

**HOLLOW ROCK – BRUCETON
SPECIAL SCHOOL DISTRICT**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

FISCAL YEAR ENDED JUNE 30, 2012

**HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
TABLE OF CONTENTS
JUNE 30, 2012**

INTRODUCTORY SECTION

List of Principal Officials1

FINANCIAL SECTION

Independent Auditor’s Report2

Basic Financial Statements:

 District-wide Financial Statements:

 Statement of Net Assets4

 Statement of Activities5

 Fund Financial Statements:

 Balance Sheet – Governmental Funds6

 Reconciliation of Total Governmental Fund Balances to Net Assets of
 Governmental Activities.....7

 Statement of Revenues, Expenditures and Changes in Fund Balances –
 Governmental Funds.....8

 Reconciliation of the Statement of Revenues, Expenditures and Changes
 In Fund Balances of Governmental Funds to the Statement of Activities.....9

 Statement of Revenues, Expenditures and Changes in Fund Balance –
 Budget and Actual – General Purpose Fund10

 Statement of Revenues, Expenditures and Changes in Fund Balance –
 Budget and Actual – School Federal Projects Fund19

 Notes to the Financial Statements.....22

Required Supplementary Information

 Schedule of Funding Progress33

OTHER SUPPLEMENTARY INFORMATION SECTION

Statement of Revenues, Expenditures and Changes in Fund Balance –
 Budget and Actual – Debt Service Fund34

Statement of Revenues, Expenditures and Changes in Fund Balance –
 Budget and Actual – Centralized Cafeteria Fund.....35

Schedule of Principal and Interest Requirements – General Obligation Debt37

Schedule of Salaries and Bonds38

Schedule of Expenditures of Federal Awards.....39

Schedule of State Financial Assistance41

INTERNAL CONTROL AND COMPLIANCE SECTION

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*42

Independent Auditor’s 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.....44

Schedule of Findings and Questioned Costs.....46

Summary Schedule of Prior Year Findings Relative to Federal Award Programs.....48

INTRODUCTORY SECTION

HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
LIST OF PRINCIPAL OFFICIALS
June 30, 2012

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, 2012, 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, 2012, 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 November 8, 2012, 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. The budgetary comparisons for the debt service fund and centralized cafeteria fund, schedule of principal and interest requirements – general obligation debt, schedule of salaries and bonds, schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and schedule of state financial assistance are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 budgetary comparisons for the debt service fund and centralized cafeteria fund, schedule of principal and interest requirements – general obligation debt, schedule of salaries and bonds, schedule of expenditures of federal awards, and schedule of state financial assistance are fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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 8, 2012

BASIC FINANCIAL STATEMENTS

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

June 30, 2012

ASSETS

Cash and cash equivalents	\$ 3,254,899
Taxes receivable	617,493
Due from other governmental agencies	119,935
Due from other governmental agencies - grants	3,875
Accounts receivable	899
Inventory	1,457
Capital assets, not being depreciated	
Land	94,000
Capital assets, being depreciated	
Buildings and improvements	5,784,027
Other capital assets	115,800
Less accumulated depreciation	(2,748,496)
Deferred charges, net of accumulated amortization	48,232
Total assets	<u>7,292,121</u>

LIABILITIES

Accounts payable	3,875
Other accrued expenses	341,165
Deferred revenue - taxes	617,493
Long-term liabilities:	
Due within one year	250,000
Due in more than one year	3,346,130
Total liabilities	<u>4,558,663</u>

NET ASSETS

Invested in capital assets, net of related debt	(350,798)
Restricted for	
Cafeteria	145,819
Debt service	169,236
Unrestricted	2,769,201
Total net assets	<u>\$ 2,733,458</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, 2012

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	\$2,537,427	\$ -	\$ 103,473	\$ -	\$ (2,433,954)
Special education	404,370	-	375,662	-	(28,708)
Vocational education	125,624	-	17,340	-	(108,284)
Support Services:					
Student support	349,373	-	-	-	(349,373)
Instructional staff	228,197	-	-	-	(228,197)
General administration	188,257	-	-	-	(188,257)
School administration	171,224	-	-	-	(171,224)
Business administration	43,932	-	-	-	(43,932)
Operation and maintenance of plant	390,757	-	-	-	(390,757)
Student transportation	4,250	-	-	-	(4,250)
Noninstructional Services					
Food service	378,444	78,188	307,442	-	7,186
Early Childhood Education	101,991	-	101,991	-	-
Capital outlay	20,233	-	-	-	(20,233)
Debt service	146,172	-	-	-	(146,172)
Depreciation - unallocated	127,307	-	-	-	(127,307)
Total District	\$5,217,558	\$ 78,188	\$ 905,908	\$ -	(4,233,462)

General Revenues:

Local taxes	352,955
Property taxes	696,838
Intergovernmental:	
Basic Education Program	3,295,000
Other	78,249
Interest	33,643
Other miscellaneous revenues	83,346
Total general revenues	<u>4,540,031</u>

