

**HOLLOW ROCK – BRUCETON
SPECIAL SCHOOL DISTRICT**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

FISCAL YEAR ENDED JUNE 30, 2013

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JUNE 30, 2013**

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INTRODUCTORY SECTION

HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
LIST OF PRINCIPAL OFFICIALS
June 30, 2013

Board Chairman	Tim Runions
Board Member	Joseph Robinson
Board Member	Brad Hurley
Board Member	Randy Kelley
Board Member	Joyce Noles
Board Member	Dan Young
Board Member	Vicki Brown

Interim Director of Schools	Scot Crocker
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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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hollow Rock-Bruceton Special School District as of June 30, 2013, 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 accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of funding progress on page 34 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.

Other Information

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, 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 basic 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, and schedule of state financial assistance 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. Such 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.

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2013 on our consideration of the Hollow Rock - Bruceton Special School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Alexander Thompson Arnold PLLC

Martin, Tennessee
November 19, 2013

BASIC FINANCIAL STATEMENTS

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

June 30, 2013

ASSETS

Cash	\$ 3,468,537
Taxes receivable	610,617
Due from other governmental agencies	118,219
Accounts receivable	899
Inventory	3,368
Capital assets, not being depreciated	
Land	94,000
Capital assets, being depreciated	
Buildings and improvements	6,001,926
Other capital assets	151,710
Less accumulated depreciation	(2,909,571)
Deferred charges, net of accumulated amortization	43,847
Total assets	<u>7,583,552</u>

LIABILITIES

Accrued expenses	437,188
Deferred revenue - taxes	610,617
Long-term liabilities:	
Due within one year	260,000
Due in more than one year	3,088,300
Total liabilities	<u>4,396,105</u>

NET POSITION

Net investment in capital assets	(10,235)
Restricted for	
Scholarships	131,213
Cafeteria	157,982
Unrestricted	2,908,487
Total net position	<u>\$ 3,187,447</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, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instruction:					
Regular education	\$2,546,969	\$ -	\$ 157,630	\$ 50,000	\$ (2,339,339)
Special education	409,522	-	406,686	-	(2,836)
Vocational education	104,533	-	16,568	-	(87,965)
Support Services:					
Student support	357,658	-	-	-	(357,658)
Instructional staff	265,892	-	2,500	-	(263,392)
General administration	189,466	-	-	-	(189,466)
School administration	172,547	-	-	-	(172,547)
Business administration	49,450	-	-	-	(49,450)
Operation and maintenance of plant	382,403	-	-	-	(382,403)
Student transportation	4,250	-	-	-	(4,250)
Central and other	1,500	-	-	-	(1,500)
Noninstructional Services					
Food service	330,322	53,080	306,912	-	29,670
Early Childhood Education	103,518	-	103,518	-	-
Capital outlay	13,001	-	-	-	(13,001)
Debt service	138,671	-	-	-	(138,671)
Depreciation - unallocated	146,783	-	-	-	(146,783)
Total District	\$5,216,485	\$ 53,080	\$ 993,814	\$ 50,000	(4,119,591)
General Revenues:					
Local taxes					341,535
Property taxes					707,167
Intergovernmental:					
Basic Education Program					3,436,380
Other					40,349
Interest					28,855
Other miscellaneous revenues					19,294
Total general revenues					<u>4,573,580</u>
Change in net position					453,989
Net position, beginning					<u>2,733,458</u>
Net position, ending					<u>\$ 3,187,447</u>

