

**HOLLOW ROCK – BRUCETON
SPECIAL SCHOOL DISTRICT**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

**HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
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JUNE 30, 2010**

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INTRODUCTORY SECTION

HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
LIST OF PRINCIPAL OFFICIALS
June 30, 2010

Board Chairman	Tim Runions
Board Vice-Chairman	Joseph Robinson
Board Member	Sondra Kee
Board Member	Brad Hurley
Board Member	Randy Kelley
Board Member	Joyce Noles
Board Member	Dan Young
Superintendent	Rod Sturdivant

FINANCIAL SECTION



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Independent Auditor's Report

Board of Education
Hollow Rock - Bruceton Special School District
Bruceton, Tennessee

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Hollow Rock - Bruceton Special School District, as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the management of the District. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2010, and the respective changes in financial position and the budgetary comparisons for the general fund, debt service fund and federal projects fund 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 November 18, 2010, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions, laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the schedule of funding progress on page 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The introductory section, the budgetary comparison for the centralized cafeteria fund and the additional schedules listed in the table of contents as other supplementary information are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The schedules of other supplementary information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Alexander Thompson Arnold PLLC

Martin, Tennessee
November 18, 2010

BASIC FINANCIAL STATEMENTS

**HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
DISTRICT-WIDE STATEMENT OF NET ASSETS**

June 30, 2010

ASSETS

Cash and cash equivalents	\$2,824,908
Taxes receivable	619,313
Due from other governmental agencies	126,411
Accounts receivable	899
Inventory	1,244
Capital assets, not being depreciated	
Land	94,000
Capital assets, being depreciated	
Buildings and improvements	5,741,817
Other fixed assets	58,870
Less accumulated depreciation	(2,473,634)
Deferred charges, net of accumulated amortization	<u>57,002</u>
Total Assets	<u>7,050,830</u>

LIABILITIES

Other accrued expenses	334,241
Deferred revenue - taxes	619,313
Long-term liabilities:	
Due within one year	235,000
Due in more than one year	<u>3,841,790</u>
Total Liabilities	<u>5,030,344</u>

NET ASSETS

Invested in capital assets, net of related debt	(598,735)
Restricted for	
Debt Service	441,166
Unrestricted	<u>2,178,055</u>
Total Net Assets	<u>\$2,020,486</u>

**HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
DISTRICT-WIDE STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
Governmental activities:					
Instruction:					
Regular education	\$2,590,207	\$ -	\$ 50,687	\$ -	\$ (2,539,520)
Special education	430,944	-	513,646	-	82,702
Vocational education	120,048	-	19,215	-	(100,833)
Support Services:					
Student support	265,529	-	-	-	(265,529)
Instructional staff	257,939	-	-	-	(257,939)
General administration	169,410	-	-	-	(169,410)
School administration	137,466	-	-	-	(137,466)
Business administration	43,731	-	-	-	(43,731)
Operation and maintenance of plant	376,374	-	-	-	(376,374)
Student transportation	4,250	-	-	-	(4,250)
Noninstructional Services					
Food service	348,831	92,689	296,901	4,254	45,013
Early Childhood Education	94,577	-	89,237	-	(5,340)
Capital outlay	11,513	-	-	-	(11,513)
Debt service	158,696	-	-	-	(158,696)
Total District	\$5,009,515	\$ 92,689	\$ 969,686	\$ 4,254	(3,942,886)
 General Revenues:					
Local taxes					326,999
Property taxes					745,472
Intergovernmental:					
Basic Education Program					3,132,595
Other					185,799
Interest					78,836
Other miscellaneous revenues					108,699
Total general revenues					4,578,400
Change in net assets					635,514
Net assets, beginning					1,384,972
Net assets, ending					\$ 2,020,486

FUND FINANCIAL STATEMENTS

HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010

	MAJOR			NONMAJOR	Total Governmental Funds
	General Fund	Debt Service Fund	Federal Projects Fund	Centralized Cafeteria Fund	
ASSETS					
Cash and cash equivalents	\$ 2,505,180	\$ 225,047	\$ -	\$ 94,681	\$ 2,824,908
Taxes receivable	408,870	210,443	-	-	619,313
Due from other governments	114,173	12,238	-	-	126,411
Accounts receivable	-	-	-	899	899
Inventory	-	-	-	1,244	1,244
Total Assets	\$ 3,028,223	\$ 447,728	\$ -	\$ 96,824	\$ 3,572,775
 LIABILITIES AND FUND BALANCES					
LIABILITIES					
Other accrued expenses	\$ 334,241	\$ -	\$ -	\$ -	\$ 334,241
Deferred revenue - taxes	408,870	210,443	-	-	619,313
Total Liabilities	743,111	210,443	-	-	953,554
 FUND BALANCES					
Reserved for:					
Food service - inventory	-	-	-	1,244	1,244
Debt service	-	237,285	-	-	237,285
Unreserved:					
Reported in special revenue fund				95,580	95,580
Undesignated	2,285,112	-	-	-	2,285,112
Total Fund Balances	2,285,112	237,285	-	96,824	2,619,221
Total Liabilities and Fund Balances	\$ 3,028,223	\$ 447,728	\$ -	\$ 96,824	\$ 3,572,775

**HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES**
June 30, 2010

Total Governmental Fund Balances	\$ 2,619,221
Amounts reported for governmental activities on the statement of net assets are different because of the following:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	3,421,053
Long-term liabilities, including bonds, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(4,019,788)</u>
Net Assets of Governmental Activities	<u>\$ 2,020,486</u>

HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

For the Year Ended June 30, 2010

	MAJOR			NONMAJOR	Total Governmental Funds
	General	Debt Service	Federal Projects Fund	Centralized Cafeteria Fund	
REVENUES					
Taxes	\$ 862,881	\$ 209,590	\$ -	\$ -	\$ 1,072,471
Intergovernmental	3,441,624	-	549,555	301,155	4,292,334
Meal sales	-	-	-	92,689	92,689
Interest earnings	73,878	4,759	-	199	78,836
Miscellaneous	105,655	-	-	3,042	108,697
Total Revenues	<u>4,484,038</u>	<u>214,349</u>	<u>549,555</u>	<u>397,085</u>	<u>5,645,027</u>
EXPENDITURES					
Instruction	2,614,048	-	419,714	-	3,033,762
Support services	1,145,555	-	109,144	-	1,254,699
Food services	-	-	-	381,779	381,779
Non-instructional services	612,375	211,141	-	-	823,516
Total Expenditures	<u>4,371,978</u>	<u>211,141</u>	<u>528,858</u>	<u>381,779</u>	<u>5,493,756</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>112,060</u>	<u>3,208</u>	<u>20,697</u>	<u>15,306</u>	<u>151,271</u>
OTHER FINANCING SOURCES (USES)					
Operating transfers in	30,047	-	-	-	30,047
Operating transfers out	-	-	(20,697)	(9,350)	(30,047)
Total Other Financing Sources (Uses)	<u>30,047</u>	<u>-</u>	<u>(20,697)</u>	<u>(9,350)</u>	<u>-</u>
Net Change in Fund Balance	142,107	3,208	-	5,956	151,271
Fund balance - July 1, 2009	2,143,005	234,077	-	91,581	2,468,663
Decrease in inventory	-	-	-	(713)	(713)
Fund balance - June 30, 2010	<u>\$ 2,285,112</u>	<u>\$ 237,285</u>	<u>\$ -</u>	<u>\$ 96,824</u>	<u>\$ 2,619,221</u>

The accompanying notes are an integral part of the financial statements.

**HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds	\$ 151,271
<p>The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This is the amount of principal repaid during the current year.</p>	
	235,000
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds.</p>	
	(6,555)
<p>The increase (decrease) in inventory is reported as a direct change to beginning fund balance. However, in the statement of activities this change is reported in expense based on the consumption method.</p>	
	(713)
<p>Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay expenditures exceeded depreciation during the current period.</p>	
	<u>256,511</u>
Change in Net Assets of Governmental Activities	<u>\$ 635,514</u>

**HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
GENERAL PURPOSE FUND**

For the Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance Over (Under)
REVENUES				
Taxes:				
Local option sales tax	\$ 315,000	\$ 315,000	\$ 326,645	\$ 11,645
Interstate telecommunications tax	725	725	354	(371)
City/Special School District:				
Current property tax	360,000	360,000	378,684	18,684
Prior year's property tax	11,975	11,975	138,054	126,079
Interest and penalty	1,800	1,800	5,453	3,653
Payment in lieu of taxes	9,000	9,000	13,691	4,691
Total taxes	698,500	698,500	862,881	164,381
Intergovernmental:				
Licenses and permits:				
Marriage licenses	500	500	305	(195)
State revenues:				
State education funds:				
Basic Education Program	3,257,395	3,257,395	3,132,595	(124,800)
Other state education funds	98,077	98,077	107,951	9,874
Career Ladder	26,500	26,500	18,508	(7,992)
Career Ladder - extended contract	34,205	34,205	130,800	96,595
Total state education revenue	3,416,177	3,416,177	3,389,854	(26,323)
Other state revenues:				
Mixed drink tax	250	250	324	74
On behalf payments for fringe benefits	-	-	35,862	35,862
Total state revenues	3,416,427	3,416,427	3,426,040	9,613
Federal revenues:				
Federal funds received through state for				
Government Services Grants	-	-	6,124	6,124
Other federal through state	-	8,555	9,155	600
Total federal revenue	-	8,555	15,279	6,724
Total intergovernmental	3,416,927	3,425,482	3,441,624	16,142
Miscellaneous:				
Other local revenues:				
Interest earned	16,000	16,000	73,878	57,878
E-rate funding	-	-	7,517	7,517
Insurance recovery	-	95,191	95,191	-
Sale of equipment	-	-	56	56
Damages recovered from individuals	-	-	114	114
Other local revenues	20,069	20,069	2,777	(17,292)
Total other local revenues	36,069	131,260	179,533	48,273
Total revenues	4,151,496	4,255,242	4,484,038	228,796

**HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL PURPOSE FUND**

For the Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance Over (Under)
EXPENDITURES				
Instruction:				
Regular Education:				
Teachers	1,595,627	1,595,627	1,598,151	2,524
Career ladder program	16,500	16,500	16,500	-
Career ladder - extended contract	34,205	34,205	26,000	(8,205)
Homebound teachers	2,000	2,000	2,544	544
Teacher assistants	45,579	45,579	44,846	(733)
Bonus payments	-	-	36,750	36,750
Other salaries and wages	4,500	4,500	3,600	(900)
Substitute teachers	-	-	2,414	2,414
Non-certified substitute teachers	25,000	25,000	19,943	(5,057)
Social security	97,720	97,720	95,273	(2,447)
State retirement	110,685	110,685	109,433	(1,252)
Medical insurance	167,332	142,615	122,291	(20,324)
Unemployment compensation	496	496	480	(16)
Medicare	22,853	22,853	22,630	(223)
Maintenance and repair - equipment	6,000	6,000	2,892	(3,108)
Other contracted services	28,095	28,095	35,634	7,539
Instructional supplies/materials	77,650	77,650	39,126	(38,524)
Textbooks	55,000	55,000	47,850	(7,150)
Fee waivers	1,000	1,000	95	(905)
Other charges	4,700	4,700	1,787	(2,913)
Equipment	51,704	51,704	44,456	(7,248)
Total Regular Education	<u>2,346,646</u>	<u>2,321,929</u>	<u>2,272,695</u>	<u>(49,234)</u>
Special Education:				
Teachers	132,158	132,158	132,158	-
Career Ladder program	2,000	2,000	2,000	-
Teacher assistants	21,550	21,550	21,549	(1)
Bonus payments	-	-	4,500	4,500
Non-certified substitute teacher	1,000	1,000	1,000	-
Social security	8,498	8,498	8,497	(1)
State retirement	10,581	10,581	10,581	-
Medical insurance	25,873	25,873	22,476	(3,397)
Unemployment compensation	41	41	57	16
Medicare	1,988	1,988	2,029	41
Contracts with other school systems	19,377	25,807	19,634	(6,173)
Maintenance and repair - equipment	500	500	242	(258)
Other contracted services	1,500	1,500	1,661	161
Instructional supplies/materials	2,600	2,600	2,678	78
Total Special Education	<u>227,666</u>	<u>234,096</u>	<u>229,062</u>	<u>(5,034)</u>

**HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL PURPOSE FUND**

For the Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance Over (Under)
EXPENDITURES (Cont.)				
Instruction (Cont.):				
Vocational Education:				
Teachers	83,241	83,241	83,240	(1)
Career Ladder program	1,000	1,000	1,000	-
Bonus payments	-	-	1,500	1,500
Substitute teachers	600	1,400	1,414	14
Social security	4,680	4,680	4,593	(87)
State retirement	5,401	5,401	5,505	104
Medical insurance	10,401	9,721	9,713	(8)
Unemployment compensation	24	24	21	(3)
Medicare	1,080	1,080	1,074	(6)
Maintenance and repair - equipment	1,000	1,000	73	(927)
Instructional supplies	3,800	3,800	4,158	358
Other charges	500	500	-	(500)
Equipment	500	500	-	(500)
Total Vocational Education	<u>112,227</u>	<u>112,347</u>	<u>112,291</u>	<u>(56)</u>
Total Instruction	<u>2,686,539</u>	<u>2,668,372</u>	<u>2,614,048</u>	<u>(54,324)</u>
Support Services:				
Student Support:				
Attendance:				
Director	58,100	58,100	58,100	-
Bonus payments	-	-	750	750
Social security	3,168	3,283	3,203	(80)
State retirement	3,684	3,884	3,828	(56)
Medical insurance	6,289	6,489	6,341	(148)
Unemployment compensation	14	14	10	(4)
Medicare	741	768	749	(19)
Travel	400	1,040	1,010	(30)
Other supplies and materials	200	200	200	-
Other charges	500	500	52	(448)
Total Attendance	<u>73,096</u>	<u>74,278</u>	<u>74,243</u>	<u>(35)</u>
Health Services:				
Medical personnel	33,500	33,500	-	(33,500)
Other contracted services	-	-	33,256	33,256
Drugs and medical supplies	200	200	200	-
Other supplies/materials	200	200	113	(87)
Other charges	800	800	483	(317)
Total Health Services	<u>34,700</u>	<u>34,700</u>	<u>34,052</u>	<u>(648)</u>

HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL PURPOSE FUND

For the Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance Over (Under)
EXPENDITURES (Cont.)				
Support Services (Cont.):				
Other Student Support:				
Career Ladder program	2,000	2,000	1,917	(83)
Guidance personnel	83,220	83,220	80,511	(2,709)
Bonus payments	-	-	1,500	1,500
Social security	4,874	4,494	4,477	(17)
State retirement	5,501	5,251	5,233	(18)
Medical insurance	7,225	9,425	9,381	(44)
Unemployment compensation	19	19	20	1
Medicare	1,139	1,059	1,047	(12)
Evaluation/testing	4,200	3,200	3,083	(117)
Maintenance and repair	2,000	2,000	-	(2,000)
Other supplies/materials	2,000	2,000	932	(1,068)
Other charges	22,940	22,940	21,694	(1,246)
Total Other Student Support	<u>135,118</u>	<u>135,608</u>	<u>129,795</u>	<u>(5,813)</u>
Total Student Support	<u>242,914</u>	<u>244,586</u>	<u>238,090</u>	<u>(6,496)</u>
Instructional Staff:				
Regular Education:				
Director	34,518	34,518	32,652	(1,866)
Career Ladder program	2,000	2,000	2,000	-
Librarian(s)	45,870	45,870	42,922	(2,948)
Instructional computer personnel	22,386	22,386	22,386	-
Secretary	16,238	16,238	16,123	(115)
Aides	10,913	10,913	10,815	(98)
Bonus payments	-	-	3,750	3,750
Social security	7,685	7,685	6,939	(746)
State retirement	7,721	8,921	8,906	(15)
Medical insurance	7,186	7,786	7,774	(12)
Unemployment compensation	41	6	(5)	(11)
Medicare	3,260	1,660	1,620	(40)
Maintenance and repair	4,000	4,000	456	(3,544)
Travel	2,000	2,000	1,039	(961)
Library books	6,000	6,000	6,390	390
Periodicals	2,000	2,000	1,131	(869)
Other charges	3,500	3,500	2,262	(1,238)
Total Regular Education	<u>175,318</u>	<u>175,483</u>	<u>167,160</u>	<u>(8,323)</u>

**HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL PURPOSE FUND**

For the Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance Over (Under)
EXPENDITURES (Cont.)				
Support Services (Cont.):				
Instructional Staff:				
Special Education:				
Director	3,570	3,570	3,570	-
Secretary	1,600	1,600	1,600	-
Clerical personnel	1,600	1,600	1,600	-
Social security	309	309	309	-
State retirement	521	521	521	-
Medical insurance	151	78	78	-
Unemployment compensation	2	2	2	-
Medicare	73	146	146	-
Travel	750	750	272	(478)
Total Special Education	<u>8,576</u>	<u>8,576</u>	<u>8,098</u>	<u>(478)</u>
Vocational Education:				
Director	1,840	1,840	1,840	-
Career Ladder - extended contract	775	775	775	-
Social security	157	157	157	-
State retirement	189	189	189	-
Medical insurance	73	73	72	(1)
Medicare	37	37	37	-
Travel	550	550	31	(519)
Total Vocational Education	<u>3,621</u>	<u>3,621</u>	<u>3,101</u>	<u>(520)</u>
Total Instructional Staff	<u>187,515</u>	<u>187,680</u>	<u>178,359</u>	<u>(9,321)</u>
General Administration:				
Board of Education Services:				
Audit services	8,000	9,500	9,500	-
Dues and memberships	2,388	2,388	1,725	(663)
Legal services	500	500	674	174
Travel	6,000	6,000	3,365	(2,635)
Liability insurance	13,000	13,000	11,256	(1,744)
Premium on surety bond	630	630	630	-
Trustee commissions	11,000	11,000	11,169	169
Workmen's compensation insurance	16,000	12,672	12,672	-
Other charges	4,000	4,000	2,958	(1,042)
Total Board of Education Services	<u>61,518</u>	<u>59,690</u>	<u>53,949</u>	<u>(5,741)</u>

**HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL PURPOSE FUND**

For the Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance Over (Under)
EXPENDITURES (Cont.)				
Support Services (Cont.):				
Office of the Superintendent:				
County official/administrative officer	71,410	71,410	71,587	177
Career Ladder program	1,000	1,000	1,000	-
Secretary(s)	17,433	17,433	17,133	(300)
Bonus payments	-	-	1,500	1,500
Social security	5,098	5,248	5,218	(30)
State retirement	6,176	6,496	6,487	(9)
Medical insurance	7,608	6,958	6,952	(6)
Unemployment compensation	26	26	20	(6)
Medicare	1,192	1,192	1,220	28
Communication	1,500	1,500	1,248	(252)
Dues and memberships	641	641	-	(641)
Maintenance and repair	300	300	-	(300)
Postal charges	1,200	1,200	198	(1,002)
Travel	1,700	1,700	1,335	(365)
Office supplies	1,500	1,500	1,105	(395)
Other charges	500	500	458	(42)
Total Office of the Superintendent	117,284	117,104	115,461	(1,643)
 Total General Administration	 178,802	 176,794	 169,410	 (7,384)
 School Administration:				
Office of the Principal:				
Principals	79,416	79,416	79,416	-
Career ladder program	2,000	2,000	2,000	-
Assistant(s)	720	720	-	(720)
Secretary(s)	16,238	16,238	16,351	113
Bonus payments	6,000	6,000	4,500	(1,500)
Social security	6,156	6,156	6,617	461
State retirement	6,850	6,850	8,349	1,499
Medical insurance	6,524	6,524	6,524	-
Unemployment compensation	16	16	29	13
Medicare	1,440	1,440	1,548	108
Communication	4,500	4,500	2,011	(2,489)
Dues and memberships	960	960	642	(318)
Maintenance and repair	1,500	1,500	1,491	(9)
Postal charges	1,200	1,200	691	(509)
Travel	450	450	64	(386)
Other contracted services	-	-	2,500	2,500
Office supplies	3,500	3,500	3,192	(308)
Other charges	1,500	1,500	1,541	41
Total School Administration	138,970	138,970	137,466	(1,504)

**HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL PURPOSE FUND**

For the Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
EXPENDITURES (Cont.)				
Support Services (Cont.):				
Business Administration:				
Fiscal Services:				
Accountants/bookkeepers	29,580	29,580	28,580	(1,000)
Bonus payments	-	-	750	750
Social security	1,658	1,658	1,748	90
State retirement	2,701	2,701	2,824	123
Medical insurance	2,836	2,836	2,860	24
Unemployment compensation	18	18	10	(8)
Medicare	386	386	409	23
Travel	1,500	1,500	1,500	-
Other contracted services	3,438	3,438	3,502	64
Office supplies	1,200	1,200	1,309	109
Other charges	600	600	239	(361)
Total Business Administration	<u>43,917</u>	<u>43,917</u>	<u>43,731</u>	<u>(186)</u>
Operation and Maintenance of Plant:				
Operation of Plant:				
Supervisor/director	22,190	22,190	20,750	(1,440)
Bonus payments	-	-	750	750
Social security	1,378	1,378	1,333	(45)
State retirement	2,026	2,026	1,963	(63)
Unemployment compensation	23	23	10	(13)
Medicare	322	322	312	(10)
Other contracted services	150,000	150,000	151,295	1,295
Electricity	97,900	81,039	81,018	(21)
Natural gas	32,000	24,850	24,848	(2)
Water and sewer	28,000	34,000	32,008	(1,992)
Other supplies and materials	16,000	16,000	10,021	(5,979)
Building and contents insurance	20,000	25,579	25,579	-
Other charges	1,000	1,000	1,999	999
Total Operation of Plant	<u>370,839</u>	<u>358,407</u>	<u>351,886</u>	<u>(6,521)</u>
Maintenance of Plant:				
Maintenance and repair	10,000	7,700	7,559	(141)
Other contracted services	8,780	13,280	12,949	(331)
Other charges	5,500	5,500	3,980	(1,520)
Total Maintenance of Plant	<u>24,280</u>	<u>26,480</u>	<u>24,488</u>	<u>(1,992)</u>
Total Operation and Maintenance of Plant	<u>395,119</u>	<u>384,887</u>	<u>376,374</u>	<u>(8,513)</u>

**HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL PURPOSE FUND**

For the Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance Over (Under)
EXPENDITURES (Cont.)				
Support Services (Cont.):				
Student Transportation:				
Contracts with parents	-	2,125	2,125	-
Total Support Services	1,187,237	1,178,959	1,145,555	(33,404)
Non-Instructional Services:				
Early Childhood Education:				
Director	1,597	1,597	1,597	-
Principals	3,489	3,489	3,489	-
Teachers	33,276	33,276	33,276	-
Guidance personnel	2,792	2,792	2,792	-
Librarians	2,948	2,948	2,948	-
Aides	10,637	11,387	11,387	-
Custodial personnel	3,500	3,500	-	(3,500)
Non-certified substitute teachers	500	1,414	1,414	-
Social security	2,854	2,854	2,854	-
State retirement	3,110	3,176	3,176	-
Medical insurance	7,261	7,261	7,261	-
Unemployment compensation	12	21	21	-
Medicare	643	643	643	-
Communication	2,000	2,000	2,000	-
Postal charges	1,000	1,000	1,000	-
Printing, stationery and forms	1,000	1,000	1,000	-
Travel	500	759	759	-
Natural gas	2,000	2,000	2,000	-
Water and sewer	1,000	1,000	1,000	-
Electricity	4,000	4,000	4,000	-
Instructional supplies	5,952	6,737	6,737	-
In-service/staff development	1,000	1,000	1,000	-
Other contracted services	3,363	3,363	3,363	-
Custodial supplies	643	643	643	-
Building improvements	3,000	217	217	-
Total Early Childhood Education	98,077	98,077	94,577	(3,500)
Capital Outlay:				
Building improvements	7,000	305,162	304,916	(246)
Site development	1,000	1,000	1,020	20
Total Capital Outlay	8,000	306,162	305,936	(226)
On Behalf Payments:				
State on behalf payments for fringe benefits	-	-	35,862	35,862

**HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL PURPOSE FUND**

For the Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
EXPENDITURES (Cont.)				
Non-Instructional Services:				
Debt Service:				
Principal on bonds	-	-	24,564	24,564
Interest on bonds	176,000	176,000	151,436	(24,564)
Total Debt Service	<u>176,000</u>	<u>176,000</u>	<u>176,000</u>	<u>-</u>
Total Non-Instructional Services	<u>282,077</u>	<u>580,239</u>	<u>612,375</u>	<u>32,136</u>
Total Expenditures	<u>4,155,853</u>	<u>4,427,570</u>	<u>4,371,978</u>	<u>(55,592)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(4,357)</u>	<u>(172,328)</u>	<u>112,060</u>	<u>173,204</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	<u>15,000</u>	<u>15,000</u>	<u>30,047</u>	<u>15,047</u>
Net Change in Fund Balance	<u>\$ 10,643</u>	<u>\$ (157,328)</u>	<u>142,107</u>	<u>\$ 299,435</u>
Fund balance - July 1, 2009			<u>2,143,005</u>	
Fund balance - June 30, 2010			<u>\$ 2,285,112</u>	

HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
SCHOOL FEDERAL PROJECTS
For the Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance- Over (Under)
REVENUES				
Federal through State:				
Vocational education - Basic Grants to States	\$ 18,791	\$ 19,215	\$ 19,215	\$ -
Title I - Grants to local education agencies	256,483	260,604	215,601	(45,003)
Special education - IDEA	323,064	323,064	239,446	(83,618)
Special education - Preschool	19,276	19,276	19,276	-
Title II	30,150	30,168	30,168	-
Other federal through state	6,326	6,313	5,325	(988)
Safe and Drug Free Schools grant	2,366	2,343	2,343	-
Rural education grant	14,914	18,181	18,181	-
Total Revenues	671,370	679,164	549,555	(129,609)
EXPENDITURES				
Instruction:				
Regular Instruction:				
Teachers	60,479	60,479	60,479	-
Social security	4,526	4,526	4,151	(375)
State retirement	4,685	4,685	4,406	(279)
Medical insurance	6,793	8,530	10,103	1,573
Unemployment compensation	2	2	73	71
Medicare	251	251	971	720
Other fringe benefits	878	878	-	(878)
Maintenance and repair - equipment	3,000	3,000	-	(3,000)
Instructional supplies	47,335	50,456	49,225	(1,231)
Other supplies and materials	10,000	8,263	8,263	-
Other charges	2,338	2,338	850	(1,488)
Equipment	60,573	63,833	63,840	7
Total Regular Instruction	200,860	207,241	202,361	(4,880)
Special Education Program:				
Teachers	16,198	17,416	17,416	-
Aides	10,913	10,913	10,913	-
Other salaries and wages	-	-	4,921	4,921
Social security	1,868	1,868	1,899	31
State retirement	2,036	2,036	2,115	79
Medical insurance	3,800	3,800	3,772	(28)
Unemployment compensation	4	4	15	11
Medicare	437	437	444	7
Contracts with other school systems	81,414	81,414	79,289	(2,125)
Contracts with private agencies	15,776	15,776	-	(15,776)
Other contracted services	56,699	56,699	64,098	7,399
Instructional supplies	19,315	18,097	9,714	(8,383)
Other charges	70,000	70,000	-	(70,000)
Equipment	15,000	15,000	15,000	-
Total Special Education	293,460	293,460	209,596	(83,864)

**HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
SCHOOL FEDERAL PROJECTS
For the Year Ended June 30, 2010**

	Original Budget	Final Budget	Actual	Variance- Over (Under)
EXPENDITURES (Cont.)				
Instruction (Cont.):				
Vocational Education:				
Other supplies and materials	2,704	2,704	3,357	653
Other charges	400	400	400	-
Equipment	4,000	4,000	4,000	-
Total Vocational Education	7,104	7,104	7,757	653
Total Instruction	501,424	507,805	419,714	(88,091)
Support Services:				
Other Student Support:				
Other salaries and wages	13,400	13,400	13,400	-
Social security	851	851	851	-
State retirement	877	877	877	-
Unemployment compensation	10	10	10	-
Employer medicare liability	170	170	195	25
Travel	3,750	3,750	3,097	(653)
Other contracted services	473	450	450	-
Other supplies and materials	500	500	198	(302)
In-service/staff development	1,500	1,500	1,500	-
Other charges	6,437	6,861	6,861	-
Other equipment	40,000	40,000	-	(40,000)
Total Other Student Support	67,968	68,369	27,439	(40,930)
Regular Instruction:				
Supervisor/director	15,000	15,000	15,000	-
Other salaries and wages	6,500	5,200	6,275	1,075
Social security	1,404	1,404	1,358	(46)
State retirement	1,448	1,448	1,494	46
Unemployment compensation	51	51	55	4
Medicare	331	331	321	(10)
Travel	6,505	7,323	6,950	(373)
Library books/media	4,000	4,000	4,000	-
Other supplies and materials	643	643	967	324
In-service-staff development	8,829	10,323	8,468	(1,855)
Total Regular Instruction	44,711	45,723	44,888	(835)

**HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
SCHOOL FEDERAL PROJECTS
For the Year Ended June 30, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Over (Under)</u>
EXPENDITURES (Cont.)				
Support Services (Cont.):				
Special Education Program:				
Supervisor/Director	25,654	25,654	25,654	-
Social Security	1,591	1,591	1,591	-
State retirement	1,647	1,647	1,647	-
Medical insurance	3,177	3,177	3,177	-
Unemployment	4	4	4	-
Medicare	372	372	372	-
Travel	2,000	2,000	2,247	247
Total Special Education	<u>34,445</u>	<u>34,445</u>	<u>34,692</u>	<u>247</u>
 Transportation:				
Contracts with other schools	<u>2,125</u>	<u>2,125</u>	<u>2,125</u>	<u>-</u>
 Total Support Services	<u>149,249</u>	<u>150,662</u>	<u>109,144</u>	<u>(41,518)</u>
 Total Expenditures	<u>650,673</u>	<u>658,467</u>	<u>528,858</u>	<u>(129,609)</u>
 Excess (Deficiency) of Revenues Over (Under) Expenditures	20,697	20,697	20,697	-
OTHER FINANCING SOURCES (USES)				
Indirect costs	<u>(20,697)</u>	<u>(20,697)</u>	<u>(20,697)</u>	<u>-</u>
 Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
 Fund balance - July 1, 2009			<u>-</u>	
 Fund balance - June 30, 2010			<u>\$ -</u>	

HOLLOW ROCK – BRUCETON SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Hollow Rock - Bruceton Special School District (District) is a school district separately chartered by the State Legislature. The seven-member school board, which is the governing authority, is elected by the public, approves its own budgets and controls surpluses and deficits, has the authority to issue debt and to levy taxes, and has control over hiring and firing employees.

As required by generally accepted accounting principles for governmental units as promulgated by the Governmental Accounting Standards Board, these financial statements present all funds which comprise the District. There are no component units, or entities for which the District is considered financially accountable, which should be included in this report.

B. District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statements of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of the interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

C. Measurement Focus, Basis of Accounting, and Financial Statements Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

**HOLLOW ROCK – BRUCETON SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2010

C. Measurement Focus, Basis of Accounting, and Financial Statements Presentation (cont.)

Property taxes, sales taxes, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The General Purpose Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Debt Service Fund is used to record revenues and expenditures related to the debt issues which are not recorded in the General Purpose Fund.

The Federal Projects Fund accounts for funds from the State or Federal Government that are restricted for federal programs.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the District's policy to use the restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets/Fund Balance

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with maturities of three months or less from the date of acquisition. State statutes authorize the District to invest in certificates of deposit, obligations of the U.S. Treasury, agencies and instrumentalities, obligations guaranteed by the U.S. government or its agencies, repurchase agreements and the state's investment pool. As of June 30, 2010, investments consisted solely of certificates of deposit that were included in cash on the balance sheet.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e., the current portion of interfund loans) or "advances to / from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to / from other funds".

HOLLOW ROCK – BRUCETON SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

D. Assets, Liabilities, and Net Assets or Equity (continued)

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1, and become delinquent on March 1. The property taxes are collected by the Trustee of Carroll County and remitted to the District. District property tax revenues are recognized in the period for which they are levied.

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets, in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered "available spendable resources", since they do not represent net current assets. Recognition of governmental fund type revenues represented by non-current receivables is deferred in the governmental fund statements until they become current receivables.

For the purpose of operating and maintaining the District, the private act creating the District authorized an annual property tax on every one hundred dollar (\$100) assessment of real and personal property located within the District. The current property tax is \$1.66 on every \$100 of real and personal property located within the District.

Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both district-wide and fund financial statements.

Capital Assets

Capital assets, which include land, buildings and improvements, and other fixed assets, are reported in the applicable district-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of \$5,000 (amount not rounded) or more and an estimated useful life in excess of two years.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the District is depreciated using the straight line method over the following useful lives:

Buildings and improvements	20 – 50 years
Machinery and equipment	4 – 20 years

Deferred Revenue

Deferred revenues primarily include unearned or unavailable revenues. Amounts that were receivable and measurable at June 30, 2010 but were not available to finance expenditures for the year ended June 30, 2010, are considered deferred revenues. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

HOLLOW ROCK – BRUCETON SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

D. Assets, Liabilities, and Net Assets or Equity (continued)

On-Behalf Payments for Fringe Benefits

The District records on-behalf payments made by the State of Tennessee for postemployment health insurance benefits for employees not yet eligible for Medicare. Such payments are recorded as intergovernmental revenue and instruction expenses/expenditures in the district-wide and general purpose fund financial statements, but are not budgeted as revenue or expense.

Compensated Absences

No provision for compensated absences has been shown in the financial statements presented. District employees do not have a right to receive any unpaid vacation and/or sick leave upon leaving employment or retirement.

Long-term Liabilities

In the district-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 –RECONCILIATION OF DISTRICT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the District-wide Statement of Net Assets

The financial statements include a reconciliation between the fund balance of total governmental funds and net assets of governmental activities. One item in that reconciliation addresses long-term liabilities that are not reported in the funds. The details related to this item are as follows:

Bonds payable	\$ 4,105,000
Less: Deferred charge for issuance costs (being amortized over life of debt)	(57,002)
Less: Issuance discount (being amortized as interest expense)	<u>(28,210)</u>
	<u>\$ 4,019,788</u>

**HOLLOW ROCK – BRUCETON SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2010

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the District-wide Statement of Activities

One element of the reconciliation between the net change in governmental fund balances and the change in net assets states “Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current year.” The details of this \$256,511 difference are as follows:

Capital outlay expenditures	\$ 374,019
Depreciation expense	<u>(117,508)</u>
	<u>\$ 256,511</u>

Another element of that reconciliation states that “some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds.” The details of this \$6,555 difference are as follows:

Amortization of bond issuance costs	\$ 4,385
Amortization of bond discount	<u>2,170</u>
	<u>\$ 6,555</u>

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for governmental funds. The Board of Education approves and appropriates the budgets for these funds annually. All annual appropriations lapse at the end of the fiscal year.

