

**HOLLOW ROCK – BRUCETON
SPECIAL SCHOOL DISTRICT**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

FISCAL YEAR ENDED JUNE 30, 2011

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JUNE 30, 2011**

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INTRODUCTORY SECTION

**HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
LIST OF PRINCIPAL OFFICIALS**

June 30, 2011

Board Chairman	Tim Runions
Board Member	Joseph Robinson
Board Member	Sondra Kee
Board Member	Brad Hurley
Board Member	Randy Kelley
Board Member	Joyce Noles
Board Member	Dan Young

Director of Schools	Rod Sturdivant
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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, 2011, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the 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, 2011, and the respective changes in financial position and the budgetary comparisons for the general 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 December 5, 2011, 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 comparisons for the debt service fund and 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
December 5, 2011

BASIC FINANCIAL STATEMENTS

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

June 30, 2011

ASSETS

Cash and cash equivalents	\$2,991,592
Taxes receivable	626,362
Due from other governmental agencies	178,584
Due from other governmental agencies - grants	26,696
Accounts receivable	898
Inventory	2,580
Capital assets, not being depreciated	
Land	94,000
Capital assets, being depreciated	
Buildings and improvements	5,770,527
Other fixed assets	97,770
Less accumulated depreciation	(2,606,897)
Deferred charges, net of accumulated amortization	<u>52,617</u>
Total assets	<u>7,234,729</u>

LIABILITIES

Other accrued expenses	337,519
Deferred revenue - taxes	626,362
Long-term liabilities:	
Due within one year	250,000
Due in more than one year	<u>3,593,960</u>
Total liabilities	<u>4,807,841</u>

NET ASSETS

Invested in capital assets, net of related debt	(488,560)
Unrestricted	<u>2,915,448</u>
Total net assets	<u>\$2,426,888</u>

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

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

For the Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instruction:					
Regular education	\$2,808,079	\$ -	\$ 210,382	\$ -	\$ (2,597,697)
Special education	454,416	-	525,313	-	70,897
Vocational education	132,366	-	17,982	-	(114,384)
Support Services:					
Student support	267,539	-	-	-	(267,539)
Instructional staff	316,857	-	196,000	-	(120,857)
General administration	163,401	-	-	-	(163,401)
School administration	133,507	-	-	-	(133,507)
Business administration	46,558	-	-	-	(46,558)
Operation and					
maintenance of plant	404,091	-	-	-	(404,091)
Student transportation	4,250	-	-	-	(4,250)
Noninstructional Services					
Food service	322,067	81,843	284,999	-	44,775
Early Childhood Education	99,572	-	99,572	-	-
Capital outlay	13,137	-	-	-	(13,137)
Debt service	153,221	-	-	-	(153,221)
Depreciation - unallocated	123,589	-	-	-	(123,589)
Total District	\$5,442,650	\$ 81,843	\$ 1,334,248	\$ -	(4,026,559)

General Revenues:

Local taxes	317,891
Property taxes	678,863
Intergovernmental:	
Basic Education Program	3,259,290
Other	72,544
Interest	57,640
Other miscellaneous revenues	46,733
Total general revenues	<u>4,432,961</u>

Change in net assets

406,402

Net assets, beginning

2,020,486

Net assets, ending

\$ 2,426,888

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

FUND FINANCIAL STATEMENTS

HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011

	<u>MAJOR</u>			<u>NONMAJOR</u>	<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Federal Projects Fund</u>	<u>Centralized Cafeteria Fund</u>	
ASSETS					
Cash and cash equivalents	\$ 2,675,879	\$ 173,251	\$ -	\$ 142,462	\$ 2,991,592
Taxes receivable	413,524	212,838	-	-	626,362
Due from other governments	171,434	7,150	-	-	178,584
Due from other governmental agencies - grants	13,932	-	12,764	-	26,696
Due from other funds	12,764	-	-	-	12,764
Accounts receivable	-	-	-	898	898
Inventory	-	-	-	2,580	2,580
Total assets	<u>\$ 3,287,533</u>	<u>\$ 393,239</u>	<u>\$ 12,764</u>	<u>\$ 145,940</u>	<u>\$ 3,839,476</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Other accrued expenses	\$ 337,519	\$ -	\$ -	\$ -	\$ 337,519
Due to other funds	-	-	12,764	-	12,764
Deferred revenue - taxes	413,524	212,838	-	-	626,362
Total liabilities	<u>751,043</u>	<u>212,838</u>	<u>12,764</u>	<u>-</u>	<u>976,645</u>
Fund balances					
Nonspendable:					
Food service - inventory	-	-	-	2,580	2,580
Assigned for:					
Debt service	-	180,401	-	-	180,401
Operation of non-instructional services	-	-	-	143,360	143,360
Unassigned	2,536,490	-	-	-	2,536,490
Total fund balances	<u>2,536,490</u>	<u>180,401</u>	<u>-</u>	<u>145,940</u>	<u>2,862,831</u>
Total liabilities and fund balances	<u>\$ 3,287,533</u>	<u>\$ 393,239</u>	<u>\$ 12,764</u>	<u>\$ 145,940</u>	<u>\$ 3,839,476</u>

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

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

June 30, 2011

Total governmental fund balances	\$ 2,862,831
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.	3,355,400
Long-term liabilities, including bonds, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(3,791,343)</u>
Net assets of governmental activities	<u>\$ 2,426,888</u>