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, 2013

	<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	\$3,133,574	\$ 177,880	\$ -	\$ 157,083	\$ 3,468,537
Taxes receivable	403,129	207,488	-	-	610,617
Due from other governments	111,463	6,756	-	-	118,219
Accounts receivable	-	-	-	899	899
Inventory	-	-	-	3,368	3,368
Total assets	<u>\$3,648,166</u>	<u>\$ 392,124</u>	<u>\$ -</u>	<u>\$ 161,350</u>	<u>\$ 4,201,640</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Other accrued expenses	\$ 437,188	\$ -	\$ -	\$ -	\$ 437,188
Deferred revenue - taxes	403,129	207,488	-	-	610,617
Total liabilities	<u>840,317</u>	<u>207,488</u>	<u>-</u>	<u>-</u>	<u>1,047,805</u>
Fund balances					
Nonspendable:					
Food service - inventory	-	-	-	3,368	3,368
Restricted:					
Scholarships	131,213	-	-	-	131,213
Cafeteria	-	-	-	157,982	157,982
Assigned for:					
Debt service	-	184,636	-	-	184,636
Unassigned	<u>2,676,636</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,676,636</u>
Total fund balances	<u>2,807,849</u>	<u>184,636</u>	<u>-</u>	<u>161,350</u>	<u>3,153,835</u>
Total liabilities and fund balances	<u>\$3,648,166</u>	<u>\$ 392,124</u>	<u>\$ -</u>	<u>\$ 161,350</u>	<u>\$ 4,201,640</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 POSITION OF GOVERNMENTAL ACTIVITIES**

June 30, 2013

Total governmental fund balances	\$ 3,153,835
Amounts reported for governmental activities on the statement of net position 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.	3,338,065
Long-term liabilities, including bonds, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(3,304,453)</u>
Net position of governmental activities	<u>\$ 3,187,447</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, 2013

	<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	\$ 826,532	\$ 222,170	\$ -	\$ -	\$ 1,048,702
Intergovernmental	3,657,728	-	551,519	324,044	4,533,291
Meal sales	-	-	-	53,080	53,080
Interest earnings	27,922	346	-	587	28,855
Miscellaneous	69,294	-	-	-	69,294
Total revenues	<u>4,581,476</u>	<u>222,516</u>	<u>551,519</u>	<u>377,711</u>	<u>5,733,222</u>
EXPENDITURES					
Instruction	2,784,993	-	345,172	-	3,130,165
Support services	1,433,076	-	198,390	-	1,631,466
Food services	-	-	-	347,058	347,058
Non-instructional services	301,518	207,116	-	-	508,634
Total expenditures	<u>4,519,587</u>	<u>207,116</u>	<u>543,562</u>	<u>347,058</u>	<u>5,617,323</u>
Revenues over expenditures	<u>61,889</u>	<u>15,400</u>	<u>7,957</u>	<u>30,653</u>	<u>115,899</u>
OTHER FINANCING SOURCES (USES)					
Operating transfers in	26,447	-	-	-	26,447
Operating transfers out	-	-	(7,957)	(18,490)	(26,447)
Total other financing sources (uses)	<u>26,447</u>	<u>-</u>	<u>(7,957)</u>	<u>(18,490)</u>	<u>-</u>
Net change in fund balance	88,336	15,400	-	12,163	115,899
Fund balance - July 1, 2012	2,719,513	169,236	-	147,276	3,036,025
Increase in inventory	-	-	-	1,911	1,911
Fund balance - June 30, 2013	<u>\$ 2,807,849</u>	<u>\$ 184,636</u>	<u>\$ -</u>	<u>\$ 161,350</u>	<u>\$ 3,153,835</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, 2013

Net change in fund balances - total governmental funds	\$ 115,899
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.	1,911
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 during the current period.	<div style="border-top: 1px solid black; display: inline-block; width: 100px;"></div> 92,734
Change in net position of governmental activities	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; width: 100px;"></div> \$ 453,989