As an extension of the formal budgetary process, the Board of Education may transfer or appropriate additional funds for expenditures not anticipated at the time of budget adoption. The District’s policy is to not allow expenditures to exceed budgetary amounts at the function level without obtaining additional appropriation approval from the Board of Education. Line item transfers within major categories are made upon the recommendation of the Superintendent and approval by the Board.

NOTE 4 – DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The following is a summary of cash and cash equivalents as of June 30, 2010:

Cash in bank accounts	\$ 238,706
Certificates of deposit	<u>2,586,202</u>
Total cash and cash equivalents	<u>\$ 2,824,908</u>

Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The District’s policies limit deposits and investments to those instruments allowed by applicable state laws as described in Note 1. State statute requires that all deposits with

HOLLOW ROCK – BRUCETON SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

financial institutions must be collateralized by securities whose market value is equal to 105% of the value of uninsured deposits. The deposits must be collateralized 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. Statutes also require that securities underlying repurchase agreements must have a market value of at least equal to the amount of funds invested in the repurchase transaction. As of June 30, 2010, all bank deposits were fully collateralized or insured.

B. Receivables

Receivables at year end consist of taxes and intergovernmental receivables as shown on the balance sheet and statement of net assets. No allowance for uncollectible receivables was recorded as of June 30, 2010. Amounts in the General Purpose fund due from other governments represent the normal amounts due from state and county governments for shared revenues and tax allocations.

C. Capital Assets

Capital asset activity for the year end June 30, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 94,000	\$ -	\$ -	\$ 94,000
Capital assets, being depreciated				
Buildings	5,412,792	329,025	-	5,741,817
Other fixed assets	13,876	44,994	-	58,870
Total capital assets being depreciated	<u>5,426,668</u>	<u>374,019</u>	<u>-</u>	<u>5,800,687</u>
Less accumulated depreciation for:				
Buildings	2,350,456	109,654	-	2,460,110
Other fixed assets	5,670	7,854	-	13,524
Total accumulated depreciation	<u>2,356,126</u>	<u>117,508</u>	<u>-</u>	<u>2,473,634</u>
Total capital assets being depreciated, net	<u>3,070,542</u>	<u>256,511</u>	<u>-</u>	<u>3,327,053</u>
Governmental activities capital assets, net	<u>\$ 3,164,542</u>	<u>\$ 256,511</u>	<u>\$ -</u>	<u>\$ 3,421,053</u>

Depreciation expense was charged to functions/programs of the District as follows:

Operation of plant	\$ 116,569
Food service	939
Total depreciation expense	<u>\$ 117,508</u>

**HOLLOW ROCK – BRUCETON SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2010

D. Long-term Debt

Long-term debt consists of school refunding bonds, Series 2009, in the amount of \$4,340,000. These bonds require interest payments semi-annually on April 1 and October 1 as long as the bonds remain outstanding, beginning October 1, 2009. Bond principal is payable on April 1 of each year. The annual requirements to amortize the bonds as of June 30, 2010 are as follows:

Years Ending June 30,	School Refunding Bonds		Total
	Series 2009		
	Principal	Interest	
2011	\$ 235,000	\$ 123,150	\$ 358,150
2012	250,000	116,100	366,100
2013	250,000	108,600	358,600
2014	260,000	101,100	361,100
2015	270,000	93,300	363,300
2016 - 2020	1,465,000	404,520	1,869,520
2021 - 2024	1,375,000	141,571	1,516,571
	\$4,105,000	\$1,088,341	\$5,193,341

The following is a summary of long-term debt transactions for the year ended June 30, 2010:

	Beginning Balance	Additions	Retirements	Ending Balance	Due in One Year
Governmental activities:					
Refunding Bonds, Series 2009	\$4,340,000	\$ -	\$ (235,000)	\$4,105,000	\$ 235,000
Less deferred amount for bond discount	(30,380)	-	2,170	(28,210)	n/a
	\$4,309,620	\$ -	\$ (232,830)	\$4,076,790	\$ 235,000

E. Transfers

The following interfund transfers were made during the year ended June 30, 2010:

Transfer From	Transfer To General Fund
Federal Projects Fund	\$ 20,697
Centralized Cafeteria Fund	9,350
Total transfers	\$ 30,047

The above transfers were made to reimburse the General Purpose fund for indirect costs.

HOLLOW ROCK – BRUCETON SPECIAL SCHOOL DISTRICT NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE 5 – OTHER INFORMATION

A. Pensions

Political Subdivision Pension Plan Description

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

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

Funding Policy

Hollow Rock - Bruceton Special School District requires employees to contribute 5.0 percent of earnable compensation. Hollow Rock - Bruceton Special School District is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2010 was 9.13% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Hollow Rock - Bruceton Special School District is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2010, Hollow Rock - Bruceton Special School District's annual pension cost of \$28,651 to TCRS was equal to Hollow Rock - Bruceton Special School District's required and actual contributions. The required contribution was determined as part of the July 1, 2007 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period.

HOLLOW ROCK – BRUCETON SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 June 30, 2010

A. Pensions (continued)

Hollow Rock - Bruceton Special School District's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2007 was 14 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/10	\$28,651	100.00%	\$0
6/30/09	\$27,949	100.00%	\$0
6/30/08	\$18,165	100.00%	\$0

Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the plan was 79.26% percent funded. The actuarial accrued liability for benefits was \$606 thousand, and the actuarial value of assets was \$480 thousand, resulting in an unfunded actuarial accrued liability (UAAL) of \$126 thousand. The covered payroll (annual payroll of active employees covered by the plan) was \$284 thousand, and the ratio of the UAAL to the covered payroll was 44.30% percent.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

The annual required contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL) – Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/01/09	\$480	\$606	\$126	79.26%	\$284	44.30%
7/01/07	\$435	\$532	\$97	81.77%	\$251	38.65%

dollar amounts in thousands

**HOLLOW ROCK – BRUCETON SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2010

A. Pensions (continued)

State Employees, Teachers, and Higher Education Employees Pension Plan

Plan Description

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

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

Funding Policy

Most teachers are required by state statute to contribute 5.0% of salary to the plan. The employer contribution rate for Hollow Rock - Bruceton Special School District is established at an actuarially determined rate. The employer rate for the fiscal year ending June 30, 2010 was 6.42% of annual covered payroll. The employer's contribution requirement for the Hollow Rock - Bruceton Special School District is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ending June 30, 2010, 2009, and 2008 were \$156,539, \$153,328 and \$147,033, respectively, equal to the required contributions for each year.

B. Contingent Liabilities and Losses

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time although the District's management expects such amounts, if any, to be immaterial.

