| Regular Instruction Equipment | 73,917 | |
| Total Regular Instruction Program | | \$ 4,561,425 |

Alternative Instruction Program

| | | |
|---------------------------------------|-----------|--------|
| Contracts with Other School Systems | \$ 19,815 | |
| Total Alternative Instruction Program | | 19,815 |

Special Education Program

| | | |
|--------------------------------------|------------|---------|
| Teachers | \$ 246,352 | |
| Career Ladder Program | 2,000 | |
| Career Ladder Extended Contracts | 1,300 | |
| Speech Pathologist | 36,578 | |
| Social Security | 15,852 | |
| Pensions | 25,850 | |
| Medical Insurance | 43,549 | |
| Employer Medicare | 3,707 | |
| Contracts with Other School Systems | 57,428 | |
| Other Contracted Services | 1,750 | |
| Instructional Supplies and Materials | 2,000 | |
| Total Special Education Program | | 436,366 |

Vocational Education Program

| | | |
|--------------------------------------|------------|---------|
| Teachers | \$ 224,386 | |
| Career Ladder Program | 3,000 | |
| Social Security | 12,475 | |
| Pensions | 20,559 | |
| Medical Insurance | 28,897 | |
| Employer Medicare | 2,918 | |
| Instructional Supplies and Materials | 1,500 | |
| Total Vocational Education Program | | 293,735 |

(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 | \$ | 80,192 | |
| Social Security | | 4,853 | |
| Pensions | | 5,357 | |
| Medical Insurance | | 3,158 | |
| Employer Medicare | | 1,135 | |
| Drugs and Medical Supplies | | 562 | |
| Office Supplies | | 214 | |
| In Service/Staff Development | | 1,902 | |
| Total Health Services | | | \$ 97,373 |

Other Student Support

| | | | |
|------------------------------------|----|---------|---------|
| Career Ladder Program | \$ | 2,000 | |
| Guidance Personnel | | 157,830 | |
| Other Salaries and Wages | | 13,649 | |
| Social Security | | 9,322 | |
| Pensions | | 15,648 | |
| Medical Insurance | | 31,920 | |
| Employer Medicare | | 2,180 | |
| Communication | | 892 | |
| Contracts with Government Agencies | | 27,000 | |
| Other Contracted Services | | 4,003 | |
| Office Supplies | | 750 | |
| In Service/Staff Development | | 4,080 | |
| Other Equipment | | 9,876 | |
| Total Other Student Support | | | 279,150 |

Regular Instruction Program

| | | | |
|-----------------------------------|----|---------|---------|
| Supervisor/Director | \$ | 68,288 | |
| Career Ladder Program | | 3,000 | |
| Career Ladder Extended Contracts | | 2,500 | |
| Librarians | | 143,320 | |
| Instructional Computer Personnel | | 66,308 | |
| Educational Assistants | | 29,546 | |
| Social Security | | 17,570 | |
| Pensions | | 27,586 | |
| Medical Insurance | | 30,014 | |
| Employer Medicare | | 4,109 | |
| Communication | | 597 | |
| Data Processing Services | | 69,648 | |
| Licenses | | 7,314 | |
| Travel | | 804 | |
| Other Contracted Services | | 107 | |
| Library Books/Media | | 12,024 | |
| Office Supplies | | 514 | |
| In Service/Staff Development | | 7,034 | |
| Furniture and Fixtures | | 620 | |
| Other Equipment | | 86 | |
| Total Regular Instruction Program | | | 490,989 |

(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 | \$ | 23,901 | |
| Social Security | | 1,400 | |
| Pensions | | 2,158 | |
| Medical Insurance | | 1,544 | |
| Employer Medicare | | 327 | |
| Travel | | 3,540 | |
| In Service/Staff Development | | 4,107 | |
| Total Special Education Program | | | \$ 36,977 |

