

KENTON SPECIAL SCHOOL DISTRICT

KENTON, TENNESSEE

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

June 30, 2014

KENTON SPECIAL SCHOOL DISTRICT
KENTON, TENNESSEE
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
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For the Fiscal Year Ended June 30, 2014

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INTRODUCTORY SECTION

KENTON SPECIAL SCHOOL DISTRICT
KENTON, TENNESSEE
SCHEDULE OF OFFICIALS

For the Fiscal Year Ended June 30, 2014

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

Dennis Littleton
319 Hillcrest Street
Kenton, TN 38233

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, 2014.

Financial Highlights

- The assets of the Kenton Special School District exceeded its liabilities at the close of the fiscal year by \$ 1,270,191 (*net position*). Of this amount, \$ 956,616 is invested in Capital Assets, Net of Related Debt and \$ 63,472 is restricted for the retirement of Long-Term Lease Commitment - Capital Lease Payable.
- During the year, the District received property tax revenues, from taxes assessed within the Kenton Special School District, in the amount of \$ 140,511. The District, also, received \$ 18,000 from the sublease of three classrooms.
- As of the close of the fiscal year, the District's governmental funds reported an ending fund balance of \$ 313,575.
- At the end of the current fiscal year, the unreserved, undesignated fund balance for the General Fund was \$ 250,103.
- The District's primary governmental commitment, the Capital Lease Payable decreased by \$ 66,050 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 Position – presents information about the District's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position 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 position 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 8 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 12 of this report.

Required and other supplementary information – Schedules of Capital Leases Payable and Insurance Coverage are provided as other supplementary information.

The other supplementary information can be found following the notes to the financial statements.

Financial Analysis of the District as a Whole

Net Position. Net position may serve over time as a useful indicator of a government's financial position. Assets exceeded liabilities by \$ 1,270,191 at the close of the most recent fiscal year. The District's net investment in capital assets, (land, buildings and equipment) represents 75 percent of net position. 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 position (5 percent) represents resources that are restricted in how they may be used. The remaining balance of \$250,103 (120 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 position for the government as a whole.

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

Summarized Financial Information

Net Position

	<u>6/30/2014</u>	<u>6/30/2013</u>
Current and other assets	\$ 340,310	\$ 424,989
Taxes receivable – Deferred revenue	138,598	140,512
Capital assets	2,625,538	2,523,523
Total assets	<u>\$ 3,104,446</u>	<u>\$ 3,089,024</u>
Long-term commitment	\$ 1,668,922	\$ 1,734,973
Other liabilities	26,735	5,499
Total liabilities	<u>\$ 1,695,657</u>	<u>\$ 1,740,472</u>
Deferred inflows of resources:		
Deferred revenues	<u>138,598</u>	<u>140,512</u>
Net Position:		
Net Investment in capital assets	\$ 956,616	\$ 788,550
Restricted	63,472	62,337
Unrestricted	250,103	357,153
	<u>\$ 1,270,191</u>	<u>\$ 1,208,040</u>

Changes in Net Position

	<u>6/30/2014</u>	<u>6/30/2013</u>
Revenues	\$ 194,724	\$ 160,575
Operating Expenses	<u>132,573</u>	<u>110,360</u>
Change in Net Position	62,151	50,215
Net Position- Beginning	<u>1,208,040</u>	<u>1,157,825</u>
Net Position- Ending	<u>\$1,270,191</u>	<u>\$1,208,040</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



John R. (Jack) Reese, CPA
David R. Horner, CPA

Brownsville | Jackson | Martin | Milan | Paris

304 Broadway St
Martin, TN 38237
(731)587-4221
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www.crscca.com

INDEPENDENT AUDITORS' REPORT

June 8, 2015

Board of Directors
Kenton Special School District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Kenton Special School District as of and for the year ended June 30, 2014 and the related notes to the 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. Management is also responsible for 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 *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 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 opinion.

Opinion

In our opinion, the financial statements referred above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of Kenton Special School District as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to 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 basis financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express and opinion or provide any assurance on the information because the limited procedures does not provide us with sufficient evidence to express an opinion or provide any assurance

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Kenton Special School District's financial statements taken as a whole. The accompanying other supplemental information such as individual fund information and other information, such as the schedule of capital leases payable and schedule of insurance coverage are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The other supplemental 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. 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 other supplemental information as listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedules of capital leases payable and schedule of insurance coverage 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 them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2015 on our consideration of Kenton Special School Districts internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Weakley County Economic Development Board's internal control over financial reporting and compliance.