Change in net assets

306,569

Net assets, beginning 2,426,889

Net assets, ending \$ 2,733,458

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, 2012

	<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	\$2,950,219	\$ 159,760	\$ -	\$ 144,920	\$ 3,254,899
Taxes receivable	407,669	209,824	-	-	617,493
Due from other governments	110,459	9,476	-	-	119,935
Due from other governmental agencies - grants	-	-	3,875	-	3,875
Accounts receivable	-	-	-	899	899
Inventory	-	-	-	1,457	1,457
Total assets	<u>\$3,468,347</u>	<u>\$ 379,060</u>	<u>\$ 3,875</u>	<u>\$ 147,276</u>	<u>\$ 3,998,558</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ -	\$ -	\$ 3,875	\$ -	\$ 3,875
Other accrued expenses	341,165	-	-	-	341,165
Deferred revenue - taxes	407,669	209,824	-	-	617,493
Total liabilities	<u>748,834</u>	<u>209,824</u>	<u>3,875</u>	<u>-</u>	<u>962,533</u>
Fund balances					
Nonspendable:					
Food service - inventory	-	-	-	1,457	1,457
Restricted:					
Cafeteria	-	169,236	-	145,819	315,055
Assigned for:					
Debt service	-	-	-	-	-
Unassigned	2,719,513	-	-	-	2,719,513
Total fund balances	<u>2,719,513</u>	<u>169,236</u>	<u>-</u>	<u>147,276</u>	<u>3,036,025</u>
Total liabilities and fund balances	<u>\$3,468,347</u>	<u>\$ 379,060</u>	<u>\$ 3,875</u>	<u>\$ 147,276</u>	<u>\$ 3,998,558</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, 2012

Total governmental fund balances	\$ 3,036,025
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.	3,245,331
Long-term liabilities, including bonds, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(3,547,898)</u>
Net assets of governmental activities	<u>\$ 2,733,458</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, 2012

	<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	\$ 842,429	\$ 207,364	\$ -	\$ -	\$ 1,049,793
Intergovernmental	3,535,957	-	477,284	323,433	4,336,674
Meal sales	-	-	-	78,188	78,188
Interest earnings	31,794	1,088	-	761	33,643
Miscellaneous	82,614	-	-	732	83,346
Total revenues	<u>4,492,794</u>	<u>208,452</u>	<u>477,284</u>	<u>403,114</u>	<u>5,581,644</u>
EXPENDITURES					
Instruction	2,777,021	-	333,041	-	3,110,062
Support services	1,259,932	-	134,488	-	1,394,420
Food services	-	-	-	391,005	391,005
Non-instructional services	292,224	219,617	-	-	511,841
Total expenditures	<u>4,329,177</u>	<u>219,617</u>	<u>467,529</u>	<u>391,005</u>	<u>5,407,328</u>
Revenues over (under) expenditures	<u>163,617</u>	<u>(11,165)</u>	<u>9,755</u>	<u>12,109</u>	<u>174,316</u>
OTHER FINANCING SOURCES (USES)					
Operating transfers in	19,405	-	-	-	19,405
Operating transfers out	-	-	(9,755)	(9,650)	(19,405)
Total other financing sources (uses)	<u>19,405</u>	<u>-</u>	<u>(9,755)</u>	<u>(9,650)</u>	<u>-</u>
Net change in fund balance	183,022	(11,165)	-	2,459	174,316
Fund balance - July 1, 2011	2,536,491	180,401	-	145,940	2,862,832
Decrease in inventory	-	-	-	(1,123)	(1,123)
Fund balance - June 30, 2012	<u>\$ 2,719,513</u>	<u>\$ 169,236</u>	<u>\$ -</u>	<u>\$ 147,276</u>	<u>\$ 3,036,025</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, 2012

