

Savannah Housing Authority
Audited Financial Statements
For The Year Ended
June 30, 2010



KENTON SPECIAL SCHOOL DISTRICT
KENTON, TENNESSEE
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

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INTRODUCTORY SECTION

KENTON SPECIAL SCHOOL DISTRICT
KENTON, TENNESSEE
SCHEDULE OF OFFICIALS

For the Fiscal Year Ended June 30, 2011

Board of Trustees

Officers

Mike Farrar - Chairman
809 Tilghman Street
Kenton, TN 38233

Jason Williams - Vice-Chairman
5542 Hobbs Road
Kenton, TN 38233

Richard Skiles - Secretary/Treasurer
812 Tilghman Street
Kenton, TN 38233

Trustees

Charles W. Sanderson
3804 New Concord Road
Kenton, TN 38233

Charles Phillips
75 Tull Road
Kenton, TN 38233



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Governmental Audit Quality Center | Private Company Practice Section
www.crscca.com

Independent Auditors' Report

Board of Trustees
Kenton Special School District
Kenton, Tennessee

We have audited the accompanying financial statements of the governmental activities and the general fund of the Kenton Special School District, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the general fund of the Kenton Special School District as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 30, 2012, on our consideration of the 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 and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages iii through v is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Kenton Special School District's basic financial statements. The introductory section, financial schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The financial schedules, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in black ink, reading "Cowart Reese Sargent". The signature is written in a cursive style with a long horizontal flourish extending to the right.

Cowart Reese Sargent, CPAs
March 30, 2012

Management's Discussion and Analysis

This section of the Kenton Special School District's ("the District") annual financial report presents a narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2011.

Financial Highlights

- The assets of the Kenton Special School District exceeded its liabilities at the close of the fiscal year by \$ 351,666 (*net assets*). Of this amount, \$ 118,996 is invested in Capital Assets, Net of Related Debt and \$ 133,023 is restricted for the retirement of Long-Term Debt - Capital Lease Payable and Capital Outlay.
- During the year, the District received property tax revenues, from taxes assessed within the Kenton Special School District, in the amount of \$ 117,184. The District, also, received \$ 12,000 from the sublease of classrooms. \$75,000 was also received from Gibson County School District for the building of the safe room.
- As of the close of the fiscal year, the District's governmental funds reported an ending fund balance of \$ 232,670.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund was \$ 99,648.
- The District's primary governmental debt, the Capital Lease Payable decreased by \$ 35,000 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Kenton Special School District's financial statements. The basic financial statements consist of three parts: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The first two statements are government-wide financial statements. They are designed to provide readers with both long-term and short-term information about the District's overall financial status in a manner similar to a private-sector business.

The government-wide financial statements are:

- **Statement of Net Assets** – presents information about the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.
- **Statement of Activities** – presents information showing how the District's net assets changed during the most recent fiscal year. All current year revenues and expenditures are taken into account regardless of the timing of related cash flows.

The government-wide financial statements begin on page 1 of this report.

Fund financial statements. The District's fund financial statements provide more detailed information about the more significant funds. The General Fund is the only fund financial statement and reports all activities of the Kenton Special School District.

The General Fund is a governmental fund.

- **Governmental funds** – The District's basic services are included in the governmental funds. The focus of these funds is on (1) how cash and other financial assets that can readily be converted to cash were received and used and (2) what remains at the end of the fiscal year for future spending. This detailed short-term view helps in determining whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not include the additional long-term focus of the government-wide statements, we provide additional information after the governmental fund statement that explains the differences between the long-term view and the short-term view.

The governmental fund financial statements begin on page 3 of this report.

Notes to the financial statements. The financial statements also include notes that provide additional information. These notes are essential to a full understanding of the information provided in the government-wide and fund financial statements.

The notes to the financial statements begin on page 7 of this report.

Required and other supplementary information. A detailed schedule of Revenues, Expenditures and Changes in Fund Balance – General Fund, is provided as required supplementary information.

Both the required and other supplementary information can be found following the notes to the financial statements.

Financial Analysis of the District as a Whole

Net Assets. Net assets may serve over time as a useful indicator of a government's financial position. Assets exceeded liabilities by \$ 351,666 at the close of the most recent fiscal year. The District's investment in capital assets, net of related debt, (land, buildings and equipment) represents 36 percent of net assets. Because capital assets are used to provide services to citizens and students the assets are not available for future spending.