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

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

For the Year Ended June 30, 2011

	<u>MAJOR</u>			<u>NONMAJOR</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Debt Service</u>	<u>Federal Projects Fund</u>	<u>Centralized Cafeteria Fund</u>	
REVENUES					
Taxes	\$ 791,945	\$ 204,809	\$ -	\$ -	\$ 996,754
Intergovernmental	3,477,994	-	903,089	284,999	4,666,082
Meal sales	-	-	-	81,843	81,843
Interest earnings	53,642	3,088	-	910	57,640
Miscellaneous	46,548	-	-	185	46,733
Total revenues	<u>4,370,129</u>	<u>207,897</u>	<u>903,089</u>	<u>367,937</u>	<u>5,849,052</u>
EXPENDITURES					
Instruction	2,671,352	-	723,279	-	3,394,631
Support services	1,172,570	-	163,966	-	1,336,536
Food services	-	-	-	320,157	320,157
Non-instructional services	290,673	264,781	-	-	555,454
Total expenditures	<u>4,134,595</u>	<u>264,781</u>	<u>887,245</u>	<u>320,157</u>	<u>5,606,778</u>
Revenues over (under) expenditures	<u>235,534</u>	<u>(56,884)</u>	<u>15,844</u>	<u>47,780</u>	<u>242,274</u>
OTHER FINANCING SOURCES (USES)					
Operating transfers in	15,844	-	-	-	15,844
Operating transfers out	-	-	(15,844)	-	(15,844)
Total other financing sources (uses)	<u>15,844</u>	<u>-</u>	<u>(15,844)</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>251,378</u>	<u>(56,884)</u>	<u>-</u>	<u>47,780</u>	<u>242,274</u>
Fund balance - July 1, 2010	2,285,112	237,285	-	96,824	2,619,221
Increase in inventory	-	-	-	1,336	1,336
Fund balance - June 30, 2011	<u>\$ 2,536,490</u>	<u>\$ 180,401</u>	<u>\$ -</u>	<u>\$ 145,940</u>	<u>\$ 2,862,831</u>

The accompanying notes are an integral part of these 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, 2011

Net change in fund balances - total governmental funds	\$ 242,274
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.	235,000
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.	(6,555)
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.	1,336
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 depreciation exceeded capital outlay expenditures during the current period.	<u>(65,653)</u>
Change in net assets of governmental activities	<u>\$ 406,402</u>

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

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, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
REVENUES				
Taxes:				
Local option sales tax	\$ 320,000	\$ 320,000	\$ 317,622	\$ (2,378)
Interstate telecommunications tax	725	725	269	(456)
City/Special School District:				
Current property tax	365,000	365,000	386,392	21,392
Prior year's property tax	11,975	11,975	70,426	58,451
Interest and penalty	1,800	1,800	3,458	1,658
Payment in lieu of taxes	9,000	9,000	13,778	4,778
Total taxes	<u>708,500</u>	<u>708,500</u>	<u>791,945</u>	<u>83,445</u>
Intergovernmental:				
Licenses and permits:				
Marriage licenses	500	500	269	(231)
State revenues:				
State education funds:				
Basic Education Program	3,256,290	3,256,290	3,259,290	3,000
Other state education funds	99,572	99,572	112,239	12,667
Career Ladder	26,500	26,500	23,911	(2,589)
Career Ladder - extended contract	34,205	34,205	15,656	(18,549)
Total state education revenue	<u>3,416,567</u>	<u>3,416,567</u>	<u>3,411,096</u>	<u>(5,471)</u>
Other state revenues:				
Mixed drink tax	250	250	339	89
On behalf payments for fringe benefits	-	-	32,369	32,369
Total state revenues	<u>3,416,817</u>	<u>3,416,817</u>	<u>3,443,804</u>	<u>26,987</u>
Federal revenues:				
Federal funds received through state for				
Government Services Grants	-	-	7,681	7,681
Other federal through state	-	18,926	26,240	7,314
Total federal revenue	<u>-</u>	<u>18,926</u>	<u>33,921</u>	<u>14,995</u>
Total intergovernmental	<u>3,417,317</u>	<u>3,436,243</u>	<u>3,477,994</u>	<u>41,751</u>
Miscellaneous:				
Other local revenues:				
Interest earned	20,000	20,000	53,642	33,642
E-rate funding	-	-	7,320	7,320
Insurance recovery	-	5,831	6,556	725
Sale of equipment	-	-	150	150
Damages recovered from individuals	-	-	28,306	28,306
Contributions	-	-	35	35
Other local revenues	<u>20,069</u>	<u>20,069</u>	<u>4,181</u>	<u>(15,888)</u>
Total other local revenues	<u>40,069</u>	<u>45,900</u>	<u>100,190</u>	<u>54,290</u>
Total revenues	<u>4,165,886</u>	<u>4,190,643</u>	<u>4,370,129</u>	<u>179,486</u>

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

**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, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
EXPENDITURES				
Instruction:				
Regular education:				
Teachers	1,610,251	1,608,451	1,608,397	(54)
Career ladder program	16,500	16,500	16,501	1
Career ladder - extended contract	34,205	30,955	22,050	(8,905)
Homebound teachers	2,000	1,760	1,751	(9)
Teacher assistants	45,579	45,341	45,340	(1)
Other salaries and wages	3,600	3,600	3,600	-
Non-certified substitute teachers	25,000	27,051	27,051	-
Social security	97,647	93,917	98,910	4,993
State retirement	154,404	154,404	150,001	(4,403)
Medical insurance	162,186	106,132	133,292	27,160
Unemployment compensation	496	376	1,032	656
Medicare	22,837	22,909	22,908	(1)
Maintenance and repair - equipment	6,000	2,775	2,770	(5)
Other contracted services	29,000	24,340	24,338	(2)
Instructional supplies/materials	59,650	72,540	60,510	(12,030)
Textbooks	45,000	75,000	68,462	(6,538)
Fee waivers	500	107	107	-
Other charges	4,700	1,160	901	(259)
Equipment	49,704	49,704	33,953	(15,751)
Total regular education	<u>2,369,259</u>	<u>2,337,022</u>	<u>2,321,874</u>	<u>(15,148)</u>
Special education:				
Teachers	135,482	135,482	135,482	-
Career Ladder program	2,000	2,000	2,000	-
Teacher assistants	21,550	21,550	21,550	-
Non-certified substitute teacher	1,000	1,700	1,700	-
Social security	9,030	9,030	9,030	-
State retirement	14,380	14,380	14,380	-
Medical insurance	16,836	16,836	16,836	-
Unemployment compensation	72	72	72	-
Medicare	2,115	2,115	1,598	(517)
Contracts with other school systems	19,252	31,067	22,549	(8,518)
Maintenance and repair - equipment	500	500	402	(98)
Other contracted services	1,500	7,911	7,836	(75)
Instructional supplies/materials	2,600	2,600	2,577	(23)
Total special education	<u>226,317</u>	<u>245,243</u>	<u>236,012</u>	<u>(9,231)</u>