Net change in fund balances - total governmental funds	\$ 174,316
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.	250,000
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.	(1,123)
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>(110,069)</u>
Change in net assets of governmental activities	<u>\$ 306,569</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, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
REVENUES				
Taxes:				
Local option sales tax	\$ 320,000	\$ 355,801	\$ 352,707	\$ (3,094)
Interstate telecommunications tax	725	255	248	(7)
City/Special School District:				
Current property tax	365,000	385,773	388,751	2,978
Prior year's property tax	11,975	85,684	82,081	(3,603)
Interest and penalty	1,800	3,681	3,964	283
Payment in lieu of taxes	9,000	14,678	14,678	-
Total taxes	<u>708,500</u>	<u>845,872</u>	<u>842,429</u>	<u>(3,443)</u>
Intergovernmental:				
Licenses and permits:				
Marriage licenses	500	253	260	7
State revenues:				
State education funds:				
Basic Education Program	3,228,000	3,295,000	3,295,000	-
Other state education funds	101,991	106,124	106,124	-
Career Ladder	26,000	18,607	18,607	-
Career Ladder - extended contract	29,500	59,000	59,000	-
Total state education revenue	3,385,491	3,478,731	3,478,731	-
Other state revenues:				
Mixed drink tax	250	378	382	4
Total state revenues	<u>3,385,741</u>	<u>3,479,109</u>	<u>3,479,113</u>	<u>4</u>
Federal revenues:				
Federal funds received through state for				
Government Services Grants	-	5,310	5,310	-
Other federal through state	-	9,748	9,748	-
Total federal revenue	-	15,058	15,058	-
Total intergovernmental	<u>3,386,241</u>	<u>3,494,420</u>	<u>3,494,431</u>	<u>11</u>
Miscellaneous:				
Other local revenues:				
Interest earned	20,000	31,796	31,794	(2)
E-rate funding	-	7,201	7,201	-
Miscellaneous refunds	-	299	299	-
Insurance recovery	-	40	40	-
Sale of equipment	-	2,778	2,778	-
Damages recovered from individuals	-	164	164	-
Contributions	-	65,120	65,120	-
Other local revenues	20,069	7,013	7,012	(1)
Total other local revenues	<u>40,069</u>	<u>114,411</u>	<u>114,408</u>	<u>(3)</u>
Total revenues	<u>4,134,810</u>	<u>4,454,703</u>	<u>4,451,268</u>	<u>(3,435)</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, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
EXPENDITURES				
Instruction:				
Regular education:				
Teachers	1,564,185	1,563,963	1,563,962	(1)
Career ladder program	16,000	16,000	16,000	-
Career ladder - extended contract	29,500	25,500	21,822	(3,678)
Homebound teachers	2,000	900	873	(27)
Teacher assistants	46,394	46,394	46,394	-
Bonus payments	-	-	60,750	60,750
Other salaries and wages	3,600	3,355	3,355	-
Non-certified substitute teachers	25,000	19,020	19,017	(3)
Social security	97,212	97,497	101,263	3,766
State retirement	151,398	148,582	153,997	5,415
Medical insurance	130,071	126,184	122,128	(4,056)
Unemployment compensation	496	481	480	(1)
Medicare	22,743	22,810	23,691	881
Maintenance and repair - equipment	6,000	1,500	1,494	(6)
Other contracted services	29,000	34,301	34,264	(37)
Instructional supplies/materials	59,650	59,650	52,715	(6,935)
Textbooks	45,000	55,188	54,236	(952)
Fee waivers	500	160	156	(4)
Other charges	4,700	1,346	1,344	(2)
Equipment	49,704	96,204	96,190	(14)
Total regular education	<u>2,283,153</u>	<u>2,319,035</u>	<u>2,374,131</u>	<u>55,096</u>
Special education:				
Teachers	137,941	137,941	137,941	-
Career Ladder program	2,000	2,000	2,000	-
Teacher assistants	33,096	32,998	32,998	-
Other salaries and wages	-	245	245	-
Non-certified substitute teacher	1,500	1,251	1,251	-
Social security	9,904	5,697	5,696	(1)
State retirement	15,501	15,135	15,135	-
Medical insurance	14,807	15,015	15,015	-
Unemployment compensation	39	48	48	-
Medicare	1,700	1,335	1,332	(3)
Contracts with other school systems	19,377	27,621	27,619	(2)
Maintenance and repair - equipment	500	-	-	-
Other contracted services	1,500	1,153	1,018	(135)
Instructional supplies/materials	2,600	3,782	3,781	(1)
Total special education	<u>240,465</u>	<u>244,221</u>	<u>244,079</u>	<u>(142)</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, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
EXPENDITURES (Cont.)				
Instruction (Cont.):				
Vocational education:				
Teachers	85,776	85,776	85,776	-
Career Ladder program	1,000	1,000	1,000	-
Substitute teachers	800	1,306	1,305	(1)
Social security	4,800	4,609	4,608	(1)
State retirement	7,853	7,853	7,853	-
Medical insurance	11,741	11,677	11,677	-
Unemployment compensation	25	25	21	(4)
Medicare	1,100	1,078	1,078	-
Maintenance and repair - equipment	1,000	396	395	(1)
Instructional supplies	3,800	3,543	3,572	29
Other charges	500	25	-	(25)
Equipment	500	50	-	(50)
Total vocational education	<u>118,895</u>	<u>117,338</u>	<u>117,285</u>	<u>(53)</u>
Total instruction	<u>2,642,513</u>	<u>2,680,594</u>	<u>2,735,495</u>	<u>54,901</u>
Support services:				
Student support:				
Attendance:				
Director	59,810	59,810	59,810	-
Social security	3,660	3,660	3,339	(321)
State retirement	5,413	5,513	5,413	(100)
Medical insurance	4,779	4,779	4,777	(2)
Unemployment compensation	10	10	10	-
Medicare	798	798	781	(17)
Travel	500	500	500	-
Other supplies and materials	200	113	112	(1)
Other charges	200	200	-	(200)
Total attendance	<u>75,370</u>	<u>75,383</u>	<u>74,742</u>	<u>(641)</u>
Health services:				
Medical personnel	-	28,716	28,716	-
Social security	-	1,817	1,816	(1)
State retirement	-	2,552	2,552	-
Medical insurance	-	146	146	-
Unemployment compensation	-	10	9	(1)
Medicare	-	425	425	-
Travel	-	10	5	(5)
Other contracted services	35,000	49	-	(49)
Drugs and medical supplies	200	200	200	-
Other supplies/materials	200	200	200	-
Other charges	800	600	520	(80)
Total health services	<u>36,200</u>	<u>34,725</u>	<u>34,589</u>	<u>(136)</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, 2012

	<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	86,565	83,395	83,395	-
Career Ladder extended program	-	4,000	3,863	(137)
Social security	4,853	4,869	4,868	(1)
State retirement	8,015	8,365	8,365	-
Medical insurance	10,315	10,317	10,315	(2)
Unemployment compensation	21	21	18	(3)
Medicare	1,135	1,139	1,138	(1)
Evaluation/testing	4,200	5,801	5,800	(1)
Maintenance and repair	2,000	20	-	(20)
Other supplies/materials	2,000	2,000	2,000	-
Other charges	23,949	34,149	34,149	-
Total other student support	<u>145,053</u>	<u>156,076</u>	<u>155,911</u>	<u>(165)</u>
Total student support	<u>256,623</u>	<u>266,184</u>	<u>265,242</u>	<u>(942)</u>
Instructional staff:				
Regular education:				
Director	36,552	34,738	34,738	-
Career Ladder program	2,000	2,000	2,000	-
Librarian(s)	46,605	43,323	43,323	-
Instructional computer personnel	22,834	22,834	22,834	-
Secretary	15,731	16,872	16,872	-
Aides	11,124	10,018	10,017	(1)
Social security	7,911	7,661	7,656	(5)
State retirement	11,965	11,665	11,663	(2)
Medical insurance	7,183	6,593	6,592	(1)
Unemployment compensation	43	24	23	(1)
Medicare	1,818	1,798	1,796	(2)
Maintenance and repair	4,000	50	-	(50)
Travel	2,000	1,000	705	(295)
Library books	6,000	6,000	6,000	-
Periodicals	2,000	2,000	2,000	-
Other charges	3,500	2,200	2,197	(3)
Total regular education	<u>181,266</u>	<u>168,776</u>	<u>168,416</u>	<u>(360)</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, 2012