An additional portion of the District's net assets (32 percent) represents resources that are restricted in how they may be used. The remaining balance of \$99,648 (32 percent) may be used to meet the District's ongoing obligations. At the end of the fiscal year, the Kenton Special School District is able to report a positive net asset balance for the government as a whole.

In order to provide a complete picture of the net assets of the District, information is provided for the net assets of governmental activities. See the table below.

Kenton Special School District's Net Assets

Governmental Activities
For the Fiscal Year Ended June 30, 2010 and 2011

	<u>6/30/2011</u>	<u>6/30/2010</u>
Current and other assets	\$ 250,005	\$ 237,226
Taxes receivable – Deferred revenue	94,046	117,376
Capital assets	1,623,995	1,560,996
Total assets	<u>\$ 1,968,046</u>	<u>\$ 1,915,598</u>
Long-term debt outstanding	\$ 1,505,000	\$ 1,540,000
Other liabilities	17,336	3,500
Deferred revenues	94,046	117,376
Total liabilities	<u>\$ 1,616,382</u>	<u>\$ 1,660,876</u>
Net Assets:		
Invested in capital assets	\$ 118,996	\$ 20,996
Restricted	133,023	56,485
Unrestricted	99,648	177,240
	<u>\$ 351,666</u>	<u>\$ 254,720</u>

Contacting the District's Financial Management

This financial report is designed to provide the taxpayers, parents, our supporters and creditors of the District with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact:

Kenton Special School District
% Richard Skiles, Secretary / Treasurer
812 Tilghman Street
Kenton, Tennessee 38233
(731) 749-5610

BASIC FINANCIAL STATEMENTS

KENTON SPECIAL SCHOOL DISTRICT
 KENTON, TN
 STATEMENT OF NET ASSETS
 June 30, 2011

		Primary Government Governmental Activities
ASSETS		
Cash And Cash Equivalents	\$	218,692
Property Taxes Receivable		31,312
Property Taxes Receivable - Deferred Revenue		94,046
Land		102,338
Construction in Progress - Safe Room		84,677
Capital Lease - School Building, Furniture, Fixtures and Equipment, Net of Accumulated Amortization		1,395,421
Other Capital Assets, Net of Accumulated Depreciation		41,560
		-
Total Assets	\$	1,968,046
LIABILITIES		
Accounts Payable	\$	17,336
Deferred Revenues		94,046
Long-Term Liabilities:		
Capital Lease Payable:		
Due Within One Year		40,000
Due in More Than One Year		1,465,000
		1,616,382
Total Liabilities	\$	1,616,382
NET ASSETS		
Invested In Capital Assets, Net of Related Debt	\$	118,996
Restricted for:		
Retirement of Long-Term Debt		58,023
Facility Construction		75,000
Unrestricted		99,648
		351,666
Total Net Assets	\$	351,666

The Notes To Basic Financial Statements Are An Integral Part Of This Statement.

KENTON SPECIAL SCHOOL DISTRICT
KENTON, TN
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2011

	<u>TOTAL</u>	<u>GENERAL</u>
Expenses:		
Education Services	\$ 1,507	\$ 1,507
Administrative Services	5,252	5,252
Other Expenditures	5,167	5,167
Capital Lease Interest	77,970	77,970
Amortization Expense-Capital Lease	19,922	19,922
Depreciation Expense	<u>1,756</u>	<u>1,756</u>
 Total Expenses	 <u>\$ 111,574</u>	 <u>\$ 111,574</u>
 Program Revenues:		
State Grant Income	\$ -	\$ -
Lease Income	12,000	12,000
Donation Income	<u>75,000</u>	<u>75,000</u>
 Net Program Expense (Revenue)	 <u>\$ 24,574</u>	 <u>\$ 24,574</u>
 General Revenues:		
Property Tax Revenue	\$ 117,184	
Interest Income	1,936	
Miscellaneous Income	<u>2,398</u>	
 Total General Revenues	 <u>\$ 121,518</u>	
 Change in Net Assets	 \$ 96,944	
Net Assets - Beginning	<u>254,722</u>	
 Net Assets - Ending	 <u><u>\$ 351,666</u></u>	

KENTON SPECIAL SCHOOL DISTRICT
 KENTON, TN
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 June 30, 2011