HOLLOW ROCK – BRUCETON SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

C. Risk Management

The District is exposed to various risks related to workers' compensation, general liability, automobile liability, and property. The District felt it was more economically feasible to join public entity risk pools as opposed to purchasing commercial insurance for these areas. The District is a member of the Tennessee Municipal League Risk Management Pool (Pool), which is a public entity risk pool, established in 1979 by the Tennessee Municipal League. The District is also a member of the Tennessee School Boards Workmen's Compensation Trust (TSB-WCT) which is a public entity risk pool established by the Tennessee School Boards Association, an association of member school districts. The District pays an annual premium to these pools for coverage under the above areas. The Pool provides the specified coverage and pays all claims from its member premiums charged or through its reinsurance policies. TSB-WCT reinsures through commercial insurance companies for claims in excess of \$100,000 for each uninsured event. The District's premiums are calculated based on its claims history. The District continues to carry commercial insurance for all other risks of loss, including public officials' bond. Settled claims from these losses have not exceeded commercial insurance coverage in any of the past three fiscal years.

D. On-Behalf Payments for Postretirement Insurance Benefits

The District recognizes as revenues and expenses contributions made by the State of Tennessee to the Teacher Group Plan and Medicare Plan on behalf of the District's employees. For the year ended June 30, 2010, the State made contributions of \$32,171 to the Teacher Group Plan and \$3,691 to the Medicare Plan.

REQUIRED SUPPLEMENTARY INFORMATION

The required supplementary information section of this report includes information required to be included in the Basic Financial Statements.

HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS
For the Year Ended June 30, 2010

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2009	\$480	\$606	\$126	79.26%	\$284	44.30%
July 1, 2007	\$435	\$532	\$97	81.77%	\$251	38.65%

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial method. The requirement to present the Schedule of Funding Progress using the Entry Age actuarial cost method went into effect during the year of the 2007 actuarial valuation; therefore, only the two most recent valuations are presented.

OTHER SUPPLEMENTARY INFORMATION

The other supplementary information section of this report includes information that is not required to be included in the Basic Financial Statements, but is provided for the purpose of additional analysis.

**HOLLOW ROCK BRUCETON SPECIAL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
DEBT SERVICE FUND**

For the Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance Over (Under)
REVENUES				
Other local revenues:				
Property taxes	\$ 224,100	\$ 222,600	\$ 209,590	\$ (13,010)
Interest earned	5,600	5,600	4,759	(841)
Total Revenues	229,700	228,200	214,349	(13,851)
EXPENDITURES				
Current Expenditures:				
Noninstructional Services				
Education Debt Service:				
Principal on bonds	185,000	205,000	210,436	5,436
Interest on bonds	43,200	10,043	-	(10,043)
Other debt service	1,500	1,000	705	(295)
Total Expenditures	229,700	216,043	211,141	(4,902)
Excess Revenues over Expenditures	\$ -	\$ 12,157	3,208	\$ (8,949)
Fund Balance - July 1, 2009			234,077	
Fund Balance - June 30, 2010			\$ 237,285	

**HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
CENTRALIZED CAFETERIA**

For the Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance- Over (Under)
REVENUES				
Charges for Current Services:				
Lunch payments - children	\$ 152,800	\$ 152,800	\$ 78,434	\$ (74,366)
Lunch payments - adults	-	200	187	(13)
Income from breakfast	1,500	1,500	933	(567)
A la carte sales	17,100	17,700	13,103	(4,597)
Other charges for services	<u>2,000</u>	<u>2,000</u>	<u>32</u>	<u>(1,968)</u>
Total Charges for Current Services	<u>173,400</u>	<u>174,200</u>	<u>92,689</u>	<u>(81,511)</u>
Other Local Revenues:				
Miscellaneous refunds	100	100	96	(4)
Other local revenues	-	-	2,946	2,946
Interest earned	<u>120</u>	<u>60</u>	<u>199</u>	<u>139</u>
Total Other Local Revenues	<u>220</u>	<u>160</u>	<u>3,241</u>	<u>3,081</u>
State Education Funds:				
School Food Services	<u>4,200</u>	<u>4,200</u>	<u>3,967</u>	<u>(233)</u>
Federal through State:				
USDA - Lunch	200,000	200,000	183,061	(16,939)
USDA - Breakfast	105,000	105,000	90,699	(14,301)
USDA - Other	500	900	1,218	318
USDA Food Service Equipment grant	-	-	4,254	4,254
USDA - Commodities	<u>-</u>	<u>-</u>	<u>17,956</u>	<u>17,956</u>
Total Federal through State	<u>305,500</u>	<u>305,900</u>	<u>297,188</u>	<u>(8,712)</u>
Total Revenues	<u>483,320</u>	<u>484,460</u>	<u>397,085</u>	<u>(87,375)</u>
EXPENDITURES				
Current Expenditures:				
Food Services:				
Cafeteria personnel	165,731	130,671	91,012	(39,659)
Social security	10,375	10,375	5,875	(4,500)
State retirement	15,431	15,431	8,057	(7,374)
Medicare liability	100	100	77	(23)
Unemployment compensation	2,500	2,500	1,375	(1,125)
Communication	800	800	687	(113)
Maintenance and repair - equipment	4,000	4,000	3,395	(605)
Postal charges	164	164	88	(76)
Travel	600	600	163	(437)
Other contracted services	3,000	3,000	1,896	(1,104)
Food supplies	<u>243,000</u>	<u>243,000</u>	<u>195,354</u>	<u>(47,646)</u>

**HOLLOW ROCK BRUCETON SPECIAL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
CENTRALIZED CAFETERIA**

For the Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Over (Under)</u>
EXPENDITURES (Cont.)				
Current Expenditures (Cont.):				
Food Services (Cont.):				
Office supplies	1,000	1,000	567	(433)
Other supplies and materials	20,000	20,000	15,683	(4,317)
Other charges	3,000	3,000	740	(2,260)
Equipment	2,000	34,600	38,854	4,254
Commodities used	-	-	17,956	17,956
Total Expenditures	<u>471,701</u>	<u>469,241</u>	<u>381,779</u>	<u>(87,462)</u>
Excess of Revenues Over Expenditures	11,619	15,219	15,306	87
OTHER FINANCING SOURCES (USES)				
Indirect costs - utilities	<u>(9,350)</u>	<u>(9,350)</u>	<u>(9,350)</u>	<u>-</u>
Net Change in Fund Balance	<u>\$ 2,269</u>	<u>\$ 5,869</u>	<u>5,956</u>	<u>\$ 87</u>
Fund balance - July 1, 2009			91,581	
Decrease in inventory			<u>(713)</u>	
Fund balance - June 30, 2010			<u><u>\$ 96,824</u></u>	

**HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
 SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS -
 GENERAL OBLIGATION DEBT
 June 30, 2010**

Year Ended <u>June 30,</u>	Bonds Payable Series 2009	
	Principal	Interest
2011	\$ 235,000	\$ 123,150
2012	250,000	116,100
2013	250,000	108,600
2014	260,000	101,100
2015	270,000	93,300
2016	270,000	96,560
2017	285,000	89,950
2018	290,000	79,975
2019	305,000	73,815
2020	315,000	64,220
2021	320,000	55,000
2022	340,000	42,200
2023	350,000	29,315
2024	365,000	15,056
	<u>\$ 4,105,000</u>	<u>\$ 1,088,341</u>

HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
SCHEDULE OF SALARIES AND BONDS
June 30, 2010

	<u>Salary</u>	<u>Bond</u>	
Superintendent	<u>\$71,587</u>	<u>\$180,000</u>	*

*All other employees of the school district are covered by a fidelity bond of \$180,000 for each occurrence.

**HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Year Ended June 30, 2010

Federal Grantor/ Pass-through Grantor/ Program	Federal CFDA Number	Agency or Pass-through Number	Balance 7/1/09	Cash Receipts	Expenditures/ Amount Earned/ Amount Issued	Balance Unearned (Receivable) 6/30/10
U.S. DEPARTMENT OF EDUCATION/ Pass-through the Tennessee Department of Education/ Special Education Grants to States						
IDEA Program, Part B	84.027	10.01	\$ -	\$ 169,381	\$ 169,381	\$ - *
ARRA - IDEA Program, Part B	84.391	10.01	-	78,620	78,620	-
IDEA Program, Preschool	84.173	10.01	-	16,577	16,577	-
ARRA - IDEA Program, Preschool	84.392	10.01	-	2,699	2,699	-
Total Special Education Grants to States Cluster			-	267,277	267,277	-
Title I, Grants to Local Education Agencies	84.010	10.01	-	169,062	169,062	-
ARRA - Title 1, Grants to Local Education Agencies	84.389	10.01	-	46,539	46,539	-
Total Title 1 Cluster			-	215,601	215,601	-
Title II, Teacher and Principal Training and Recruiting	84.367A	10.01	-	30,168	30,168	-
Title II, Enhancing Education through Technology	84.318X	10.01	-	1,438	1,438	-
ARRA - Title II, Enhancing Education through Technology	84.318X	10.01	-	3,537	3,537	-
Total Title II Cluster			-	35,143	35,143	-
State Fiscal Stabilization Fund						
Education State Grants, ARRA	84.394	10.01	-	130,800	130,800	-
Government Services, ARRA	84.397	10.01	-	2,400	2,400	-
Government Services, ARRA	84.397	10.01	-	1,727	1,727	-
Government Services, ARRA	84.397	10.01	-	1,997	1,997	-
Total State Fiscal Stabilization Fund Cluster			-	136,924	136,924	-
Vocational Education - Basic Grants to States	84.048	10.01	-	19,215	19,215	-
Title IV, Safe and Drug Free Schools	84.186A	10.01	-	2,343	2,343	-
Title VI, Part B, Subpart 2 - Rural and Low-Income School Program	84.358	10.01	-	18,181	18,181	-
ARRA - Title X, Education of Homeless Children and Youth	84.196A	10.01	-	350	350	-
Total Department of Education			-	695,034	695,034	-

HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2010

Federal Grantor/ Pass-through Grantor/ Program	Federal CFDA Number	Agency or Pass-through Number	Balance 7/1/09	Cash Receipts	Expenditures/ Amount Earned/ Amount Issued	Balance Unearned (Receivable) 6/30/10
U.S. DEPARTMENT OF AGRICULTURE/ Pass-through the Tennessee Department of Agriculture/						
School Breakfast Program	10.553	n/a	-	90,699	90,699	-
National School Lunch Program	10.555	n/a	-	183,061	183,061	-
School Snack Program	10.555	n/a	-	1,218	1,218	-
Food Distribution - Commodities	10.555	n/a	-	17,956	17,956	-
Total Department of Agriculture Cluster			-	292,934	292,934	-
ARRA - Child Nutrition	10.579	n/a	-	4,254	4,254	-
Total Department of Agriculture			-	297,188	297,188	-
U.S. DEPARTMENT OF HUMAN SERVICES Pass-through the Tennessee Department of Human Services/ HIV Prevention Education						
	93.940	n/a	-	600	600	-
Total Federal Awards			<u>\$ -</u>	<u>\$ 992,822</u>	<u>\$ 992,822</u>	<u>\$ -</u>

* major program

Note - The above schedule of expenditures of federal awards is prepared on the modified accrual basis of accounting.

HOLLOW ROCK-BRUCETON SPECIAL SCHOOL DISTRICT
SCHEDULE OF STATE FINANCIAL ASSISTANCE
For the Year Ended June 30, 2010

<u>Program</u>	<u>Contract Number</u>	<u>Balance 7/1/09</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Balance Unearned (Receivable) 6/30/10</u>
Early Childhood - Lottery	10.01	\$ -	\$ 105,345	\$ 105,345	\$ -
ConnectTennessee	10.01	-	1,145	1,145	-
Energy Efficient Schools	10.01	-	600	600	-
Total State Awards		<u>\$ -</u>	<u>\$ 107,090</u>	<u>\$ 107,090</u>	<u>\$ -</u>

INTERNAL CONTROL AND COMPLIANCE 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 Education
Hollow Rock - Bruceton Special School District
Bruceton, Tennessee

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Hollow Rock - Bruceton Special School District, as of and for the year ended June 30, 2010, which collectively comprise Hollow Rock - Bruceton Special School District's basic financial statements and have issued our report thereon dated November 18, 2010. 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

In planning and performing our audit, we considered Hollow Rock - Bruceton 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 providing an opinion on the effectiveness of Hollow Rock-Bruceton Special School 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 internal control over financial reporting 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 deficiencies, 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.

Board of Education
Hollow Rock - Bruceton Special School District

Compliance and Other Matters

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

This report is intended solely for the information and use of the Superintendent, board of education, management, the State of Tennessee Comptroller's Office and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Alexander Thompson Arnold PLLC

Martin, Tennessee
November 18, 2010



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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Hollow Rock – Bruceton Special School District
Bruceton, Tennessee

Compliance

We have audited the compliance of the Hollow Rock-Bruceton Special School District, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The Hollow Rock-Bruceton Special School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants that could have a direct and material effect on each of its major federal programs is the responsibility of the Hollow Rock-Bruceton Special School District's management. Our responsibility is to express an opinion on the Hollow Rock-Bruceton Special School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hollow Rock-Bruceton Special School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Hollow Rock-Bruceton Special School District's compliance with those requirements.

In our opinion, the Hollow Rock-Bruceton Special School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2010.

Board of Education
Hollow Rock - Bruceton Special School District

Internal Control Over Compliance

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

A deficiency in internal control over compliance 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, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of management, board of education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Alexander Thompson Arnold PLLC

Martin, Tennessee
November 18, 2010

**HOLLOW ROCK – BRUCETON SPECIAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

June 30, 2010

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

- material weakness(es) identified? yes X no
- significant deficiency(ies) identified? yes X none reported
- noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- material weakness(es) identified? yes X no
- significant deficiency(ies) identified? yes X none reported

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? yes X no

Identification of major programs:

<u>Program Name</u>	<u>CFDA No.</u>
IDEA Cluster:	
IDEA, Part B	84.027
IDEA Preschool	84.173
ARRA - IDEA Program, Part B	84.391
ARRA - IDEA Preschool	84.392
Title I Cluster:	
Title I - Grants to Local Education Agencies	84.010
ARRA - Title I - Grants to Local Education Agencies	84.389
State Fiscal Stabilization Fund Cluster:	
ARRA - Education State Grants	84.394
ARRA - Government Services	84.397

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X yes no

**HOLLOW ROCK – BRUCETON SPECIAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2010**

Section II – Financial Statement Findings

There were no financial statement findings reported.

Section III – Federal Award Findings and Questioned Costs

There were no findings required to be reported by section 510(a) of Circular A-133.