Vocational Education Program

| | | | |
|------------------------------------|----|-------|-------|
| Supervisor/Director | \$ | 5,029 | |
| Social Security | | 306 | |
| Pensions | | 445 | |
| Employer Medicare | | 72 | |
| In Service/Staff Development | | 39 | |
| Total Vocational Education Program | | | 5,891 |

Other Programs

| | | | |
|----------------------------|----|--------|--------|
| On-behalf Payments to OPEB | \$ | 39,281 | |
| Total Other Programs | | | 39,281 |

Board of Education

| | | | |
|--|----|--------|---------|
| Election Commission | \$ | 350 | |
| Unemployment Compensation | | 3,728 | |
| Employer Medicare | | 125 | |
| Payments to Retirees | | 8,640 | |
| Audit Services | | 12,033 | |
| Dues and Memberships | | 4,913 | |
| Legal Services | | 7,095 | |
| Licenses | | 250 | |
| Postal Charges | | 204 | |
| Maintenance and Repair Services - Records | | 2,000 | |
| Office Supplies | | 678 | |
| Liability Insurance | | 29,232 | |
| Premiums on Corporate Surety Bonds | | 991 | |
| Trustee's Commission | | 22,776 | |
| Workers' Compensation Insurance | | 20,615 | |
| In Service/Staff Development | | 181 | |
| Refund to Applicant for Criminal Investigation | | 752 | |
| Other Charges | | 3,752 | |
| Total Board of Education | | | 118,315 |

Director of Schools

| | | | |
|--|----|--------|--|
| County Official/Administrative Officer | \$ | 85,562 | |
| Secretary(ies) | | 15,725 | |
| Social Security | | 6,190 | |

(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.)

| | | | |
|---|----|--------|---------|
| Pensions | \$ | 8,777 | |
| Medical Insurance | | 20,156 | |
| Employer Medicare | | 1,448 | |
| Advertising | | 835 | |
| Communication | | 2,908 | |
| Dues and Memberships | | 1,637 | |
| Legal Notices, Recording, and Court Costs | | 533 | |
| Postal Charges | | 405 | |
| Printing, Stationery, and Forms | | 75 | |
| Rentals | | 1,620 | |
| Travel | | 287 | |
| Office Supplies | | 143 | |
| Periodicals | | 405 | |
| In Service/Staff Development | | 992 | |
| Total Director of Schools | \$ | | 147,698 |

Office of the Principal

| | | | |
|-------------------------------|----|---------|---------|
| Principals | \$ | 221,721 | |
| Career Ladder Program | | 2,000 | |
| Accountants/Bookkeepers | | 65,249 | |
| Assistant Principals | | 173,020 | |
| Secretary(ies) | | 37,416 | |
| Social Security | | 29,210 | |
| Pensions | | 42,686 | |
| Medical Insurance | | 61,747 | |
| Employer Medicare | | 6,831 | |
| Communication | | 5,018 | |
| Dues and Memberships | | 725 | |
| Rentals | | 6,316 | |
| Office Supplies | | 654 | |
| Periodicals | | 44 | |
| In Service/Staff Development | | 2,166 | |
| Administration Equipment | | 599 | |
| Total Office of the Principal | | | 655,402 |

Fiscal Services

| | | | |
|---------------------------------|----|--------|---------|
| Supervisor/Director | \$ | 66,330 | |
| Purchasing Personnel | | 15,725 | |
| Social Security | | 4,987 | |
| Pensions | | 5,497 | |
| Medical Insurance | | 15,459 | |
| Employer Medicare | | 1,166 | |
| Data Processing Services | | 7,875 | |
| Printing, Stationery, and Forms | | 176 | |
| Travel | | 90 | |
| Office Supplies | | 445 | |
| In Service/Staff Development | | 1,679 | |
| Total Fiscal Services | | | 119,429 |