	GENERAL	TOTAL GOVERNMENTAL FUNDS
ASSETS		
Cash And Cash Equivalents	\$ 218,692	\$ 218,692
Real Estate Taxes Receivable	125,358	125,358
	\$ 344,050	\$ 344,050
Total Assets	\$ 344,050	\$ 344,050
 LIABILITIES AND FUND BALANCES		
<u>Liabilities:</u>		
Accounts Payable	\$ 17,334	\$ 17,334
Deferred Property Taxes	94,046	94,046
	\$ 111,380	\$ 111,380
Total Liabilities	\$ 111,380	\$ 111,380
<u>Fund Balances:</u>		
Committed:		
Retirement of Long Term Debt	\$ 58,023	\$ 58,023
Facility Construction	75,000	75,000
Unassigned	99,648	99,648
	\$ 232,670	\$ 232,670
Total Fund Balances	\$ 232,670	\$ 232,670
Total Liabilities and Fund Balances	\$ 344,050	\$ 344,050

KENTON SPECIAL SCHOOL DISTRICT
 KENTON, TN
 RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 June 30, 2011

Differences in amounts reported for governmental activities
 in the statement of net assets on page 1:

Fund Balances - Total Governmental Funds	\$	232,670
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Amounts reported for governmental activities in
 the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds.		1,623,996
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Long-term liabilities are not due and payable in
 the current period and therefore are not reported
 in the funds. Interest on the long-term debt is
 not accrued in governmental funds, but rather is
 recognized as an expenditure when due. All
 liabilities, both current and long-term, are
 reported in the statement of net assets. This
 item consists of the following:

Capital Lease Payable		<u>(1,505,000)</u>
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Net Assets of Governmental Activities	\$	<u><u>351,666</u></u>
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KENTON SPECIAL SCHOOL DISTRICT
KENTON, TN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2011

	GENERAL	TOTAL GOVERNMENTAL FUNDS
<u>Revenues:</u>		
Property Tax Revenue	\$ 117,184	\$ 117,184
State Grant Income	-	-
Lease Income	12,000	12,000
Donation Income	75,000	75,000
Interest Income	1,936	1,936
Miscellaneous Income	2,398	2,398
	<u>\$ 208,518</u>	<u>\$ 208,518</u>
 <u>Expenditures:</u>		
Current:		
Education Services	\$ 1,506	\$ 1,506
Administrative Services	8,007	8,007
Other Expenditures	2,413	2,413
Capital Outlay - Construct in Progress	84,678	84,678
Debt Service:		
Capital Lease Retirement	35,000	35,000
Interest on Capital Lease	77,970	77,970
	<u>\$ 209,574</u>	<u>\$ 209,574</u>
Excess of Revenues Over (Under) Expenditures	\$ (1,056)	\$ (1,056)
 Other Financing Sources (Uses)		
Transfers In	\$ -	\$ -
Transfers Out	-	-
	<u>\$ -</u>	<u>\$ -</u>
Net Change In Fund Balance	\$ (1,056)	\$ (1,056)
Fund Balance - Beginning	233,726	233,726
Fund Balance - Ending	<u>\$ 232,670</u>	<u>\$ 232,670</u>

KENTON SPECIAL SCHOOL DISTRICT
 KENTON, TN
 RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENTS OF ACTIVITIES
 For the Fiscal Year Ended June 30, 2011

Differences in amounts reported for governmental activities
 in the statement of activities on page 2:

Net Change In Fund Balances - Total Governmental Funds	\$	(1,056)
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Amounts reported for governmental activities in
 the statement of activities are different because:

Capital outlay expenditures in governmental funds that meet the capitalization threshold, are shown as capital assets in the Statement of Net Assets.		84,678
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Amortization expense on governmental capital assets, capital lease on school building, are included in the governmental activities in the Statement of Activities.		(19,922)
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Depreciation expense on governmental capital assets are included in the governmental activities in the Statement of Activities.		(1,756)
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Repayments of long-term debt are reported as an expenditure in governmental funds, but are a reduction of long-term liabilities in the statement of net assets. In the current year, these amounts included principal repayments on the capital lease debt.		35,000
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Change In Net Assets of Governmental Activities	\$	96,944
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NOTES TO BASIC FINANCIAL STATEMENTS

KENTON SPECIAL SCHOOL DISTRICT
KENTON, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Kenton Special School District ("the District") was created under Chapter 84, of the 1947 Public Acts, of the Tennessee General Assembly. The Board of Trustees is composed of five members, who are elected by the public in the August General Election of each even year. One is elected from within the City of Kenton, Tennessee, two from within the Gibson County boundaries of the Kenton Special School District and two from within the Obion County boundaries of the Kenton Special School District. The trustees are elected to four year terms of office. The Board of Trustees have the authority to make decisions, the power to designate management, (Chairman of the Board, Vice-Chairman of the Board and Secretary/Treasurer), the ability to significantly influence operations and primary accountability for fiscal matters.