	<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	415	310	310	-
State retirement	603	460	460	-
Medical insurance	78	78	78	-
Medicare	97	72	72	-
Travel	750	1,017	1,017	-
Total special education	<u>8,713</u>	<u>8,707</u>	<u>8,707</u>	<u>-</u>
Vocational education:				
Director	1,840	1,840	1,840	-
Career Ladder - extended contract	775	775	775	-
Social security	162	202	201	(1)
State retirement	233	300	299	(1)
Medical insurance	78	78	78	-
Unemployment compensation	-	2	2	-
Medicare	37	47	47	-
Travel	550	31	-	(31)
Total vocational education	<u>3,675</u>	<u>3,275</u>	<u>3,242</u>	<u>(33)</u>
Total instructional staff	<u>193,654</u>	<u>180,758</u>	<u>180,365</u>	<u>(393)</u>
General administration:				
Board of Education services:				
Audit services	9,500	9,500	9,500	-
Dues and memberships	2,430	5,485	4,621	(864)
Legal services	500	11,050	10,711	(339)
Travel	6,000	5,100	4,997	(103)
Liability insurance	9,000	7,940	7,940	-
Premium on surety bond	630	630	630	-
Trustee commissions	11,000	12,200	11,974	(226)
Workmen's compensation insurance	13,000	13,000	11,996	(1,004)
Other charges	4,000	3,330	3,320	(10)
Total Board of Education services	<u>56,060</u>	<u>68,235</u>	<u>65,689</u>	<u>(2,546)</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, 2012

	<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	74,854	74,854	74,854	-
Career Ladder program	1,000	1,000	1,000	-
Secretary(s)	17,808	17,508	17,508	-
Social security	5,411	5,275	5,274	(1)
State retirement	8,391	8,503	8,502	(1)
Medical insurance	6,392	6,373	6,372	(1)
Unemployment compensation	19	19	19	-
Medicare	1,266	1,234	1,234	-
Communication	1,500	1,280	1,278	(2)
Dues and memberships	641	629	629	-
Maintenance and repair	300	10	-	(10)
Postal charges	1,200	270	263	(7)
Travel	1,500	2,160	2,026	(134)
Office supplies	1,500	3,010	3,007	(3)
Other charges	500	610	602	(8)
Total Office of the Superintendent	<u>122,282</u>	<u>122,735</u>	<u>122,568</u>	<u>(167)</u>
Total general administration	<u>178,342</u>	<u>190,970</u>	<u>188,257</u>	<u>(2,713)</u>
School administration:				
Office of the Principal:				
Principals	113,576	106,609	103,681	(2,928)
Career Ladder program	2,000	2,000	2,000	-
Assistant principals	720	720	720	-
Secretary(s)	15,731	14,590	14,590	-
Bonus payments	-	2,750	2,750	-
Social security	7,509	6,989	6,986	(3)
State retirement	11,873	11,483	11,481	(2)
Medical insurance	10,915	10,695	10,695	-
Unemployment compensation	30	29	28	(1)
Medicare	1,756	1,636	1,634	(2)
Communication	4,500	3,650	3,630	(20)
Dues and memberships	960	732	732	-
Maintenance and repair	1,500	1,501	1,501	-
Postal charges	1,200	900	855	(45)
Travel	450	650	257	(393)
Other contracted services	2,500	4,505	4,503	(2)
Office supplies	3,500	3,500	3,500	-
Other charges	1,500	1,700	1,681	(19)
Total school administration	<u>180,220</u>	<u>174,639</u>	<u>171,224</u>	<u>(3,415)</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, 2012

	Original Budget	Final Budget	Actual	Variance Over (Under)
EXPENDITURES (Cont.)				
Support services (cont.):				
Business administration:				
Fiscal services:				
Accountants/bookkeepers	30,199	30,199	30,199	-
Social security	1,669	1,669	1,657	(12)
State retirement	2,588	2,588	2,522	(66)
Medical insurance	3,332	3,332	3,271	(61)
Unemployment compensation	16	6	6	-
Medicare	391	391	387	(4)
Travel	1,500	1,615	1,605	(10)
Other contracted services	3,580	3,635	3,635	-
Office supplies	1,200	700	498	(202)
Other charges	600	450	152	(298)
Total business administration	45,075	44,585	43,932	(653)
Operation and maintenance of plant:				
Operation of plant:				
Supervisor/director	22,648	22,731	22,730	(1)
Social security	1,404	1,410	1,409	(1)
State retirement	1,941	1,949	1,948	(1)
Unemployment compensation	10	10	10	-
Medicare	328	330	330	-
Other contracted services	127,373	119,657	137,687	18,030
Electricity	95,000	86,900	86,840	(60)
Natural gas	30,000	16,000	15,620	(380)
Water and sewer	28,000	28,700	28,634	(66)
Other supplies and materials	16,000	12,689	11,684	(1,005)
Building and contents insurance	27,000	27,605	27,605	-
Other charges	1,000	700	649	(51)
Total operation of plant	350,704	318,681	335,146	16,465
Maintenance of plant:				
Maintenance and repair	10,000	21,035	21,035	-
Other contracted services	6,780	51,443	51,106	(337)
Other charges	4,500	1,600	1,500	(100)
Total maintenance of plant	21,280	74,078	73,641	(437)
Total operation and maintenance of plant	371,984	392,759	408,787	16,028