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

**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, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
EXPENDITURES (Cont.)				
Instruction (Cont.):				
Vocational education:				
Teachers	83,719	83,719	83,718	(1)
Career Ladder program	1,000	1,000	1,000	-
Substitute teachers	600	1,360	1,360	-
Social security	4,691	4,691	4,545	(146)
State retirement	7,667	7,667	7,667	-
Medical insurance	10,683	10,023	10,019	(4)
Unemployment compensation	24	24	21	(3)
Medicare	1,074	1,074	1,050	(24)
Maintenance and repair - equipment	1,000	59	59	-
Instructional supplies	3,800	3,800	3,798	(2)
Other charges	500	400	229	(171)
Equipment	500	-	-	-
Total vocational education	<u>115,258</u>	<u>113,817</u>	<u>113,466</u>	<u>(351)</u>
Total instruction	<u>2,710,834</u>	<u>2,696,082</u>	<u>2,671,352</u>	<u>(24,730)</u>
Support services:				
Student support:				
Attendance:				
Director	94,652	58,982	58,982	-
Social security	3,209	3,209	3,245	36
State retirement	5,338	5,338	5,304	(34)
Medical insurance	7,228	2,716	2,715	(1)
Unemployment compensation	10	10	10	-
Medicare	750	750	759	9
Travel	400	400	523	123
Other supplies and materials	200	200	212	12
Other charges	200	298	102	(196)
Total attendance	<u>111,987</u>	<u>71,903</u>	<u>71,852</u>	<u>(51)</u>
Health services:				
Other contracted services	34,000	29,958	29,957	(1)
Drugs and medical supplies	200	200	200	-
Other supplies/materials	200	200	200	-
Other charges	800	800	995	195
Total health services	<u>35,200</u>	<u>31,158</u>	<u>31,352</u>	<u>194</u>

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

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, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
EXPENDITURES (Cont.)				
Support services (Cont.):				
Other student support:				
Career Ladder program	2,000	2,000	2,000	-
Guidance personnel	85,005	85,005	82,156	(2,849)
Career Ladder extended program	-	3,250	3,250	-
Social security	4,779	4,870	4,870	-
State retirement	7,874	8,168	8,168	-
Medical insurance	9,953	10,039	10,039	-
Unemployment compensation	21	2	2	-
Medicare	1,119	1,138	1,138	-
Evaluation/testing	4,200	4,745	4,745	-
Maintenance and repair	2,000	-	-	-
Other supplies/materials	2,000	1,000	1,000	-
Other charges	22,940	23,450	23,441	(9)
Total other student support	<u>141,891</u>	<u>143,667</u>	<u>140,809</u>	<u>(2,858)</u>
Total student support	<u>289,078</u>	<u>246,728</u>	<u>244,013</u>	<u>(2,715)</u>
Instructional staff:				
Regular education:				
Director	-	38,309	38,308	(1)
Career Ladder program	2,000	2,000	2,000	-
Librarian(s)	45,870	45,870	44,870	(1,000)
Instructional computer personnel	22,386	22,386	22,386	-
Secretary	16,238	16,124	16,123	(1)
Clerical personnel	-	1,500	1,500	-
Aides	10,913	10,913	10,815	(98)
In-service/staff development	-	-	(3,000)	(3,000)
Social security	7,805	7,440	7,440	-
State retirement	10,870	11,837	11,837	-
Medical insurance	7,186	8,263	8,262	(1)
Unemployment compensation	43	43	25	(18)
Medicare	7,685	1,668	1,668	-
Maintenance and repair	4,000	-	-	-
Travel	2,000	1,338	682	(656)
Library books	6,000	6,500	5,862	(638)
Periodicals	2,000	2,000	2,638	638
Other charges	3,500	2,020	2,197	177
Total regular education	<u>148,496</u>	<u>178,211</u>	<u>173,613</u>	<u>(4,598)</u>

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

**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, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
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	603	603	603	-
Medical insurance	78	78	78	-
Unemployment compensation	2	2	4	2
Medicare	146	146	146	-
Travel	750	750	183	(567)
Total special education	<u>8,658</u>	<u>8,658</u>	<u>8,093</u>	<u>(565)</u>
Vocational education:				
Director	1,840	1,840	1,840	-
Career Ladder - extended contract	775	775	775	-
Social security	157	157	157	-
State retirement	233	233	233	-
Medical insurance	73	73	78	5
Unemployment compensation	73	73	-	(73)
Medicare	37	37	37	-
Travel	550	550	-	(550)
Total vocational education	<u>3,738</u>	<u>3,738</u>	<u>3,120</u>	<u>(618)</u>
Total instructional staff	<u>160,892</u>	<u>190,607</u>	<u>184,826</u>	<u>(5,781)</u>
General administration:				
Board of Education services:				
Audit services	9,500	9,500	9,500	-
Dues and memberships	2,430	-	-	-
Legal services	500	300	298	(2)
Travel	6,000	3,200	3,476	276
Liability insurance	13,670	8,771	8,771	-
Premium on surety bond	630	630	630	-
Trustee commissions	11,000	11,000	10,400	(600)
Workmen's compensation insurance	13,000	10,773	10,773	-
Other charges	4,000	3,430	3,421	(9)
Total Board of Education services	<u>60,730</u>	<u>47,604</u>	<u>47,269</u>	<u>(335)</u>