The financial statements of the District have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

A. Reporting Entity

The Kenton Special School District's Board is the basic level of government, which has the financial accountability, and control over all activities related to the Kenton Special School District. The District, for financial reporting purposes, includes all of the funds relevant to the operations of the Kenton Special School District. The financial statements presented herein do not include any other agencies, organizations, or component units.

B. Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the District as a whole) and fund financial statements. In the government-wide Statement of Net Assets, the governmental activities are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables.

The government-wide Statement of Activities reflects both the gross and net cost per functional category, which is otherwise being supported by general government revenues. The Statement of Activities reduces gross expenses (including amortization expense and depreciation expense) by related program revenues. Program revenues include revenues derived from leasing out part of the school building facilities, donations and gifts.

The net cost (by function) is normally covered by general revenue (interest income and miscellaneous income, etc.). Historically, the previous model did not summarize or present net cost by function or activity.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

This government-wide focus is designed to view the District as a complete entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The governmental funds major fund statements in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This presentation is deemed most appropriate to (a) demonstrate legal and covenant compliance, and (b) demonstrate the source and use of liquid resources. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the governmental activities column in the government-wide financial statements, a reconciliation is presented on the page following each statement which briefly explains the adjustments necessary to transform the fund-based financial statements into the governmental activities column of the government-wide presentation.

The focus of the GASB Statement No. 34 model is on the District as a whole and the fund financial statements. The focus of the fund financial statements is on the major individual funds of the governmental type categories. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

C. Basis of Presentation

The financial transactions of the District are recorded in the General Fund. The General Fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures. Government resources are allocated to and accounted for in the General Fund based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The Kenton Special School District reports the following major fund types:

1) Governmental Funds:

General Fund - The General Fund accounts for all financial resources applicable to the general operations of the Kenton Special School District government. Revenues are derived primarily from real estate taxes assessed within the boundaries of the Kenton Special School District and from leasing out part of the building facilities. The General Fund also accounts for the acquisition of fixed assets and is used to account for the accumulation of resources for the payment of interest and principal of long-term liabilities of the governmental activities (capital lease debt).

2) Non-Current Governmental Assets/Liabilities:

GASB Statement No. 34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the governmental activities column in the government-wide Statement of Net Assets.

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Government-wide Financial Statements are presented on the accrual basis of accounting. The Governmental Funds in the Fund Financial Statements are presented on the modified accrual basis.

Accrual - Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual - All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Measurable" means the amount of the transaction can be determined. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

The District defined the length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements to be thirty days.

Revenues from local sources consist primarily of property taxes. Property tax revenues collected and received from Gibson County and Obion County, Tennessee are recognized when susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.

Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

E. Assets, Liabilities and Fund Equity

1) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts due from banks and interest-bearing deposits at various financial institutions and short-term investments with an original maturity of three months or less.

2) Restricted Assets

Under the provisions of the bond agreement the District is required to restrict or reserve one-half of the next year's lease payments.

3) Capital Assets

Capital Assets are recorded at cost and as capital outlay when acquired. Contributed capital assets are recorded at their estimated fair market value on the date contributed. Capital assets include the land the school facilities occupy, other miscellaneous furniture and equipment, playground equipment and a school bus. Capital assets also include the capital lease on the school building, land improvements, furniture, fixtures and equipment. Generally, the District defines capital assets as assets with an initial, estimated useful life of three years or greater.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Land is an inexhaustible capital asset, and is not depreciated. Amortization on the capital lease on the school building, land improvements, furniture, fixtures and equipment, is calculated on the straight-line basis over the life of the lease which is 79 years. Depreciation on the depreciable capital assets is calculated on the straight-line basis over the following estimated useful lives:

	<u>Useful Life</u>
Data Processing Equipment	5 years
Office and Other Equipment	7 years
Furniture and Fixtures	7 years
Playground Equipment	7 years
School Bus and Transport Equipment	7 years
Outdoor Pavilion	40 years
Storage Building and Outdoor Fixtures	15 years