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, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
REVENUES				
Taxes:				
Local option sales tax	\$ 325,000	\$ 325,000	\$ 341,200	\$ 16,200
Interstate telecommunications tax	725	725	335	(390)
City/Special School District:				
Current property tax	365,000	365,000	393,262	28,262
Prior year's property tax	11,975	38,774	76,448	37,674
Interest and penalty	1,800	1,800	6,215	4,415
Payment in lieu of taxes	9,000	9,000	9,072	72
Total taxes	<u>713,500</u>	<u>740,299</u>	<u>826,532</u>	<u>86,233</u>
Intergovernmental:				
Licenses and permits:				
Marriage licenses	<u>500</u>	<u>500</u>	<u>237</u>	<u>(263)</u>
State revenues:				
State education funds:				
Basic Education Program	3,423,000	3,423,000	3,436,380	13,380
Other state education funds	105,518	105,518	112,398	6,880
Career Ladder	24,000	24,000	21,035	(2,965)
Career Ladder - extended contract	<u>20,000</u>	<u>20,000</u>	<u>18,700</u>	<u>(1,300)</u>
Total state education revenue	3,572,518	3,572,518	3,588,513	15,995
Other state revenues:				
Mixed drink tax	<u>250</u>	<u>250</u>	<u>377</u>	<u>127</u>
Total state revenues	3,572,768	3,572,768	3,588,890	16,122
Federal revenues:				
Other federal through state	<u>-</u>	<u>22,985</u>	<u>22,985</u>	<u>-</u>
Total intergovernmental	<u>3,573,268</u>	<u>3,596,253</u>	<u>3,612,112</u>	<u>15,859</u>
Miscellaneous:				
Other local revenues:				
Interest earned	20,000	20,000	27,922	7,922
E-rate funding	-	-	6,771	6,771
Miscellaneous refunds	-	-	352	352
Sale of equipment	-	-	325	325
Damages recovered from individuals	-	-	174	174
Contributions	-	50,000	50,000	-
Other local revenues	<u>20,069</u>	<u>20,069</u>	<u>11,672</u>	<u>(8,397)</u>
Total other local revenues	<u>40,069</u>	<u>90,069</u>	<u>97,216</u>	<u>7,147</u>
Total revenues	<u>4,326,837</u>	<u>4,426,621</u>	<u>4,535,860</u>	<u>109,239</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, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
EXPENDITURES				
Instruction:				
Regular education:				
Teachers	1,679,726	1,679,726	1,612,358	(67,368)
Career ladder program	15,000	15,000	14,180	(820)
Career ladder - extended contract	20,000	20,000	16,034	(3,966)
Homebound teachers	2,000	1,000	691	(309)
Teacher assistants	47,556	47,556	45,263	(2,293)
Bonus payments	-	40,500	40,500	-
Other salaries and wages	3,600	4,567	4,567	-
Substitute teachers	-	11,208	11,208	-
Non-certified substitute teachers	25,000	24,996	20,498	(4,498)
Social security	102,151	104,662	99,297	(5,365)
State retirement	156,746	157,041	150,034	(7,007)
Medical insurance	154,381	146,881	138,514	(8,367)
Unemployment compensation	537	537	479	(58)
Medicare	25,369	25,956	23,193	(2,763)
Maintenance and repair - equipment	6,000	16,947	13,950	(2,997)
Other contracted services	29,000	30,300	30,041	(259)
Instructional supplies/materials	61,850	64,446	58,768	(5,678)
Textbooks	55,000	59,562	59,562	-
Fee waivers	500	500	-	(500)
Other charges	4,700	-	-	-
Equipment	52,204	85,903	55,000	(30,903)
Total regular education	<u>2,441,320</u>	<u>2,537,288</u>	<u>2,394,137</u>	<u>(143,151)</u>
Special education:				
Teachers	142,547	142,547	142,547	-
Career Ladder program	2,000	2,000	-	(2,000)
Teacher assistants	33,912	31,816	31,816	-
Other salaries and wages	-	156	156	-
Non-certified substitute teacher	1,500	3,181	3,181	-
Social security	11,050	11,050	9,764	(1,286)
State retirement	15,807	15,807	15,116	(691)
Medical insurance	15,218	15,686	4,388	(11,298)
Unemployment compensation	61	64	62	(2)
Medicare	2,288	2,313	2,313	-
Contracts with other school systems	19,877	30,231	30,230	(1)
Maintenance and repair - equipment	500	250	-	(250)
Other contracted services	1,500	9,071	6,368	(2,703)
Instructional supplies/materials	2,600	5,064	2,953	(2,111)
Total special education	<u>248,860</u>	<u>269,236</u>	<u>248,894</u>	<u>(20,342)</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, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
EXPENDITURES (Cont.)				
Instruction (Cont.):				
Vocational education:				
Teachers	72,527	72,527	72,527	-
Substitute teachers	800	1,387	1,387	-
Social security	3,913	3,913	3,851	(62)
State retirement	6,440	6,441	6,440	(1)
Medical insurance	10,209	7,863	7,863	-
Unemployment compensation	21	21	21	-
Medicare	925	924	900	(24)
Maintenance and repair - equipment	1,000	650	210	(440)
Instructional supplies	3,800	3,800	2,978	(822)
Other charges	500	500	169	(331)
Equipment	500	200	-	(200)
Total vocational education	<u>100,635</u>	<u>98,226</u>	<u>96,346</u>	<u>(1,880)</u>
Total instruction	<u>2,790,815</u>	<u>2,904,750</u>	<u>2,739,377</u>	<u>(165,373)</u>
Support services:				
Student support:				
Attendance:				
Director	61,130	61,130	59,690	(1,440)
Social security	3,740	3,740	3,326	(414)
State retirement	5,428	5,326	5,300	(26)
Medical insurance	4,779	4,881	4,881	-
Unemployment compensation	10	10	10	-
Medicare	827	827	778	(49)
Travel	500	1,300	1,259	(41)
Other supplies and materials	200	241	241	-
Other charges	200	200	200	-
Total attendance	<u>76,814</u>	<u>77,655</u>	<u>75,685</u>	<u>(1,970)</u>
Health services:				
Medical personnel	30,750	29,538	29,538	-
Social security	1,907	1,874	1,874	-
State retirement	2,694	2,655	2,655	-
Medical insurance	400	21	21	-
Unemployment compensation	10	9	9	-
Medicare	446	438	438	-
Travel	100	-	-	-
Drugs and medical supplies	200	451	451	-
Other supplies/materials	200	514	514	-
Other charges	800	934	934	-
Total health services	<u>37,507</u>	<u>36,434</u>	<u>36,434</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
GENERAL PURPOSE FUND**