Cowart Reese Sargent
Certified Public Accountants, P.C.
Martin, TN

FINANCIAL STATEMENTS

KENTON SPECIAL SCHOOL DISTRICT
KENTON, TN
STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET
June 30, 2014

	General Fund	Adjustments	Statement of Net Assets
ASSETS			
Cash And Cash Equivalents	\$ 314,754	\$ -	\$ 314,754
Property Taxes Receivable	25,556	-	25,556
Property Taxes Receivable – Deferred Revenue	138,598	-	138,598
Land	-	102,338	102,338
Capital Lease - School Building, Furniture, Fixtures and Equipment, Net of Accumulated Amortization	-	2,345,219	2,345,219
Other Capital Assets, Net of Accumulated Depreciation	-	177,981	177,981
	<u>478,908</u>	<u>2,625,538</u>	<u>3,104,446</u>
Total Assets	<u>\$ 478,908</u>	<u>\$ 2,625,538</u>	<u>\$ 3,104,446</u>
LIABILITIES			
Accounts Payable	\$ 26,735	\$ -	\$ 26,735
Long-Term Liabilities:			
Note Payable			
Due Within One Year	-	26,000	26,000
Due in More Than One Year	-	207,922	207,922
Capital Lease Payable:			
Due Within One Year	-	45,000	45,000
Due in More Than One Year	-	1,390,000	1,390,000
	<u>26,735</u>	<u>1,668,922</u>	<u>1,695,657</u>
Total Liabilities	<u>\$ 26,735</u>	<u>\$ 1,668,922</u>	<u>\$ 1,695,657</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Property Tax Revenue	<u>138,598</u>	<u>-</u>	<u>138,598</u>
FUND BALANCE/ NET POSITION			
Net Investment in Capital Assets	\$ -	956,616	956,616
Restricted for:			
Retirement of Long-Term Debt	63,472	-	63,472
Unrestricted	250,103	-	250,103
	<u>313,575</u>	<u>956,616</u>	<u>1,270,191</u>
Total Net Position	<u>\$ 313,575</u>	<u>\$ 956,616</u>	<u>\$ 1,270,191</u>

KENTON SPECIAL SCHOOL DISTRICT
KENTON, TN
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2014

Differences in amounts reported for governmental activities
in the statement of net position on page 8:

Fund Balances – Total Governmental Funds	\$	313,575
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.		2,625,538
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:		
Note Payable		(233,922)
Capital Lease Payable		<u>(1,435,000)</u>
Net Position of Governmental Activities	\$	<u>1,270,191</u>

KENTON SPECIAL SCHOOL DISTRICT
KENTON, TN
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
For the Fiscal Year Ended June 30, 2014

	GENERAL FUND	ADJUSTMENTS	STATEMENT OF ACTIVITIES
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
Lease Income	\$ 18,000	\$ -	18,000
Property Tax Revenue	140,511	-	140,511
Interest Income	3,131	-	3,131
Contribution Income	4,775	-	4,775
Miscellaneous Income	28,307	-	28,307
Total Revenues	<u>\$ 194,724</u>	<u>\$ -</u>	<u>\$ 194,724</u>
Expenses:			
Audit Services	3,000	-	3,000
Depreciation	-	37,158	37,158
Insurance Expense	2,856	-	2,856
Interest Expense	57,283	-	57,283
Legal Services	1,500	-	1,500
Notice Publications	60	-	60
Other Expenses	285	-	285
Repairs & Maintenance	27,611	-	27,611
Trustee Fees	2,820	-	2,820
Capital Outlay	139,174	(139,174)	-
Note Payments	66,050	(66,050)	-
Total Expenses	<u>300,639</u>	<u>(168,066)</u>	<u>132,573</u>
Excess of Revenues Over Expenses	(105,915)	<u>(168,066)</u>	62,151
Fund Balance/Net Position – Beginning	<u>419,490</u>		<u>1,208,040</u>
Fund Balance/Net Position – Ending	<u>\$ 313,575</u>		<u>\$ 1,270,191</u>

KENTON SPECIAL SCHOOL DISTRICT
KENTON, TN
RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2014

Differences in amounts reported for governmental activities
in the statement of activities on page 10:

Net Change In Fund Balances – Total Governmental Funds	\$	(105,915)
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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.		139,174
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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.		(35,017)
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Depreciation expense on governmental capital assets are included in the governmental activities in the Statement of Activities.		(2,141)
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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.		66,050
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		66,050
Change In Net Position of Governmental Activities	\$	<u>62,151</u>

NOTES TO FINANCIAL STATEMENTS

KENTON SPECIAL SCHOOL DISTRICT
KENTON, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014

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. One position is currently vacant. 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), and 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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 capital 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 Position.