4) Fund Balance

For the fiscal year ending June 30, 2011, the School District implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance—amounts that are not in nonspendable form (such as inventory) or are required to be maintained intact.
- Restricted fund balance—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance—amounts constrained to specific purposes by the System itself, using its highest level of decision-making authority, the School Board. To be reported as committed, amounts cannot be used for any other purpose unless the Board takes the same highest level action to remove or change the constraint.
- Assigned fund balance—amounts the System intends to use for a specific purpose. Intent can be expressed by the Board of Trustees or by an official or body to which the Board delegates the authority.
- Unassigned fund balance—amounts that are available for any purpose. Positive amounts are reported only in the general fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Board of Trustees establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by School Board through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

The details of the fund balances are included in the Governmental Funds Balance Sheet as listed in the table of contents. Restricted funds are used first as appropriate. Assigned Funds are reduced to the extent that expenditure authority has been budgeted by the School Trustees or the Assignment has been changed by the Board. Decreases to fund balance first reduce Unassigned Fund balance; in the event that Unassigned Fund Balance becomes zero, then Assigned and Committed Fund Balances are used in that order.

F. Revenues and Expenditures

Substantially all governmental fund revenues are accrued. Expenditures are recognized when the related fund liability is incurred.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those estimates.

G. Net Assets

The government-wide fund financial statements utilize a net asset presentation. Net assets are categorized as invested in capital assets, restricted and unrestricted.

Invested in Capital Assets - is intended to reflect the portion of net assets which are associated with non-liquid capital assets.

Restricted Net Assets - represent net assets that have third party limitations on their use.

Unrestricted Net Assets - represent unrestricted net assets. While management may have categorized and segmented portions for various purposes, the District's Management has the unrestricted authority to revisit or alter these managerial decisions.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Compliance with Finance Related Legal and Contractual Provisions

The District incurred no material violations of finance related legal and contractual provisions.

3. DEPOSITS

The District has implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures* for financial reporting of deposit risk.

Custodial Credit Risk - The District's policies limit deposits and investments to those instruments allowed by applicable state laws. State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of the uninsured deposits. The deposits must be covered by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the District's agent in the District's name, or by the Federal Reserve Banks acting as third party agents. State statutes also authorize the District to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, the state pooled investment fund, and mutual funds. Statutes also require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction.

4. CAPITAL ASSETS

Governmental Activities:

	<u>Beg Bal</u>	<u>Additions</u>	<u>Deductions</u>	<u>End Bal</u>
Non-Depreciable Assets:				
Land	\$ 102,338	\$ -	\$ -	\$ 102,338
Construct in Progress	-	83,861	-	83,861
Total Non-Depreciable	<u>\$ 102,338</u>	<u>\$ 83,861</u>	<u>\$ -</u>	<u>\$ 186,199</u>
Amortizable And Depreciable Assets:				
Capital Lease - School Building, Furniture, Fixtures And Equipment	\$1,573,82	\$ -	\$ -	\$1,573,826
Other Furniture, Fixtures And Equipment	5,226	-	-	5,226
Playground Equipment	22,087	-	-	22,087
School Bus	54,499	-	-	54,499
Outdoor Pavilion	40,254	-	-	40,254
Storage Building	<u>2,830</u>	<u>-</u>	<u>-</u>	<u>2,830</u>
Total Amortizable And Depreciable Assets	<u>\$1,698,722</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,698,722</u>
Less Accumulated Amortization for:				
Capital Lease	\$ 158,483	\$ 19,922	\$ -	\$ 178,405
Less Accumulated Depreciation for:				
Other Furniture, Fixtures And Equipment	2,866	555	-	3,421
Playground Equipment	22,083	4	-	22,087
School Bus	54,499	-	-	54,499
Outdoor Pavilion	1,467	1,006	-	2,474
Storage Building	<u>663</u>	<u>190</u>	<u>-</u>	<u>854</u>
Total Accumulated Amortization And Depreciation	<u>\$ 240,063</u>	<u>\$ 21,678</u>	<u>\$ -</u>	<u>\$ 261,741</u>
Depreciable And Amortizable Assets, Net	<u>\$1,458,659</u>	<u>\$ (21,678)</u>	<u>\$ -</u>	<u>\$1,436,981</u>
Governmental Activities Capital Assets, Net	<u>\$1,560,997</u>	<u>\$ 63,001</u>	<u>\$ -</u>	<u>\$1,623,997</u>

5. PROPERTY TAXES

Property taxes collected by the Gibson County Trustee and the Obion County Trustee are remitted to the Kenton Special School District on a monthly basis.