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, 2012

	Original Budget	Final Budget	Actual	Variance Over (Under)
EXPENDITURES (Cont.)				
Support services (cont.):				
Student transportation:				
Travel	2,125	2,125	2,125	-
Total support services	1,228,023	1,252,020	1,259,932	7,912
Non-instructional services:				
Early childhood education:				
Director	1,814	1,814	1,814	-
Principals	3,895	3,895	3,895	-
Teachers	34,868	36,428	36,428	-
Guidance personnel	3,170	3,170	3,170	-
Librarians	3,282	3,282	3,282	-
Aides	11,124	11,124	11,124	-
Speech pathologist	8,000	8,000	8,000	-
Non-certified substitute teachers	2,000	2,691	2,691	-
Social security	2,852	3,054	3,054	-
State retirement	4,111	4,250	4,250	-
Medical insurance	9,200	7,579	7,579	-
Unemployment compensation	9	25	25	-
Medicare	669	716	716	-
Communication	1,000	900	900	-
Janitorial services	3,854	3,854	3,854	-
Postal charges	500	500	500	-
Travel	500	373	373	-
Natural gas	908	908	908	-
Water and sewer	847	847	847	-
Electricity	2,874	2,874	2,874	-
Instructional supplies	1,830	1,646	1,646	-
Other supplies & materials	800	1,069	1,069	-
Workers compensation insurance	325	325	325	-
In-service/staff development	1,000	108	108	-
Other contracted services	1,059	1,059	1,059	-
Site development	1,500	1,500	1,500	-
Total early childhood education	101,991	101,991	101,991	-
Capital outlay:				
Building improvements	4,000	17,670	15,233	(2,437)
Site development	1,000	5,000	5,000	-
Total capital outlay	5,000	22,670	20,233	(2,437)

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, 2012

	Original Budget	Final Budget	Actual	Variance Over (Under)
EXPENDITURES (Cont.)				
Non-instructional services (cont.):				
Debt service:				
Principal on bonds	175,000	170,000	170,000	-
Total non-instructional services	281,991	294,661	292,224	(2,437)
Total expenditures	4,152,527	4,227,275	4,287,651	60,376
Revenues over (under) expenditures	(17,717)	227,428	163,617	(63,811)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	18,000	19,405	19,405	-
Net change in fund balance	\$ 283	\$ 246,833	183,022	\$ (63,811)
Fund balance - July 1, 2011			2,536,491	
Fund balance - June 30, 2012			\$ 2,719,513	

Reconciliation to governmental fund financial statements:

Revenues per budget statement (page 10)	\$ 4,451,268
Non-cash revenue not included in budget statement:	
On behalf payments for fringe benefits paid by State	41,526
Revenues per governmental statement of revenues, expenditures and change in fund balance (page 8)	\$ 4,492,794
Expenditures per budget statement (above)	\$ 4,287,651
Non-cash expenditure not included in budget statement:	
On behalf payments for fringe benefits paid by State	41,526
Expenditures per governmental statement of revenues, expenditures and change in fund balance (page 8)	\$ 4,329,177

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 FUND
For the Year Ended June 30, 2012

	<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	\$ 17,340	\$ 17,340	\$ 17,340	\$ -
Title I - Grants to local education agencies	165,943	174,440	174,446	6
Special education - IDEA	151,838	151,622	151,622	-
Special education - Preschool	16,667	16,667	16,667	-
Title II	23,268	23,179	23,179	-
Other federal through state	281,507	79,601	79,601	-
Rural Education grant	11,142	14,429	14,429	-
Total revenues	<u>667,705</u>	<u>477,278</u>	<u>477,284</u>	<u>6</u>
EXPENDITURES				
Instruction:				
Regular instruction:				
Teachers	62,000	60,930	60,930	-
Career Ladder Program	2,172	2,172	2,172	-
Social security	3,979	3,667	3,667	-
State retirement	5,807	5,711	5,711	-
Medical insurance	3,897	6,159	6,159	-
Unemployment compensation	66	22	22	-
Medicare	938	849	849	-
Instructional supplies	32,500	38,087	38,087	-
Other supplies and materials	4,494	4,493	4,493	-
Other charges	500	500	500	-
Equipment	39,095	42,221	42,221	-
Total regular instruction	<u>155,448</u>	<u>164,811</u>	<u>164,811</u>	<u>-</u>
Special education program:				
Teachers	17,924	17,924	17,924	-
Other salaries and wages	1,000	3,699	3,699	-
Social security	1,112	1,080	1,080	-
State retirement	1,623	1,957	1,957	-
Medical insurance	4,623	3,592	3,592	-
Unemployment compensation	13	15	15	-
Medicare	260	253	253	-
Contracts with other school systems	94,065	91,472	91,472	-
Other contracted services	37,065	39,505	39,505	-
Instructional supplies	2,765	794	794	-
Total special education	<u>160,450</u>	<u>160,291</u>	<u>160,291</u>	<u>-</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 FUND
For the Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Over (Under)</u>
EXPENDITURES (Cont.)				
Instruction (Cont.):				
Vocational education:				
Instructional supplies and materials	4,039	4,039	4,039	-
Other charges	400	400	400	-
Equipment	3,500	3,500	3,500	-
Total vocational education	<u>7,939</u>	<u>7,939</u>	<u>7,939</u>	<u>-</u>
Total instruction	<u>323,837</u>	<u>333,041</u>	<u>333,041</u>	<u>-</u>
Support services:				
Other student support:				
Other salaries and wages	54,700	54,566	54,566	-
Social security	3,392	2,771	2,771	-
State retirement	4,951	4,938	4,938	-
Medical insurance	9,200	7,183	7,183	-
Unemployment compensation	32	12	12	-
Employer medicare liability	794	648	648	-
Communication	-	131	131	-
Travel	3,522	3,281	3,281	-
Other contracted services	24,000	-	-	-
Other supplies and materials	918	1,167	1,167	-
Other charges	105,979	6,386	6,386	-
Other equipment	4,000	3,048	3,048	-
Total other student support	<u>211,488</u>	<u>84,131</u>	<u>84,131</u>	<u>-</u>
Regular instruction:				
Supervisor/director	17,000	17,000	17,000	-
Clerical personnel	1,500	1,500	1,500	-
Other salaries and wages	61,398	5,322	5,322	-
Social security	5,704	1,474	1,474	-
State retirement	8,350	2,094	2,094	-
Medical insurance	-	1,086	1,086	-
Unemployment compensation	88	27	27	-
Medicare	1,376	339	339	-
Travel	7,508	7,206	7,212	6
Other contracted services	4,620	-	-	-
Library books/media	2,000	2,000	2,000	-
In-service-staff development	10,000	9,278	9,278	-
Total regular instruction	<u>119,544</u>	<u>47,326</u>	<u>47,332</u>	<u>6</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 FUND
For the Year Ended June 30, 2012**