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

**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, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
EXPENDITURES (Cont.)				
Support services (cont.):				
Office of the Superintendent:				
County official/administrative officer	71,713	71,713	71,713	-
Career Ladder program	1,000	1,000	1,000	-
Secretary(s)	-	17,133	17,133	-
Social security	22,239	5,245	5,244	(1)
State retirement	8,251	8,251	8,186	(65)
Medical insurance	7,921	6,661	6,657	(4)
Unemployment compensation	24	24	17	(7)
Medicare	1,196	1,196	1,226	30
Communication	1,500	1,500	1,370	(130)
Dues and memberships	641	641	609	(32)
Maintenance and repair	300	125	125	-
Postal charges	1,200	310	306	(4)
Travel	1,700	1,700	1,786	86
Office supplies	1,500	760	760	-
Other charges	500	500	-	(500)
Total Office of the Superintendent	<u>119,685</u>	<u>116,759</u>	<u>116,132</u>	<u>(627)</u>
Total general administration	<u>180,415</u>	<u>164,363</u>	<u>163,401</u>	<u>(962)</u>
School administration:				
Office of the Principal:				
Principals	85,850	78,201	73,519	(4,682)
Career Ladder program	2,000	2,000	2,000	-
Assistant principals	720	720	720	-
Secretary(s)	16,238	16,917	16,916	(1)
Bonus payments	-	3,000	3,000	-
Social security	6,183	6,183	5,142	(1,041)
State retirement	8,865	8,865	8,933	68
Medical insurance	7,585	7,585	5,760	(1,825)
Unemployment compensation	30	5	-	(5)
Medicare	1,440	1,440	1,307	(133)
Communication	4,500	4,500	2,070	(2,430)
Dues and memberships	960	716	716	-
Maintenance and repair	1,500	1,500	1,431	(69)
Postal charges	1,200	500	500	-
Travel	450	705	817	112
Other contracted services	-	-	(852)	(852)
Office supplies	3,500	5,492	5,492	-
Other charges	1,500	86	85	(1)
Total school administration	<u>142,521</u>	<u>138,415</u>	<u>127,556</u>	<u>(10,859)</u>

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

**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, 2011

	Original Budget	Final Budget	Actual	Variance Over (Under)
EXPENDITURES (Cont.)				
Support services (cont.):				
Business administration:				
Fiscal services:				
Accountants/bookkeepers	29,580	29,580	29,580	-
Social security	1,658	1,685	1,685	-
State retirement	2,535	2,535	2,535	-
Medical insurance	3,255	3,255	2,824	(431)
Unemployment compensation	16	16	10	(6)
Medicare	386	386	394	8
Travel	1,500	1,500	1,500	-
Other contracted services	3,580	7,080	7,080	-
Office supplies	1,200	983	778	(205)
Other charges	600	600	172	(428)
Total business administration	44,310	47,620	46,558	(1,062)
Operation and maintenance of plant:				
Operation of plant:				
Supervisor/director	22,190	21,023	21,023	-
Social security	1,376	1,304	1,303	(1)
State retirement	1,902	1,802	1,802	-
Unemployment compensation	11	10	10	-
Medicare	322	305	305	-
Other contracted services	126,053	146,313	146,313	-
Electricity	95,000	98,187	98,186	(1)
Natural gas	30,000	19,762	19,743	(19)
Water and sewer	28,000	28,000	27,552	(448)
Other supplies and materials	16,000	12,600	11,648	(952)
Building and contents insurance	30,000	26,704	26,704	-
Other charges	1,000	1,000	1,738	738
Total operation of plant	351,854	357,010	356,327	(683)
Maintenance of plant:				
Maintenance and repair	10,000	15,331	14,448	(883)
Other contracted services	6,780	28,280	30,816	2,536
Other charges	4,500	4,500	2,500	(2,000)
Total maintenance of plant	21,280	48,111	47,764	(347)
Total operation and maintenance of plant	373,134	405,121	404,091	(1,030)

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

**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, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
EXPENDITURES (Cont.)				
Support services (cont.):				
Student transportation:				
Travel	2,125	2,125	2,125	-
Total support services	<u>1,192,475</u>	<u>1,194,979</u>	<u>1,172,570</u>	<u>(22,409)</u>
Non-instructional services:				
Early childhood education:				
Director	1,704	1,704	1,704	-
Principals	3,489	3,489	3,489	-
Teachers	33,893	33,893	33,893	-
Guidance personnel	2,849	2,849	2,849	-
Librarians	1,000	1,000	1,000	-
Medical personnel	2,948	2,948	2,948	-
Aides	10,637	10,637	10,637	-
Speech pathologist	2,406	2,406	2,406	-
Certified substitute teachers	-	-	3,866	3,866
Non-certified substitute teachers	2,000	2,000	1,291	(709)
Social security	3,446	3,446	3,128	(318)
State retirement	4,798	4,798	3,978	(820)
Medical insurance	6,925	6,925	5,904	(1,021)
Unemployment compensation	79	79	25	(54)
Medicare	806	806	698	(108)
Communication	2,000	2,000	1,983	(17)
Postal charges	1,000	1,000	1,000	-
Travel	500	500	471	(29)
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	4,112	4,112	5,822	1,710
In-service/staff development	1,000	1,000	500	(500)
Other contracted services	4,980	4,980	4,980	-
Building improvements	2,000	2,000	-	(2,000)
Total early childhood education	<u>99,572</u>	<u>99,572</u>	<u>99,572</u>	<u>-</u>
Capital outlay:				
Building improvements	4,000	41,005	41,005	-
Site development	1,000	1,000	842	(158)
Total capital outlay	<u>5,000</u>	<u>42,005</u>	<u>41,847</u>	<u>(158)</u>
On-behalf payments:				
State on behalf payments for fringe benefits	-	-	32,369	32,369