The District's property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District. The assessed value of the certified roll, upon which the levy for the 2010 Real Estate and Personal Property Taxes was \$32,017,035.

The tax rate assessed for the year ended June 30, 2011 to finance general fund operations and the payment of principal and interest on the long-term capital lease was \$.32 cents in Gibson County and \$.40 cents in Obion County per \$100 valuation.

Taxes are due on October 1 and become delinquent by March 1 following the October 1 levy date. Current tax collections for the year ended June 30, 2011 were 93.99% of the tax levy.

6. DELINQUENT UNCOLLECTED TAXES

The District does not maintain a record of property assessable by the District, or of taxes assessed for the District by Gibson and Obion Counties, or of unpaid taxes on the county tax rolls. Over time, substantially all property taxes assessed and billed are collected.

7. LONG-TERM LIABILITIES - CAPITAL LEASE PAYABLE

Bonded indebtedness of the District consists of a long-term capital lease. The current requirements for principal and interest expenditures are accounted for in the General Fund.

Pursuant to an Interlocal Agreement (the "Interlocal Agreement"), between the City of Kenton, Tennessee (the "City") and the Kenton Special School District, the City agreed to issue General Obligation School Bonds, Series 2001, and make the proceeds thereof available to the District for the purpose of constructing, furnishing and equipping an elementary school building and related facilities for the Kenton Special School District. The proceeds are also made available for the payment of costs of legal, administrative, architectural and engineering costs incident to the foregoing and to the negotiation and preparation of the Interlocal Agreement between the City and the District, and the payment of costs incident to the issuance and sale of the Bonds. Under the terms of the Interlocal Agreement, the school facilities will be owned by the City of Kenton, Tennessee and leased to the District for a term of seventy-nine (79) years. In exchange for being provided the Bond proceeds, the District has agreed to pay the City, as lease payments, amounts equal to the principal and interest payments on the Bonds, as and when such payments are due.

7. LONG-TERM LIABILITIES - CAPITAL LEASE PAYABLE - Continued

On July 24, 2001 the Gibson County School District entered into an agreement with the Kenton Special School District to operate a K-3 Elementary School within Gibson County at Kenton, Tennessee. The agreement states that the Kenton Special School District shall acquire land on the Gibson County side of the City of Kenton, Tennessee for the construction of a preschool through third grade school. The Kenton Special School District shall contract for the construction and equipping thereon of a school for preschool through third grade students. Such funding shall include the construction, furnishing, fixtures and equipping of such school facility, including, as necessary, payments of all legal, fiscal, administrative, engineering, architectural, accounting and similar incidental costs thereto. Said facilities shall meet all requirements of the Tennessee Department of Education and Tennessee State Board of Education, as well as all other applicable laws and regulations regarding the construction of schools. Construction shall occur under the oversight of the Kenton Special School District, the Gibson County School District, and the City of Kenton, Tennessee. The land for the school building facilities was acquired by the District on August 28, 2001 and construction on the facility began in early December 2001.

The agreement further states that the Kenton Special School District shall lease the facility from the City and shall sublease the facility to the Gibson County Special School District for a term of seventy-nine (79) years from the date of substantial completion of construction. The purpose of the lease and sublease shall be for the operation of a school for preschool through third grade students residing within the Kenton Special School District, regardless of whether such students reside on the Gibson County or Obion County side of the Kenton Special School District.

The District's obligations under the Interlocal Agreement are secured by a continuing annual tax, the rate of which is established by Chapter 52 of the 2001 Private Acts of the General Assembly of the State of Tennessee, levied on all taxable property within the boundaries of the District, which tax shall continue to be levied annually in an amount at least sufficient to maintain funds to pay the District's obligations under the Interlocal Agreement - that is, debt service on the Bonds. The City's right to receive payments from the District under the Interlocal Agreement is expressly pledged by the resolution authorizing the Bonds for the purpose of paying principal and interest on the Bonds. Notwithstanding the foregoing, the Bonds are not obligations of the District, and Bondholders will have no recourse to the power of taxation of the District.