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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 and a cost greater than one hundred dollars.

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

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 Position

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

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

Restricted Net Position - represents net position that has third party limitations on their use.

Unrestricted Net Position - represents unrestricted net position. 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.

H. Fund Balances

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Board is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable fund balance- amounts that are not in spendable 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 Board itself, using its highest level of decision-making authority, Board of Directors. 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. Commitments may be established, modified, or rescinded only through resolutions approved by the Board of Directors.
- Assigned fund balance—amounts the Board intends to use for a specific purpose. Intent can be expressed by the Board of Directors or by an official or body to which the Board delegates the authority.
- Unassigned fund balance—amounts that are available for any purpose.

The Board of Directors establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. Assigned fund balance is established by the Board of Directors through adoption of a resolution 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. Committed Fund Balance is used next, then Assigned and Unassigned Fund Balances are used in that order.

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 Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>End Balance</u>
Non-Depreciable Assets:				
Land	\$ 102,338	\$ -	\$ -	\$ 102,338
Construct in Progress	-	-	-	-
Total Non-Depreciable	<u>\$ 102,338</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 102,338</u>
Amortizable And Depreciable Assets:				
Capital Lease – School Building, Furniture, Fixtures and Equipment	\$2,615,352	\$ -	\$ -	\$2,615,352
Other Furniture, Fixtures and Equipment	8,292	-	-	8,292
Playground Equipment	22,087	-	-	22,087
School Bus	54,499	-	-	54,499
Outdoor Pavilion	40,254	139,174	-	179,428
Storage Building	<u>2,830</u>	<u>-</u>	<u>-</u>	<u>2,830</u>
Total Amortizable And Depreciable Assets	<u>\$2,743,314</u>	<u>\$ 139,174</u>	<u>\$ -</u>	<u>\$2,882,488</u>
Less Accumulated Amortization for:				
Capital Lease	\$ 235,115	\$ 35,018	\$ -	\$ 270,133
Less Accumulated Depreciation for:				
Other Furniture, Fixtures And Equipment	4,706	799	-	5,505
Playground Equipment	22,087	-	-	22,087
School Bus	54,499	-	-	54,499
Outdoor Pavilion	4,486	1,152	-	5,638
Storage Building	<u>1,236</u>	<u>190</u>	<u>-</u>	<u>1,425</u>
Total Accumulated Amortization and Depreciation	<u>\$ 322,129</u>	<u>\$ 37,159</u>	<u>\$ -</u>	<u>\$ 359,288</u>
Depreciable and Amortizable Assets, Net	<u>\$2,421,185</u>	<u>\$ 102,016</u>	<u>\$ -</u>	<u>\$2,523,201</u>
Governmental Activities Capital Assets, Net	<u>\$2,523,523</u>	<u>\$ 102,014</u>	<u>\$ -</u>	<u>\$2,625,539</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 2014 Real Estate and Personal Property Taxes was \$27,197,664.

The tax rate assessed for the year ended June 30, 2014 to finance general fund operations and the payment of principal and interest on the long-term capital lease was \$.41 cents in Gibson County and \$.41 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, 2014 were 94.82% 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 and note Proceeds, the District has agreed to pay the City, as lease payments, amounts equal to the principal and interest payments on the bonds and note, as and when such payments are due.

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. Construction was completed in May of 2002.

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

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

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, 2014 is as follows:

	Amount Outstanding <u>7/1/2014</u>	Issued Current <u>Year</u>	Retired Current <u>Year</u>	Amount Outstanding <u>6/30/2015</u>
Capital Lease Payable:				
City of Kenton, Tennessee	<u>\$1,734,972</u>	<u>\$ -</u>	<u>\$ 66,050</u>	<u>\$ 1,668,922</u>

Interest Rate Payable is 1.15% to 4.00%

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

<u>Due Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 71,000	\$ 55,944	\$ 126,944
2016	76,000	54,139	130,139
2017	81,000	52,234	133,234
2018	86,000	50,230	136,230
2019	96,000	47,935	143,935
2020-2024	780,000	177,129	957,129
2025-2027	<u>478,922</u>	<u>40,400</u>	<u>519,322</u>
	<u>\$1,668,922</u>	<u>\$ 478,011</u>	<u>\$2,146,933</u>

8. CAPITAL LEASE COMMITMENTS

The present value of the capital lease is:

<u>Fiscal Year Ending</u>	<u>General Long-Term Debt</u>
2015	\$ 126,944
2016	130,139
2017	133,234
2018	136,230
2019	143,935
2020-2024	957,129
2025-2027	<u>519,322</u>
Total	\$2,146,933
Less amount representing interest (1.15% - 4.00%)	<u>478,011</u>
Present Value of future minimum lease payments	<u>\$ 1,668,922</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 three (3) of the classrooms in the Kenton School Building, located at 101 Tommy Wade Drive, 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 \$1,500.00 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, 2014.