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

**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, 2011

	Original Budget	Final Budget	Actual	Variance Over (Under)
EXPENDITURES (Cont.)				
Non-instructional services (cont.):				
Debt service:				
Principal on bonds	-	-	30,000	30,000
Interest on bonds	170,000	170,000	86,885	(83,115)
Total debt service	170,000	170,000	116,885	(53,115)
Total non-instructional services	274,572	311,577	290,673	(20,904)
Total expenditures	4,177,881	4,202,638	4,134,595	(68,043)
Revenues over (under) expenditures	(11,995)	(11,995)	235,534	111,443
OTHER FINANCING SOURCES (USES)				
Operating transfers in	15,000	15,000	15,844	844
Net change in fund balance	\$ 3,005	\$ 3,005	251,378	\$ 248,373
Fund balance - July 1, 2010			2,285,112	
Fund balance - June 30, 2011			\$ 2,536,490	

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

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, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Over (Under)</u>
REVENUES				
Federal through State:				
Vocational education - Basic Grants to States	\$ 17,982	\$ 17,982	\$ 17,982	\$ -
Title I - Grants to local education agencies	257,620	212,625	212,625	-
Special education - IDEA	240,530	240,530	240,530	-
Special education - Preschool	16,581	16,581	16,581	-
Title II	30,286	29,337	29,337	-
Other federal through state	173,141	172,143	172,143	-
Race to the Top grant	196,232	196,000	196,000	-
Rural Education grant	20,936	16,903	16,903	-
Education for Homeless Children	-	988	988	-
Total revenues	<u>953,308</u>	<u>903,089</u>	<u>903,089</u>	<u>-</u>
EXPENDITURES				
Instruction:				
Regular instruction:				
Teachers	143,268	143,268	145,468	2,200
Bonus payments	139,909	139,909	139,909	-
Social security	17,444	17,443	17,570	127
State retirement	24,961	24,961	25,066	105
Medical insurance	11,569	11,569	11,569	-
Unemployment compensation	135	135	135	-
Medicare	4,107	4,107	4,137	30
Other contracted services	21,000	21,000	21,000	-
Instructional supplies	87,932	63,734	63,734	-
Other supplies and materials	16,035	12,355	12,355	-
Other charges	2,488	1,815	1,815	-
Equipment	<u>48,936</u>	<u>43,550</u>	<u>43,550</u>	<u>-</u>
Total regular instruction	<u>517,784</u>	<u>483,846</u>	<u>486,308</u>	<u>2,462</u>
Special education program:				
Teachers	25,439	25,439	24,539	(900)
Aides	10,913	10,913	10,913	-
Other salaries and wages	-	3,003	3,534	531
Social security	2,255	2,255	2,268	13
State retirement	3,291	3,291	3,210	(81)
Medical insurance	5,431	5,431	5,431	-
Unemployment compensation	3	3	21	18
Medicare	527	527	530	3
Contracts with other school systems	93,957	93,957	93,957	-
Other contracted services	55,000	48,997	48,902	(95)
Instructional supplies	12,142	15,002	14,958	(44)
Equipment	<u>10,000</u>	<u>10,141</u>	<u>10,141</u>	<u>-</u>
Total special education	<u>218,958</u>	<u>218,959</u>	<u>218,404</u>	<u>(555)</u>

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

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, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Over (Under)</u>
EXPENDITURES (Cont.)				
Instruction (Cont.):				
Vocational education:				
Teachers	4,000	4,000	3,700	(300)
Social security	248	248	229	(19)
State retirement	362	362	335	(27)
Employer medicare liability	58	58	54	(4)
Instructional supplies and materials	5,030	5,030	4,775	(255)
Other supplies and materials	5,852	5,852	5,852	-
Other charges	400	400	325	(75)
Equipment	3,000	3,000	3,297	297
Total vocational education	<u>18,950</u>	<u>18,950</u>	<u>18,567</u>	<u>(383)</u>
Total instruction	<u>755,692</u>	<u>721,755</u>	<u>723,279</u>	<u>1,524</u>
Support services:				
Other student support:				
Guidance personnel	4,000	4,000	3,400	(600)
Other salaries and wages	25,100	13,400	13,400	-
Social security	1,806	1,080	1,043	(37)
State retirement	2,634	1,575	1,521	(54)
Unemployment compensation	34	18	18	-
Employer medicare liability	423	253	244	(9)
Travel	3,400	3,400	3,400	-
Other supplies and materials	500	500	500	-
Total other student support	<u>37,897</u>	<u>24,226</u>	<u>23,526</u>	<u>(700)</u>
Regular instruction:				
Supervisor/director	16,700	16,700	16,700	-
Librarian	2,000	2,000	1,700	(300)
Other salaries and wages	6,500	4,986	5,462	476
In-service/staff development	9,000	14,000	14,000	-
Social security	2,153	2,413	2,425	12
State retirement	3,230	3,479	3,485	6
Unemployment compensation	33	33	38	5
Medicare	369	560	563	3
Travel	6,500	7,200	7,200	-
Other contracted services	30,996	22,600	22,600	-
Library books/media	2,000	4,200	4,182	(18)
Other supplies and materials	1,500	774	782	8
In-service-staff development	14,569	15,901	15,359	(542)
Other equipment	2,000	1,746	1,746	-
Total regular instruction	<u>97,550</u>	<u>96,592</u>	<u>96,242</u>	<u>(350)</u>