For the Year Ended June 30, 2013

	<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	90,445	90,445	87,207	(3,238)
Social security	5,092	5,009	4,825	(184)
State retirement	8,209	8,292	8,292	-
Medical insurance	10,315	10,608	10,607	(1)
Unemployment compensation	21	20	20	-
Medicare	1,191	1,191	1,128	(63)
Evaluation/testing	4,200	4,200	1,175	(3,025)
Maintenance and repair	2,000	2,000	472	(1,528)
Other supplies/materials	2,000	2,000	2,000	-
Other charges	24,300	24,300	10,163	(14,137)
Total other student support	<u>149,773</u>	<u>150,065</u>	<u>127,889</u>	<u>(22,176)</u>
Total student support	<u>264,094</u>	<u>264,154</u>	<u>240,008</u>	<u>(24,146)</u>
Instructional staff:				
Regular education:				
Director	38,456	38,456	36,710	(1,746)
Career Ladder program	2,000	2,000	2,000	-
Librarian(s)	47,770	47,770	44,476	(3,294)
Instructional computer personnel	23,405	23,405	23,405	-
Secretary	15,751	17,201	17,201	-
Aides	11,396	11,396	11,242	(154)
Social security	8,065	8,177	8,176	(1)
State retirement	11,960	12,360	12,356	(4)
Medical insurance	8,700	8,700	7,841	(859)
Unemployment compensation	29	29	23	(6)
Medicare	1,886	1,913	1,913	-
Maintenance and repair	4,000	461	-	(461)
Travel	2,000	2,000	618	(1,382)
Library books	6,000	5,815	5,815	-
Periodicals	2,000	1,705	1,705	-
Other charges	3,500	3,480	520	(2,960)
Total regular education	<u>186,918</u>	<u>184,868</u>	<u>174,001</u>	<u>(10,867)</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, 2013