12.RELATED PARTY TRANSACTIONS

No related party transactions existed for the Kenton Special School District for the fiscal year ended June 30, 2014.

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 June 8, 2015, the date which the financial statements were available to be issued.

OTHER SUPPLEMENTARY INFORMATION

KENTON SPECIAL SCHOOL DISTRICT
SCHEDULE OF CAPITAL LEASE PAYABLE
LEASE PAYMENT REQUIREMENTS BY FISCAL YEAR- UNAUDITED
June 30, 2014

CITY OF KENTON, TENNESSEE
GENERAL OBLIGATION SCHOOL BONDS, SERIES 2011

\$ 1,550,000 Issue, Dated June 1, 2011

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

Fiscal Year Ended <u>June 30,</u>	Annual Date <u>June 1,</u>	Interest <u>Rate</u>	Requirements For The Year Ending June 30		<u>Total</u>
			<u>Principal</u>	<u>Interest</u>	
2015	2015	2.000	\$ 45,000	\$ 47,801	\$ 92,801
2016	2016	2.000	50,000	46,901	96,901
2017	2017	2.000	55,000	45,901	100,901
2018	2018	2.650	60,000	44,801	104,801
2019	2019	2.650	70,000	43,211	113,211
2020	2020	3.000	115,000	41,356	156,356
2021	2021	3.000	120,000	37,906	157,906
2022	2022	3.500	130,000	34,306	164,306
2023	2023	3.500	140,000	29,756	169,756
2024	2024	3.625	145,000	24,856	169,856
2025	2025	3.625	160,000	19,600	179,600
2026	2026	4.000	170,000	13,800	183,800
2027	2027	4.000	<u>175,000</u>	<u>7,000</u>	<u>182,000</u>
Totals			<u>\$1,435,000</u>	<u>\$ 437,195</u>	<u>\$1,872,195</u>

KENTON SPECIAL SCHOOL DISTRICT
 SCHEDULE OF CAPITAL LEASE PAYABLE
 LEASE PAYMENT REQUIREMENTS BY FISCAL YEAR-UNAUDITED
 June 30, 2014

CITY OF KENTON, TENNESSEE
CAPITAL NOTE PAYABLE

\$ 312,000 Capital Note Payable, Dated September 2, 2011

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

Fiscal Year Ended <u>June 30,</u>	Annual Date <u>Sept 2,</u>	Interest <u>Rate</u>	Requirements For The Year Ending June 30		<u>Total</u>
			<u>Principal</u>	<u>Interest</u>	
2015	2015	3.48	\$ 26,000	\$ 8,143	\$ 34,143
2016	2016	3.48	26,000	7,238	33,238
2017	2017	3.48	26,000	6,333	32,333
2018	2018	3.48	26,000	5,428	31,428
2019	2019	3.48	26,000	4,524	30,524
2020	2020	3.48	26,000	3,619	29,619
2021	2021	3.48	26,000	2,714	28,714
2022	2022	3.48	26,000	1,809	27,809
2023	2023	3.48	<u>25,922</u>	<u>904</u>	<u>26,826</u>
Totals			<u>\$ 233,922</u>	<u>\$ 40,712</u>	<u>\$ 274,634</u>

KENTON SPECIAL SCHOOL DISTRICT
KENTON, TENNESSEE
INSURANCE COVERAGE - UNAUDITED
June 30, 2014

<u>Property Covered</u>	<u>Limits Of Liability</u>
Building and Personal Property	\$ 1,600,000
General Liability Coverage	\$ 700,000
Public Official Bond	\$ 100,000

INTERNAL CONTROL AND
COMPLIANCE SECTION



John R. (Jack) Reese, CPA
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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 Directors
Kenton Special School District

We have audited, in accordance with the auditing standard 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 and the major fund of Kenton Special School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Kenton Special School District's basic financial statements, and have issued our report thereon dated June 8, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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 over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we considered 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 District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance.

A handwritten signature in black ink that reads "Cowart Reese Sargent". The signature is written in a cursive style with a long, sweeping horizontal line extending to the right from the end of the name.

Cowart Reese Sargent, CPAs
June 8, 2015

Martin, TN

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, 2014

I. SCHEDULE OF FINDINGS AND QUESTIONED COSTS

No New Findings

II. DISPOSITION OF PRIOR YEAR FINDINGS

No Findings in Prior Year