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

**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, 2011**

	<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	26,089	26,089	26,089	-
Social security	1,618	1,618	1,618	-
State retirement	2,361	2,361	2,361	-
Medical insurance	3,945	3,945	3,945	-
Unemployment compensation	5	5	5	-
Medicare	277	277	277	-
Travel	2,000	2,000	1,494	(506)
Total special education	<u>36,295</u>	<u>36,295</u>	<u>35,789</u>	<u>(506)</u>
Vocational education:				
Travel	300	300	333	33
Office of the Principal				
Principals	5,100	5,100	5,100	-
Social security	316	316	316	-
State retirement	462	462	461	(1)
Medicare	74	74	74	-
Total Office of the principal	<u>5,952</u>	<u>5,952</u>	<u>5,951</u>	<u>(1)</u>
Transportation:				
Travel	2,125	2,125	2,125	-
Total support services	<u>180,119</u>	<u>165,490</u>	<u>163,966</u>	<u>(1,524)</u>
Total expenditures	<u>935,811</u>	<u>887,245</u>	<u>887,245</u>	<u>-</u>
Revenues over (under) expenditures	17,497	15,844	15,844	-
OTHER FINANCING SOURCES (USES)				
Indirect costs	(17,497)	(15,844)	(15,844)	-
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balance - July 1, 2010			-	
Fund balance - June 30, 2011			<u>\$ -</u>	

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

HOLLOW ROCK – BRUCETON SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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 District 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, 2011

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 District.

The District reports the following major governmental funds:

The General Purpose Fund is the District'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 Fund Balance

Cash 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, 2011, investments consisted solely of certificates of deposit that were included in cash and cash equivalents 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".

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.

HOLLOW ROCK – BRUCETON SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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, 2011 but were not available to finance expenditures for the year ended June 30, 2011, are considered deferred revenues. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

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.

HOLLOW ROCK – BRUCETON SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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 Balances

In accordance with GASB Statement 54, the District has classified its fund balances in the following hierarchy:

Nonspendable – These are amounts that cannot be spent because they are either not in spendable form – such as inventory, or legally or contractually required to be maintained intact (such as a trust that must be retained in perpetuity).

Spendable – This category includes restricted, committed, assigned and unassigned fund balances, which represent the levels of constraint placed on the District when spending funds in each category. Committed funds are reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

As of June 30, 2011, the District has assigned balances for debt service and operation of non-instructional services (cafeteria) and unassigned fund balance in the general fund. Assigned items represent the District's intent to use certain resources for assigned purposes. The Board of Education is authorized to assign amounts to a specific purpose. The authorization policy is approval by the Board upon recommendation of the Director of Schools.

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:

HOLLOW ROCK – BRUCETON SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 June 30, 2011

Bonds payable	\$ 3,870,000
Less: Deferred charge for issuance costs (being amortized over life of debt)	(52,617)
Less: Issuance discount (being amortized as interest expense)	<u>(26,040)</u>
	<u>\$ 3,791,343</u>

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 \$65,653 difference are as follows:

Capital outlay expenditures	\$ 67,610
Depreciation expense	<u>(133,263)</u>
	<u>\$ (65,653)</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. For the year ended June 30, 2011, the debt service fund had expenditures in excess of budgeted amounts of \$36,781.

NOTE 4 – DETAILED NOTES ON ALL FUNDS

A. Cash and Cash Equivalents

Custodial credit risk is the risk that in the event of a bank failure, the District’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 financial

HOLLOW ROCK – BRUCETON SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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, 2011, 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, 2011. 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. Receivables are also recorded for amounts due related to grants.

C. Capital Assets

Capital asset activity for the year end June 30, 2011 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	5,741,817	28,710	-	5,770,527
Other fixed assets	58,870	38,900	-	97,770
Total capital assets being depreciated	<u>5,800,687</u>	<u>67,610</u>	<u>-</u>	<u>5,868,297</u>
Less accumulated depreciation for:				
Buildings	2,460,110	125,410	-	2,585,520
Other fixed assets	13,524	7,853	-	21,377
Total accumulated depreciation	<u>2,473,634</u>	<u>133,263</u>	<u>-</u>	<u>2,606,897</u>
Total capital assets being depreciated, net	<u>3,327,053</u>	<u>(65,653)</u>	<u>-</u>	<u>3,261,400</u>
Governmental activities capital assets, net	<u>\$ 3,421,053</u>	<u>\$ (65,653)</u>	<u>\$ -</u>	<u>\$ 3,355,400</u>

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

Instruction	\$ 6,428
Food service	3,246
Depreciation - unallocated	<u>123,589</u>
Total depreciation expense - governmental activities	<u>\$ 133,263</u>

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

June 30, 2011

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 balance outstanding as of June 30, 2011, was \$3,870,000.

The annual requirements to amortize the bonds as of June 30, 2011 are as follows:

Years Ending June 30,	School Refunding Bonds		Total
	Series 2009		
	Principal	Interest	
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	270,000	96,560	366,560
2017 - 2021	1,515,000	362,960	1,877,960
2022 - 2024	1,055,000	86,571	1,141,571
	<u>\$3,870,000</u>	<u>\$ 965,191</u>	<u>\$ 4,835,191</u>

The following is a summary of long-term debt transactions for the year ended June 30, 2011:

	Beginning Balance	Additions	Retirements	Ending Balance	Due in One Year
Governmental activities:					
Refunding bonds, Series 2009	\$ 4,105,000	\$ -	\$ (235,000)	\$ 3,870,000	\$ 250,000
Less deferred bond discount	(28,210)	-	2,170	(26,040)	n/a
Net long-term debt	<u>\$ 4,076,790</u>	<u>\$ -</u>	<u>\$ (232,830)</u>	<u>\$ 3,843,960</u>	<u>\$ 250,000</u>

E. Transfers

The following interfund transfers were made during the year ended June 30, 2011:

Transfer From	Transfer To General Fund
Federal Projects Fund	<u>\$ 15,844</u>

The above transfer was made to reimburse the General Purpose fund for indirect costs.

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

June 30, 2011

NOTE 5 – OTHER INFORMATION

A. Pensions

Political Subdivision Pension Plan

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, 2011 was 8.57% 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, 2011, Hollow Rock - Bruceton Special School District's annual pension cost of \$28,586 to TCRS was equal to the District's required and actual contributions. The required contribution was determined as part of the July 1, 2009 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 3.0 percent annual rate of inflation, (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. 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, 2009 was 12 years.