(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 | \$ | 271,657 | |
| Disposal Fees | | 6,034 | |
| Electricity | | 220,729 | |
| Natural Gas | | 45,814 | |
| Water and Sewer | | 24,285 | |
| Boiler Insurance | | 2,407 | |
| Building and Contents Insurance | | 43,850 | |
| Total Operation of Plant | | | \$ 614,776 |

Maintenance of Plant

| | | | |
|---|----|---------|---------|
| Maintenance Personnel | \$ | 94,935 | |
| Social Security | | 5,441 | |
| Pensions | | 4,684 | |
| Medical Insurance | | 9,074 | |
| Employer Medicare | | 1,273 | |
| Communication | | 694 | |
| Maintenance and Repair Services - Buildings | | 167,813 | |
| Maintenance and Repair Services - Vehicles | | 2,318 | |
| Pest Control | | 2,250 | |
| Gasoline | | 3,844 | |
| In Service/Staff Development | | 55 | |
| Other Charges | | 55 | |
| Heating and Air Conditioning Equipment | | 15,043 | |
| Motor Vehicles | | 4,584 | |
| Total Maintenance of Plant | | | 312,063 |

Operation of Non-Instructional Services

Early Childhood Education

| | | | |
|---|----|--------|---------|
| Teachers | \$ | 46,986 | |
| Educational Assistants | | 28,535 | |
| Certified Substitute Teachers | | 600 | |
| Social Security | | 4,526 | |
| Pensions | | 5,223 | |
| Medical Insurance | | 4,768 | |
| Employer Medicare | | 1,058 | |
| Legal Notices, Recording, and Court Costs | | 117 | |
| Medical and Dental Services | | 55 | |
| Food Supplies | | 1,309 | |
| Instructional Supplies and Materials | | 6,741 | |
| Other Supplies and Materials | | 162 | |
| In Service/Staff Development | | 326 | |
| Regular Instruction Equipment | | 5,174 | |
| Total Early Childhood Education | | | 105,580 |

(Continued)

Exhibit G-6

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

General Purpose School Fund (Cont.)

Capital Outlay

Regular Capital Outlay

| | | | |
|------------------------------|----|-----------|--------------|
| Engineering Services | \$ | 16,073 | |
| Building Construction | | 27,719 | |
| Building Improvements | | 1,024,249 | |
| Total Regular Capital Outlay | | | \$ 1,068,041 |

Total General Purpose School Fund \$ 9,402,306

School Federal Projects Fund

Instruction

Regular Instruction Program

| | | | |
|--------------------------------------|----|---------|------------|
| Teachers | \$ | 152,005 | |
| Educational Assistants | | 28,720 | |
| Social Security | | 10,173 | |
| Pensions | | 15,660 | |
| Medical Insurance | | 20,808 | |
| Employer Medicare | | 2,379 | |
| Other Contracted Services | | 11,266 | |
| Instructional Supplies and Materials | | 2,109 | |
| Other Supplies and Materials | | 300 | |
| Total Regular Instruction Program | | | \$ 243,420 |

Special Education Program

| | | | |
|--------------------------------------|----|---------|---------|
| Teachers | \$ | 46,720 | |
| Educational Assistants | | 117,038 | |
| Speech Pathologist | | 16,021 | |
| Social Security | | 10,351 | |
| Pensions | | 13,490 | |
| Medical Insurance | | 17,991 | |
| Employer Medicare | | 2,421 | |
| Contracts with Other School Systems | | 71,231 | |
| Other Contracted Services | | 70,047 | |
| Instructional Supplies and Materials | | 6,153 | |
| Special Education Equipment | | 134 | |
| Total Special Education Program | | | 371,597 |

Vocational Education Program

| | | | |
|--------------------------------------|----|--------|--------|
| Teachers | \$ | 1,545 | |
| Social Security | | 96 | |
| Pensions | | 140 | |
| Employer Medicare | | 22 | |
| Instructional Supplies and Materials | | 1,071 | |
| Other Supplies and Materials | | 11,728 | |
| Other Charges | | 254 | |
| Vocational Instruction Equipment | | 46,452 | |
| Total Vocational Education Program | | | 61,308 |

(Continued)

Exhibit G-6

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

School Federal Projects Fund (Cont.)