A summary of changes in the long-term liabilities - capital lease payable for the year ended June 30, 2011 is as follows:

	Amount Outstanding 7/1/2010	Issued Current Year	Retired Current Year	Amount Outstanding 6/30/2011
Capital Lease Payable:				
City of Kenton, Tennessee	\$1,540,000.00	\$ -	\$ 35,000.00	\$1,505,000.00

Interest Rate Payable is 4.30% to 5.50%

7. LONG-TERM LIABILITIES - CAPITAL LEASE PAYABLE - Continued

The debt service requirements on the above capital lease payable are as follows:

<u>Due Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 40,000.00	\$ 76,045.00	\$ 116,045.00
2013	45,000.00	74,365.00	119,365.00
2014	50,000.00	72,430.00	122,430.00
2015	55,000.00	70,230.00	125,230.00
2016	65,000.00	67,755.00	132,755.00
2017-2021	425,000.00	286,785.00	711,785.00
2022-2026	660,000.00	156,585.00	816,585.00
2027	<u>165,000.00</u>	<u>9,075.00</u>	<u>174,075.00</u>
	<u>\$1,505,000.00</u>	<u>\$ 813,270.00</u>	<u>\$2,318,270.00</u>

8. CAPITAL LEASE COMMITMENTS

The present value of the capital lease is:

<u>Fiscal Year Ending</u>	<u>General Long-Term</u> <u>Debt</u>
2012	\$ 116,045.00
2013	119,365.00
2014	122,430.00
2015	125,230.00
2016	132,755.00
2017-2021	711,785.00
2022-2026	816,585.00
2027	<u>174,075.00</u>
Total	\$ 2,318,270.00
Less amount representing interest (4.3% - 5.50%)	<u>813,270.00</u>
Present Value of future minimum lease payments	<u>\$ 1,505,000.00</u>

9. SUBLEASE

The Kenton Special School District and the Gibson County School District ("Lessor") have entered into a Sublease Agreement with the Northwest Tennessee Head Start Program ("Lessee"). The sublease is for two (2) of the classrooms in the Kenton School Building, located at 633 South Poplar Street, Kenton, Tennessee. The Lessee shall also have shared use and enjoyment of the Common Areas of the School, including the cafeteria, hallways, restrooms and playground. This sublease may be renewed for subsequent twelve month periods upon mutual agreement of the parties, each such subsequent term to run from the 1st day of July through the 30th day of June of the following year. The rental rate shall be \$500.00 per room per month, for a total of \$1,000.00 per month, for the term of the lease and any renewals thereof.

10. LITIGATION

The Kenton Special School District is not currently involved in any litigation.

11. CONTINGENT LIABILITIES

No contingent liabilities existed for the Kenton Special School District as of June 30, 2011.

12. RELATED PARTY TRANSACTIONS

No related party transactions existed for the Kenton Special School District for the fiscal year ended June 30, 2011.

13. RISK MANAGEMENT

Significant losses are covered by commercial insurance for all major programs. For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

14. SUBSEQUENT EVENTS

The Management has evaluated subsequent events through March 30, 2012, the date which the financial statements were available to be issued.

OTHER SUPPLEMENTARY INFORMATION

GENERAL FUND

The General Fund accounts for all financial resources applicable to the general operations of the Kenton Special School District government and is the only fund of the District. Revenues are derived primarily from Real Estate Taxes assessed within the boundaries of the Kenton Special School District and from leasing out part of the building facilities. The General Fund also accounts for the acquisition of fixed assets and is used to account for the accumulation of resources for the payment of interest and principal of long-term liabilities of the governmental activities (capital lease debt).

KENTON SPECIAL SCHOOL DISTRICT
KENTON, TN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2011