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

June 30, 2011

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
6/30/11	\$28,586	100.00%	\$0
6/30/10	\$28,651	100.00%	\$0
6/30/09	\$27,949	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.

dollar amounts in thousands

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%

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

HOLLOW ROCK – BRUCETON SPECIAL SCHOOL DISTRICT NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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 SETHEPP. 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, 2011 was 9.05% 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, 2011, 2010, and 2009 were \$238,152, \$156,539 and \$153,328, 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.

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

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

June 30, 2011

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, 2011, the State made contributions of \$26,859 to the Teacher Group Plan and \$5,510 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, 2011

(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.

See independent auditor's report

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, 2011

	Original Budget	Final Budget	Actual	Variance Over (Under)
REVENUES				
Other local revenues:				
Property taxes	\$ 222,600	\$ 222,600	\$ 204,809	\$ (17,791)
Interest earned	5,600	5,600	3,088	(2,512)
Total revenues	228,200	228,200	207,897	(20,303)
EXPENDITURES				
Current expenditures:				
Noninstructional services				
Education debt service:				
Principal on bonds	205,000	205,000	205,000	-
Interest on bonds	20,043	20,043	59,431	39,388
Other debt service	2,957	2,957	350	(2,607)
Total expenditures	228,000	228,000	264,781	36,781
Revenues over (under) expenditures	\$ 200	\$ 200	(56,884)	\$ (57,084)
Fund Balance - July 1, 2010			237,285	
Fund Balance - June 30, 2011			\$ 180,401	

See independent auditor's report

**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, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
REVENUES				
Charges for current services:				
Lunch payments - children	\$ 77,000	\$ 77,000	\$ 72,160	\$ (4,840)
Income from breakfast	950	950	762	(188)
A la carte sales	13,100	13,100	8,247	(4,853)
Other charges for services	-	-	674	674
Total charges for current services	<u>91,050</u>	<u>91,050</u>	<u>81,843</u>	<u>(9,207)</u>
Other local revenues:				
Miscellaneous refunds	100	100	-	(100)
Other local revenues	3,000	3,000	185	(2,815)
Interest earned	70	70	910	840
Total other local revenues	<u>3,170</u>	<u>3,170</u>	<u>1,095</u>	<u>(2,075)</u>
State education funds:				
School food services	-	-	3,819	3,819
Federal through State:				
USDA - lunch	170,000	170,000	171,684	1,684
USDA - breakfast	82,000	82,000	90,867	8,867
USDA - other	500	500	545	45
USDA - commodities	-	-	18,084	18,084
Total Federal through State	<u>252,500</u>	<u>252,500</u>	<u>281,180</u>	<u>28,680</u>
Total revenues	<u>346,720</u>	<u>346,720</u>	<u>367,937</u>	<u>21,217</u>
EXPENDITURES				
Current expenditures:				
Food services:				
Cafeteria personnel	94,500	94,500	88,235	(6,265)
Social security	6,100	6,100	5,391	(709)
State retirement	7,900	7,900	6,663	(1,237)
Medicare liability	100	100	69	(31)
Unemployment compensation	1,600	1,600	1,261	(339)
Communication	800	800	673	(127)
Maintenance and repair - equipment	4,000	4,000	2,224	(1,776)
Postal charges	164	164	132	(32)
Travel	600	850	704	(146)
Other contracted services	3,000	3,300	3,253	(47)
Food supplies	200,000	200,000	179,681	(20,319)

See independent auditor's report

**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, 2011

	Original Budget	Final Budget	Actual	Variance Over (Under)
EXPENDITURES (Cont.)				
Current expenditures (cont.):				
Food services (cont.):				
Office supplies	1,000	1,000	895	(105)
Other supplies and materials	11,000	10,750	8,667	(2,083)
Workers compensation	1,383	1,383	1,383	-
Other charges	3,000	2,200	342	(1,858)
Equipment	2,000	2,500	2,500	-
Commodities used	-	-	18,084	18,084
Total expenditures	337,147	337,147	320,157	(16,990)
Revenues over (under) expenditures	9,573	9,573	47,780	38,207
OTHER FINANCING SOURCES (USES)				
Indirect costs	(6,341)	(6,341)	-	6,341
Net change in fund balance	\$ 3,232	\$ 3,232	47,780	\$ 44,548
Fund balance - July 1, 2010			96,824	
Increase in inventory			1,336	
Fund balance - June 30, 2011			\$ 145,940	

See independent auditor's report

**HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
 SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS -
 GENERAL OBLIGATION DEBT
 June 30, 2011**

Year Ended <u>June 30,</u>	Bonds Payable Series 2009	
	Principal	Interest
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>\$ 3,870,000</u>	<u>\$ 965,191</u>

See independent auditor's report

HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
SCHEDULE OF SALARIES AND BONDS
June 30, 2011

	<u>Salary</u>	<u>Bond</u>	
Director of Schools	<u>\$71,713</u>	<u>\$180,000</u>	*