	Original Budget	Final Budget	Actual	Variance- Over (Under)
EXPENDITURES (Cont.)				
Support services (cont.):				
Special education program:				
Travel	500	500	500	-
Vocational education:				
Travel	400	400	400	-
Transportation:				
Travel	2,125	2,125	2,125	-
Total support services	334,057	134,482	134,488	6
Total expenditures	657,894	467,523	467,529	6
Revenues over expenditures	9,811	9,755	9,755	-
OTHER FINANCING SOURCES (USES)				
Indirect costs	(9,811)	(9,755)	(9,755)	-
Net change in fund balance	\$ -	\$ -	-	\$ -
Fund balance - July 1, 2011			-	
Fund balance - June 30, 2012			\$ -	

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

HOLLOW ROCK – BRUCETON SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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, 2012

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, 2012, 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, 2012

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 \$1.53 on every \$100 of real and personal property located within the District.

Inventories

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.

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, 2012 but were not available to finance expenditures for the year ended June 30, 2012, 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 governmental fund financial statements, but are not included in the budgetary-basis statement.

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.

HOLLOW ROCK – BRUCETON SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 June 30, 2012

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.

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, 2012, 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:

Bonds payable	\$ 3,620,000
Less: Deferred charge for issuance costs (being amortized over life of debt)	(48,232)
Less: Issuance discount (being amortized as interest expense)	(23,870)
	<u>\$ 3,547,898</u>

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

June 30, 2012

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 \$110,069 difference are as follows:

Capital outlay expenditures	\$ 31,530
Depreciation expense	<u>(141,599)</u>
	<u>\$ (110,069)</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, with the exception of State on-behalf payments for fringe benefits and commodities. These non-cash revenue and expenditure items are included in the governmental fund statements and district-wide statement of activities, but not in the budgetary comparison statements. 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 may transfer or appropriate additional funds for expenditures not anticipated at the time of budget adoption. Line item transfers within major categories are made upon the recommendation of the Director of Schools and approval by the Board.

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. For the year ended June 30, 2012, the following funds had expenditures in excess of budgeted amounts:

General Purpose Fund:	
Instruction - regular education	\$55,096
Operation and maintenance of plant	16,028
Centralized Cafeteria Fund - food services	28,419

HOLLOW ROCK – BRUCETON SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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 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, 2012, 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, 2012. 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, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 94,000	\$ -	\$ -	\$ 94,000
Capital assets, being depreciated				
Buildings	5,770,527	13,500	-	5,784,027
Other capital assets	97,770	18,030	-	115,800
Total capital assets being depreciated	<u>5,868,297</u>	<u>31,530</u>	<u>-</u>	<u>5,899,827</u>
Less accumulated depreciation for:				
Buildings	2,585,519	127,324	-	2,712,843
Other capital assets	21,377	14,275	-	35,652
Total accumulated depreciation	<u>2,606,896</u>	<u>141,599</u>	<u>-</u>	<u>2,748,495</u>
Total capital assets being depreciated, net	<u>3,261,401</u>	<u>(110,069)</u>	<u>-</u>	<u>3,151,332</u>
Governmental activities capital assets, net	<u>\$ 3,355,401</u>	<u>\$ (110,069)</u>	<u>\$ -</u>	<u>\$ 3,245,332</u>

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

June 30, 2012

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

Instruction	\$ 11,985
Food service	2,307
Depreciation - unallocated	<u>127,307</u>
Total depreciation expense - governmental activities	<u>\$ 141,599</u>

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, 2012, was \$3,620,000.

The annual requirements to amortize the bonds as of June 30, 2012 are as follows:

Years Ending June 30,	Series 2009 Bonds		Total
	Principal	Interest	
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	285,000	89,950	374,950
2018 - 2022	1,570,000	315,210	1,885,210
2023 - 2024	715,000	44,371	759,371
	<u>\$3,620,000</u>	<u>\$ 849,091</u>	<u>\$ 4,469,091</u>

The following is a summary of long-term debt transactions for the year ended June 30, 2012:

	Beginning Balance	Additions	Retirements	Ending Balance	Due in One Year
Governmental activities:					
Refunding bonds, Series 2009	\$ 3,870,000	\$ -	\$ (250,000)	\$ 3,620,000	\$ 250,000
Less deferred bond discount	(26,040)	-	2,170	(23,870)	n/a
Net long-term debt	<u>\$ 3,843,960</u>	<u>\$ -</u>	<u>\$ (247,830)</u>	<u>\$ 3,596,130</u>	<u>\$ 250,000</u>

E. Transfers

The following interfund transfers were made during the year ended June 30, 2012:

Transfer From	Transfer To General Fund
Federal Projects Fund	\$ 9,755
Centralized Cafeteria Fund	<u>9,650</u>
Total transfers	<u>\$ 19,405</u>

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, 2012

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, 2012 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, 2012, Hollow Rock - Bruceton Special School District's annual pension cost of \$29,421 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, 2012

An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/12	\$29,421	100.00%	\$0
6/30/11	\$28,586	100.00%	\$0
6/30/10	\$28,651	100.00%	\$0

Funded Status and Funding Progress - As of July 1, 2011, the most recent actuarial valuation date, the plan was 87.13% percent funded. The actuarial accrued liability for benefits was \$735 thousand, and the actuarial value of assets was \$641 thousand, resulting in an unfunded actuarial accrued liability (UAAL) of \$95 thousand. The covered payroll (annual payroll of active employees covered by the plan) was \$336 thousand, and the ratio of the UAAL to the covered payroll was 28.21% 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.