Support Services

Other Student Support

| | | | |
|-----------------------------|----|-------|----------|
| Bus Drivers | \$ | 1,054 | |
| Travel | | 4,772 | |
| Total Other Student Support | | | \$ 5,826 |

Regular Instruction Program

| | | | |
|-----------------------------------|----|--------|--------|
| Supervisor/Director | \$ | 37,558 | |
| Social Security | | 2,077 | |
| Pensions | | 3,390 | |
| Medical Insurance | | 3,425 | |
| Employer Medicare | | 486 | |
| In Service/Staff Development | | 11,396 | |
| Total Regular Instruction Program | | | 58,332 |

Special Education Program

| | | | |
|---------------------------------|----|-------|--------|
| Supervisor/Director | \$ | 6,829 | |
| Social Security | | 397 | |
| Pensions | | 616 | |
| Medical Insurance | | 463 | |
| Employer Medicare | | 93 | |
| In Service/Staff Development | | 1,665 | |
| Total Special Education Program | | | 10,063 |

Total School Federal Projects Fund \$ 750,546

Central Cafeteria Fund

Operation of Non-Instructional Services

Food Service

| | | |
|---|----|---------|
| Supervisor/Director | \$ | 35,503 |
| Cafeteria Personnel | | 233,119 |
| Social Security | | 15,820 |
| Pensions | | 13,999 |
| Medical Insurance | | 17,092 |
| Unemployment Compensation | | 750 |
| Employer Medicare | | 3,700 |
| Advertising | | 138 |
| Audit Services | | 1,075 |
| Communication | | 1,665 |
| Data Processing Services | | 1,694 |
| Dues and Memberships | | 2,700 |
| Maintenance and Repair Services - Equipment | | 18,954 |
| Pest Control | | 900 |
| Postal Charges | | 223 |
| Printing, Stationery, and Forms | | 285 |
| Travel | | 1,782 |
| Disposal Fees | | 8,739 |
| Permits | | 240 |

(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.)

| | | | |
|--|----|---------|------------|
| Custodial Supplies | \$ | 4,328 | |
| Food Preparation Supplies | | 29,459 | |
| Food Supplies | | 352,004 | |
| Office Supplies | | 575 | |
| Uniforms | | 1,406 | |
| Utilities | | 52,000 | |
| USDA - Commodities | | 40,156 | |
| Refunds | | 447 | |
| Workers' Compensation Insurance | | 6,292 | |
| In Service/Staff Development | | 729 | |
| Refund to Applicant for Criminal Investigation | | 42 | |
| Other Charges | | 91 | |
| Food Service Equipment | | 20,597 | |
| Heating and Air Conditioning Equipment | | 4,159 | |
| Total Food Service | | | \$ 870,663 |

Total Central Cafeteria Fund \$ 870,663

Education Debt Service Fund

Support Services

Board of Education

| | | | |
|--------------------------|----|--------|-----------|
| Trustee's Commission | \$ | 11,401 | |
| Total Board of Education | | | \$ 11,401 |

Principal on Debt

Education

| | | | |
|--------------------|----|---------|---------|
| Principal on Bonds | \$ | 550,000 | |
| Total Education | | | 550,000 |

Interest on Debt

Education

| | | | |
|-------------------|----|---------|---------|
| Interest on Bonds | \$ | 222,400 | |
| Total Education | | | 222,400 |

Other Debt Service

Education

| | | | |
|--------------------|----|-----|-----|
| Other Debt Service | \$ | 500 | |
| Total Education | | | 500 |

Total Education Debt Service Fund 784,301

Total Governmental Funds - McKenzie Special School District \$ 11,807,816

SINGLE AUDIT SECTION



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

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

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, 2015, 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 7, 2016.