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

See independent auditor's report

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

For the Year Ended June 30, 2011

Federal Grantor/ Pass-through Grantor/ Program	Federal CFDA Number	Balance 7/1/10	Cash Receipts	Expenditures/ Amount Earned/ Amount Issued	Balance Unearned (Receivable) 6/30/11
U.S. DEPARTMENT OF EDUCATION/					
Pass-through the Tennessee Department of Education/					
Special Education Grants to States					
IDEA Program, Part B	84.027	\$ -	\$ 156,073	\$ 156,073	\$ - *
ARRA - IDEA Program, Part B	84.391	-	84,457	84,457	- *
IDEA Program, Preschool	84.173	-	16,581	16,581	- *
Special Education High Cost Program	84.173	-	18,926	18,926	- *
Total Special Education Grants to States Cluster		-	276,037	276,037	-
Title I, Grants to Local Education Agencies	84.010	-	167,622	167,622	-
ARRA - Title 1, Grants to Local Education Agencies	84.389	-	45,003	45,003	-
Total Title 1 Cluster		-	212,625	212,625	-
Title I, Education Jobs Program	84.410	-	171,584	171,584	-
Title II, Teacher and Principal Training and Recruiting	84.367A	-	29,337	29,337	-
Title II, Enhancing Education through Technology	84.318X	-	559	559	-
Total Title II Cluster		-	29,896	29,896	-
State Fiscal Stabilization Fund - Government Services					
ARRA - Education State Grants	84.394	-	14,489	15,656	(1,167) *
ARRA - Government Services	84.397	-	4,000	4,000	- *
ARRA - Government Services	84.397	-	1,681	1,681	- *
ARRA - Government Services	84.397	-	2,000	2,000	- *
ARRA - Government Services	84.397	-	254,866	336,750	(81,884) *
Total State Fiscal Stabilization Fund Cluster		-	277,036	360,087	(83,051)

See independent auditor's report

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

For the Year Ended June 30, 2011

Federal Grantor/ Pass-through Grantor/ Program	Federal CFDA Number	Balance 7/1/10	Cash Receipts	Expenditures/ Amount Earned/ Amount Issued	Balance Unearned (Receivable) 6/30/11
State Fiscal Stabilization Fund - Race-To-The-Top Incentive Grants					
ARRA - First to the Top	84.395A	-	146,000	146,000	-
ARRA - First to the Top - Competitive Supplemental Fund Grant	84.395A	-	37,235	50,000	(12,765)
Total Race-To-The-Top		-	183,235	196,000	(12,765)
Vocational Education - Basic Grants to States	84.048	-	17,982	17,982	-
Title VI, Part B, Subpart 2 - Rural and Low-Income School Program	84.358	-	16,903	16,903	-
ARRA - Title X, Education of Homeless Children and Youth	84.196A	-	988	988	-
Total Department of Education		-	1,186,286	1,282,102	(95,816)
U.S. DEPARTMENT OF AGRICULTURE/ Pass-through the Tennessee Department of Agriculture/					
School Breakfast Program	10.553	-	90,867	90,867	-
National School Lunch Program	10.555	-	171,684	171,684	-
School Snack Program	10.555	-	545	545	-
Food Distribution - Commodities	10.555	-	18,084	18,084	-
Total Department of Agriculture		-	281,180	281,180	-
U.S. DEPARTMENT OF HUMAN SERVICES Pass-through the Tennessee Department of Human Services/ ARRA - Emergency Contingency fund for Temporary Assistance for Needy Families (TANF) State Program	93.714	-	7,314	7,314	-
Total federal awards		\$ -	\$ 1,474,780	\$ 1,570,596	\$ (95,816)

* major program

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

See independent auditor's report

HOLLOW ROCK-BRUCETON SPECIAL SCHOOL DISTRICT
SCHEDULE OF STATE FINANCIAL ASSISTANCE
For the Year Ended June 30, 2011

<u>Program</u>	<u>Contract Number</u>	<u>Balance 7/1/10</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Balance Unearned (Receivable) 6/30/11</u>
Early Childhood - Lottery	10.01	\$ -	\$ 99,572	\$ 99,572	\$ -
ConnectTennessee	10.01	-	367	367	-
Energy Efficient Schools	10.01	-	12,300	12,300	-
Total State Awards		<u>\$ -</u>	<u>\$ 112,239</u>	<u>\$ 112,239</u>	<u>\$ -</u>

See independent auditor's report

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, 2011, which collectively comprise Hollow Rock - Bruceton Special School District's basic financial statements and have issued our report thereon dated December 5, 2011. 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings as Items 11-1 and 11-2, that we consider to be significant deficiencies in internal control over financial reporting. 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.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings as Items 11-1 and 11-2.

We noted certain matters that we reported to management of the School District in a separate letter dated December 5, 2011.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the District's responses and accordingly, we express no opinion on them.

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
December 5, 2011



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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, 2011. 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, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Item 11-2.

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 over compliance 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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as Item 11-2. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the District's responses and accordingly, we express no opinion on them.

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
December 5, 2011

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

June 30, 2011

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

Federal Awards

Internal control over major programs:

- material weakness(es) identified? yes no
- significant deficiency(ies) identified? yes 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 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
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? yes no

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

June 30, 2011

Section II – Financial Statement Findings

11-1 Expenditures in Excess of Budget

Condition: The District posted \$39,388 in interest payments to Debt Service fund balance instead of interest expense. As a result of our adjustment to correct interest expense, the Debt Service fund had expenditures in excess of budget for the year ended June 30, 2011.

Criteria: Tennessee Code Annotated Section 5-12-110 limits expenditures to the amounts appropriated, which constitutes authorization for such expenditures.

Effect: The District has made unauthorized expenditures.

Recommendation: The District should carefully monitor their budgets periodically and make amendments in order to include all expenditures.

Response: *We agree with this finding, noting a miscommunication and a failure to amend the budget at the year end.*

11-2 ARRA Funds Not Segregated

Condition: During our testing, we noted that some ARRA funds were not being segregated.

Criteria: Section 4, Question 3, of the *Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009* states that “agencies must establish an internal fund code and separately track apportionments, allotments, obligations, and gross outlays related to Recovery Act funds.” The failure to separately account for ARRA funds is also not in compliance with the Tennessee Recovery Act Management (TRAM) directives.

Effect: ARRA funds have not been properly recorded and tracked.

Recommendation: We recommend that the District administer its ARRA funds in compliance with federal and state directives.

Response: *We agree with this and have made journal entries to further distinguish this expenditure from others posted to 71100-399-TECHN.*

Section III – Federal Award Findings and Questioned Costs

11-2 ARRA Funds Not Segregated – see details in Section II