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
7/01/11	\$641	\$735	\$95	87.13%	\$336	28.31%
7/01/09	\$480	\$482	\$1	99.70%	\$284	.51%
7/01/07	\$435	\$437	\$2	99.54%	\$251	.80%

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 (SETHEPP), 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.

HOLLOW ROCK – BRUCETON SPECIAL SCHOOL DISTRICT NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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, 2012 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, 2012, 2011, and 2010 were \$226,504, \$238,152 and \$156,539, 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 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.

HOLLOW ROCK – BRUCETON SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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, 2012, the State made contributions of \$35,812 to the Teacher Group Plan and \$5,714 to the Medicare Plan.

HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS
For the Year Ended June 30, 2012

(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, 2011	\$641	\$735	\$95	87.13%	\$336	28.21%
July 1, 2009	\$480	\$482	\$1	99.70%	\$284	0.51%
July 1, 2007	\$435	\$437	\$2	99.54%	\$251	0.80%

See independent auditor's report

OTHER SUPPLEMENTARY INFORMATION SECTION

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, 2012

	Original Budget	Final Budget	Actual	Variance Over (Under)
REVENUES				
Other local revenues:				
Property taxes	\$ 427,767	\$ 216,680	\$ 207,364	\$ (9,316)
Interest earned	4,200	3,000	1,088	(1,912)
Total revenues	431,967	219,680	208,452	(11,228)
EXPENDITURES				
Current expenditures:				
Noninstructional services				
Education debt service:				
Principal on bonds	160,000	80,000	80,000	-
Interest on bonds	271,034	139,267	139,267	-
Other debt service	900	413	350	(63)
Total expenditures	431,934	219,680	219,617	(63)
Revenues over (under) expenditures	\$ 33	\$ -	(11,165)	\$ (11,165)
Fund Balance - July 1, 2011			180,401	
Fund Balance - June 30, 2012			\$ 169,236	

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 FUND
For the Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
REVENUES				
Charges for current services:				
Lunch payments - children	\$ 72,000	\$ 67,913	\$ 67,848	\$ (65)
Lunch payments - adults	-	400	369	(31)
Income from breakfast	900	1,900	982	(918)
A la carte sales	8,700	10,550	7,935	(2,615)
Other charges for services	-	1,054	1,054	-
Total charges for current services	<u>81,600</u>	<u>81,817</u>	<u>78,188</u>	<u>(3,629)</u>
Other local revenues:				
Sale of equipment	-	650	650	-
Other local revenues	350	438	82	(356)
Interest earned	900	762	761	(1)
Total other local revenues	<u>1,250</u>	<u>1,850</u>	<u>1,493</u>	<u>(357)</u>
State education funds:				
School food services	-	3,507	3,507	-
Federal through State:				
USDA - lunch	172,000	199,697	197,936	(1,761)
USDA - breakfast	84,000	106,000	105,999	(1)
USDA - other	630	-	-	-
Total Federal through State	<u>256,630</u>	<u>305,697</u>	<u>303,935</u>	<u>(1,762)</u>
Total revenues	<u>339,480</u>	<u>392,871</u>	<u>387,123</u>	<u>(5,748)</u>
EXPENDITURES				
Current expenditures:				
Food services:				
Cafeteria personnel	95,000	90,700	90,686	(14)
Social security	6,160	5,310	5,302	(8)
State retirement	7,980	7,330	7,311	(19)
Medicare liability	100	80	77	(3)
Unemployment compensation	1,600	1,350	1,339	(11)
Communication	850	675	608	(67)
Maintenance and repair - equipment	4,000	5,850	5,820	(30)
Postal charges	164	46	-	(46)
Travel	1,000	1,000	821	(179)
Other contracted services	3,000	3,891	3,276	(615)
Food supplies	200,000	207,519	198,058	(9,461)

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 FUND
For the Year Ended June 30, 2012**

	Original Budget	Final Budget	Actual	Variance Over (Under)
EXPENDITURES (Cont.)				
Current expenditures (cont.):				
Food services (cont.):				
Office supplies	1,000	1,000	418	(582)
Utilities	-	1,697	1,697	-
Other supplies and materials	11,000	16,447	16,447	-
Workers compensation	1,450	1,450	1,450	-
Other charges	3,000	1,400	1,352	(48)
Equipment	2,500	850	40,352	39,502
Total expenditures	338,804	346,595	375,014	28,419
 Revenues over expenditures	 676	 46,276	 12,109	 (34,167)
 OTHER FINANCING SOURCES (USES)				
Indirect costs	-	(9,650)	(9,650)	-
 Net change in fund balance	 \$ 676	 \$ 36,626	 2,459	 \$ (34,167)
 Fund balance - July 1, 2011			145,940	
Decrease in inventory			(1,123)	
 Fund balance - June 30, 2012			 \$ 147,276	
 Reconciliation to governmental fund financial statements:				
Revenues per budget statement (page 35)		\$ 387,123		
Non-cash revenue not included in budget statement:				
Commodities received		15,991		
Revenues per governmental statement of revenues, expenditures and change in fund balance (page 8)		\$ 403,114		
 Expenditures per budget statement (above)		\$ 375,014		
Non-cash expenditure not included in budget statement:				
Commodities used		15,991		
Expenditures per governmental statement of revenues, expenditures and change in fund balance (page 8)		\$ 391,005		

See independent auditor's report

**HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
 SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS -
 GENERAL OBLIGATION DEBT
 June 30, 2012**