Revenues:	
Property Taxes:	
Gibson County	\$ 42,933
Obion County	74,251
Total Property Taxes	<u>\$ 117,184</u>
Miscellaneous Revenues:	
State Grant Income	\$ -
Lease Income	12,000
Donation Income	75,000
Interest Income	1,936
Other Income	<u>2,398</u>
Total Miscellaneous Revenues	\$ 91,334
Total Revenues	\$ 208,518
Expenditures:	
Education Services:	
Education Expenses	\$ -
Legal & Consulting Fees	1,489
Notice Publications	17
Total Education Services	<u>\$ 1,506</u>
Administrative Services:	
Audit Fee	\$ 2,750
Trustee Fees	2,311
Election Expenses	461
Insurance	2,485
Total Administrative Services	<u>\$ 8,007</u>
Other Expenditures:	
Repairs & Maintenance	\$ 1,875
Miscellaneous Expenses	538
Total Other Expenditures	<u>\$ 2,413</u>
Debt Service:	
Capital Lease Retirement	\$ 35,000
Interest on Capital Lease	77,970
Total Debt Service	<u>\$ 112,970</u>
Capital Outlay:	
Kenton School Safe Room	\$ 84,678
Total Expenditures	<u>\$ 209,574</u>
Excess of Revenues Over(Under)	
Expenditures	\$ (1,056)
Fund Balance - Beginning	<u>\$ 233,726</u>
Fund Balance - Ending	<u><u>\$ 232,670</u></u>

FINANCIAL SCHEDULES

Financial schedules are used to demonstrate finance related legal and contractual compliance, provide details of data summarized in the financial statements and present other information deemed useful.

KENTON SPECIAL SCHOOL DISTRICT
SCHEDULE OF CAPITAL LEASE PAYABLE
LEASE PAYMENT REQUIREMENTS BY FISCAL YEAR

June 30, 2011

CITY OF KENTON, TENNESSEE
GENERAL OBLIGATION SCHOOL BONDS, SERIES 2001

\$ 1,680,000 Issue, Dated October 1, 2001

Interest and Principal Payable Semi-Annually
On The First Day Of December and June

Fiscal Year Ended June 30,	Annual Date June 1,	Interest Rate	Requirements For The Year Ending June 30		
			Principal	Interest	Total
2012	2012	4.20	\$ 40,000.00	\$ 76,045.00	\$ 116,045.00
2013	2013	4.30	45,000.00	74,365.00	119,365.00
2014	2014	4.40	50,000.00	72,430.00	122,430.00
2015	2015	4.50	55,000.00	70,230.00	125,230.00
2016	2016	4.60	65,000.00	67,755.00	132,755.00
2017	2017	4.70	70,000.00	64,765.00	134,765.00
2018	2018	4.80	75,000.00	61,475.00	136,475.00
2019	2019	4.90	85,000.00	57,875.00	142,875.00
2020	2020	5.00	95,000.00	53,710.00	148,710.00
2021	2021	5.10	100,000.00	48,960.00	148,960.00
2022	2022	5.15	110,000.00	43,860.00	153,860.00
2023	2023	5.20	120,000.00	38,195.00	158,195.00
2024	2024	5.25	130,000.00	31,955.00	161,955.00
2025	2025	5.30	145,000.00	25,130.00	170,130.00
2026	2026	5.40	155,000.00	17,445.00	172,445.00
2027	2027	5.50	165,000.00	9,075.00	174,075.00
Totals			<u>\$1,505,000.00</u>	<u>\$ 813,270.00</u>	<u>\$2,318,270.00</u>

STATISTICAL SECTION

KENTON SPECIAL SCHOOL DISTRICT
KENTON, TENNESSEE
INSURANCE COVERAGE - UNAUDITED

June 30, 2011

<u>Property Covered</u>	<u>Limits Of Liability</u>
Building and Personal Property	\$ 1,600,000.00
General Liability Coverage	\$ 700,000.00
Public Official Bond	\$ 100,000.00



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Governmental Audit Quality Center | Private Company Practice Section
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Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance With
Government Auditing Standards

Board of Trustees
Kenton Special School District
Kenton, Tennessee

We have audited the financial statements of the governmental activities, and the general fund of the Kenton Special School District, as of and for the year ended June 30, 2011, which collectively comprise the Kenton Special School District's basic financial statements and have issued our report thereon dated February 6, 2012. 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.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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.

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

Compliance and Other Matters

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

This report is intended solely for the information and use of management and governing board, others within the organization, and the Tennessee Comptroller of the Treasury, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Cowart Reese Sargent". The signature is written in a cursive style with a long, sweeping horizontal line extending to the right.

Cowart Reese Sargent, CPAs
February 6, 2012

Martin, TN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

KENTON SPECIAL SCHOOL DISTRICT
KENTON, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
AND DISPOSITION OF PRIOR YEAR'S FINDINGS

For The Fiscal Year Ended June 30, 2011

I. SCHEDULE OF FINDINGS AND QUESTIONED COSTS

No New Findings

II. DISPOSITION OF PRIOR YEAR FINDINGS

No Findings in Prior Year