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. 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.

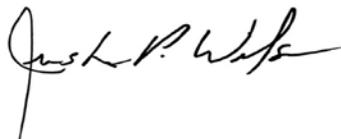
Compliance and Other Matters

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 7, 2016

JPW/yu



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
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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 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, 2015. 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, 2015.

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

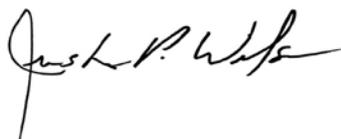
consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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, 2015, 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 7, 2016, 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 basic 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 basic financial statements. The 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 Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Very truly yours,



Justin P. Wilson
Comptroller of the Treasury
Nashville, Tennessee

March 7, 2016

JPW/yu

McKenzie Special School District
Schedule of Expenditures of Federal Awards and State Grants (1)
For the Year Ended June 30, 2015

| 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 | \$ 167,270 |
| National School Lunch Program | 10.555 | N/A | 402,761 (3) |
| Child Nutrition Discretionary Grants Limited Availability | 10.579 | N/A | 18,462 |
| Passed-through State Department of Agriculture: | | | |
| National School Lunch Program (Commodities - Noncash Assistance) | 10.555 | N/A | 40,156 (3) |
| Total U.S. Department of Agriculture | | | <u>\$ 628,649</u> |
| U.S. Department of Education: | | | |
| Passed-through State Department of Education: | | | |
| Title I Grants to Local Educational Agencies | 84.010 | N/A | \$ 237,465 |
| Special Education Cluster: | | | |
| Special Education - Grants to States | 84.027 | N/A | 374,604 |
| Special Education - Preschool Grants | 84.173 | N/A | 18,711 |
| Career and Technical Education - Basic Grants to States | 84.048 | N/A | 67,153 |
| Rural Education | 84.358 | N/A | 23,784 |
| English Language Acquisition State Grants | 84.365 | N/A | 1,605 |
| Improving Teacher Quality State Grants | 84.367 | N/A | 38,880 |
| Total U.S. Department of Education | | | <u>\$ 762,202</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 1,390,851</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) | 4,920 |
| Safe Schools - State Department of Education | N/A | (2) | 7,900 |
| ConnecTenn - State Department of Education | N/A | (2) | <u>3,976</u> |
| Total State Grants | | | <u>\$ 120,314</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 \$442,917.

McKenzie Special School District
Schedule of Audit Findings Not Corrected
June 30, 2015

Government Auditing Standards require auditors to report the status of uncorrected findings from prior audits. There were no findings in the Annual Financial Report for the McKenzie Special School District for the year ended June 30, 2014, which have not been corrected.

MCKENZIE SPECIAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2015

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 reported no significant deficiencies in internal control.
3. The audit disclosed no instances of noncompliance that are material to the financial statements of the McKenzie Special School District.
4. The audit reported 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) was determined to be a major program.
8. A \$300,000 threshold was used to distinguish between Type A and Type B federal programs.
9. The McKenzie Special School District qualified as a low-risk auditee.

PART II, FINDINGS RELATING TO THE FINANCIAL STATEMENTS

There were no findings relating to the financial statements of the McKenzie Special School District, as a result of our examination, for the year ended June 30, 2015.

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

There were no findings and questioned costs for federal awards.

BEST PRACTICE

Accounting literature describes a best practice as a recommended policy, procedure, or technique that aids management in improving financial performance. Historically, a best practice has consistently shown superior results over conventional methods.

The Division of Local Government Audit strongly believes that the item noted below is a best practice that should be adopted by the governing body as a means of significantly improving accountability and the quality of services provided by the McKenzie Special School District.

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.

**McKENZIE SPECIAL SCHOOL DISTRICT
AUDITEE REPORTING RESPONSIBILITIES
For the Year Ended June 30, 2015**

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