Year Ended <u>June 30,</u>	Bonds Payable Series 2009	
	<u>Principal</u>	<u>Interest</u>
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	<u>365,000</u>	<u>15,056</u>
	<u>\$ 3,620,000</u>	<u>\$ 849,091</u>

See independent auditor's report

HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
SCHEDULE OF SALARIES AND BONDS
June 30, 2012

	<u>Salary</u>	<u>Bond</u>	
Director of Schools	<u>\$74,854</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, 2012

Federal Grantor/ Pass-through Grantor/ Program	Federal CFDA Number	Balance 7/1/11	Cash Receipts	Expenditures/ Amount Earned/ Amount Issued	Balance Unearned (Receivable) 6/30/12
U.S. DEPARTMENT OF EDUCATION/					
Pass-through the Tennessee Department of Education/					
Special Education Grants to States					
IDEA Program, Part B	84.027	\$ -	\$ 151,622	\$ 151,622	\$ -
IDEA Program, Preschool	84.173	-	16,667	16,667	-
Special Education High Cost Program	84.173	-	9,748	9,748	-
Total Special Education Grants to States Cluster		-	178,037	178,037	-
Title I, Grants to Local Education Agencies	84.010A	-	170,571	174,446	(3,875)
Teacher Incentive Fund Grant	84.374	-	76,774	76,774	-
Title I, Education Jobs Program	84.410	-	2,535	2,535	-
Title II, Teacher and Principal Training and Recruiting	84.367A	-	23,179	23,179	-
Title II, Enhancing Education through Technology	84.318X	-	121	121	-
ARRA - Title II, Part D, Technology	84.386	-	171	171	-
Total Title II Cluster		-	23,471	23,471	-
State Fiscal Stabilization Fund - Government Services					
ARRA - Education State Grants	84.394	(1,167)	1,167	-	-
ARRA - Government Services - Safe Schools	84.397	-	3,600	3,600	-
ARRA - Government Services - SSMS	84.397	-	1,710	1,710	-
ARRA - Government Services	84.397	(81,884)	81,884	-	-
Total State Fiscal Stabilization Fund Cluster		(83,051)	88,361	5,310	-

See independent auditor's report

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

For the Year Ended June 30, 2012

Federal Grantor/ Pass-through Grantor/ Program	Federal CFDA Number	Balance 7/1/11	Cash Receipts	Expenditures/ Amount Earned/ Amount Issued	Balance Unearned (Receivable) 6/30/12
State Fiscal Stabilization Fund - Race-To-The-Top Incentive Grants ARRA - First to the Top - Competitive Supplemental Fund Grant	84.395A	(12,765)	12,765	-	-
Vocational Education - Basic Grants to States	84.048	-	17,340	17,340	-
Title VI, Part B, Subpart 2 - Rural and Low-Income School Program	84.358	-	14,429	14,429	-
Total Department of Education		<u>(95,816)</u>	<u>584,283</u>	<u>492,342</u>	<u>(3,875)</u>
U.S. DEPARTMENT OF AGRICULTURE/ Pass-through the Tennessee Department of Agriculture/					
School Breakfast Program	10.553	-	105,999	105,999	- *
National School Lunch Program	10.555	-	197,936	197,936	- *
Food Distribution - Commodities	10.555	-	15,991	15,991	- *
Total Department of Agriculture		<u>-</u>	<u>319,926</u>	<u>319,926</u>	<u>-</u>
Total federal awards		<u>\$ (95,816)</u>	<u>\$ 904,209</u>	<u>\$ 812,268</u>	<u>\$ (3,875)</u>

* 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, 2012

Program	Balance 7/1/11	Cash Receipts	Expenditures	Balance Unearned (Receivable) 6/30/12
Early Childhood - Lottery	\$ -	\$ 101,991	\$ 101,991	\$ -
ConnectTennessee	-	2,339	2,339	-
Career Ladder 2011	-	29,500	29,500	-
Career Ladder 2012	-	29,500	29,500	-
Energy Efficient Schools	-	250	250	-
Total State Awards	\$ -	\$ 163,580	\$ 163,580	\$ -

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, 2012, which collectively comprise Hollow Rock - Bruceton Special School District's basic financial statements and have issued our report thereon dated November 8, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Hollow Rock - Bruceton Special School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the 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 and questioned costs as Item 11-1, 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 and questioned costs as Item 11-1.

We noted certain matters that we reported to management of Hollow Rock – Bruceton Special School District in a separate letter dated November 8, 2012.

The District’s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District’s response and accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the Director of Schools, 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 8, 2012



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**INDEPENDENT AUDITOR'S 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, 2012. 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 applicable to 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 compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2012.

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 to determine the 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 over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be 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.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the Director of Schools, management, board of education, 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 8, 2012

HOLLOW ROCK – BRUCETON SPECIAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 June 30, 2012

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>
School Breakfast Program	10.553
National School Lunch Program	10.555
Food Distribution - commodities	10.555

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, 2012

Section II – Financial Statement Findings

11-1 Expenditures in Excess of Budget

Condition: The District had expenditures in excess of appropriations in the following functions for the year ended June 30, 2012:

General Purpose Fund	
Instruction – regular education	\$ 55,096
Operation and maintenance of plant	16,028
Centralized Cafeteria Fund	
Food services	28,419

In each case, large expenditures were charged directly to fund balance. Reclassification of these amounts to properly record them as fund expenditures caused the related functions to be over budget.

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 properly authorize all expenditures by including them in the current year's budget appropriations. The District should make amendments to its budget as necessary to include all expenditures.

Response: *We concur with the finding and will make the appropriate changes in the wording of future budget amendments.*

Section III – Federal Award Findings and Questioned Costs

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

**HOLLOW ROCK – BRUCETON SPECIAL SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS RELATIVE TO
FEDERAL AWARD PROGRAMS**
June 30, 2012

11-2 ARRA Funds Not Segregated – corrected