	Original Budget	Final Budget	Actual	Variance Over (Under)
EXPENDITURES (Cont.)				
Support services (cont.):				
Instructional staff:				
Special education:				
Director	3,900	3,900	3,900	-
Secretary	1,900	1,900	1,900	-
Clerical personnel	2,000	2,000	2,000	-
Social security	478	468	468	-
State retirement	687	686	686	-
Medical insurance	85	202	202	-
Medicare	112	109	109	-
Travel	750	750	750	-
Total special education	9,912	10,015	10,015	-
Vocational education:				
Director	2,000	2,000	2,000	-
Career Ladder - extended contract	1,000	1,000	1,000	-
Social security	186	179	179	-
State retirement	265	265	265	-
Medical insurance	44	95	95	-
Unemployment compensation	2	1	1	-
Medicare	44	42	42	-
Travel	550	551	79	(472)
Total vocational education	4,091	4,133	3,661	(472)
Total instructional staff	200,921	199,016	187,677	(11,339)
General administration:				
Board of Education services:				
Audit services	9,500	10,500	10,500	-
Dues and memberships	2,452	7,351	7,351	-
Legal services	500	380	223	(157)
Travel	6,000	6,312	6,309	(3)
Liability insurance	9,000	9,256	9,256	-
Premium on surety bond	630	630	630	-
Trustee commissions	11,000	11,436	10,134	(1,302)
Workmen's compensation insurance	13,000	11,958	11,958	-
Other charges	4,000	4,001	3,790	(211)
Total Board of Education services	56,082	61,824	60,151	(1,673)

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, 2013

	<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	76,725	82,975	82,970	(5)
Career Ladder program	1,000	1,000	1,000	-
Secretary(s)	17,686	17,986	17,986	-
Social security	5,566	5,536	5,535	(1)
State retirement	8,478	9,028	9,025	(3)
Medical insurance	6,392	6,022	6,022	-
Unemployment compensation	19	19	19	-
Medicare	1,302	1,297	1,295	(2)
Communication	1,500	540	538	(2)
Dues and memberships	641	609	609	-
Maintenance and repair	300	-	-	-
Postal charges	1,200	460	460	-
Travel	1,600	1,420	1,417	(3)
Office supplies	1,600	1,942	1,939	(3)
Other charges	500	500	500	-
Total Office of the Superintendent	<u>124,509</u>	<u>129,334</u>	<u>129,315</u>	<u>(19)</u>
Total general administration	<u>180,591</u>	<u>191,158</u>	<u>189,466</u>	<u>(1,692)</u>
School administration:				
Office of the Principal:				
Principals	116,177	116,177	107,711	(8,466)
Career Ladder program	2,000	2,000	2,000	-
Assistant principals	720	720	720	-
Secretary(s)	15,751	15,751	14,900	(851)
Bonus payments	-	-	3,000	3,000
Social security	7,941	7,941	7,127	(814)
State retirement	11,916	11,916	11,719	(197)
Medical insurance	8,000	11,078	10,843	(235)
Unemployment compensation	30	30	29	(1)
Medicare	1,756	1,756	1,667	(89)
Communication	4,500	3,500	2,213	(1,287)
Dues and memberships	960	374	374	-
Maintenance and repair	1,500	696	59	(637)
Postal charges	1,200	1,200	683	(517)
Travel	450	450	295	(155)
Other contracted services	5,657	5,657	5,657	-
Office supplies	3,500	3,500	3,360	(140)
Other charges	1,500	300	190	(110)
Total school administration	<u>183,558</u>	<u>183,046</u>	<u>172,547</u>	<u>(10,499)</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, 2013

	Original Budget	Final Budget	Actual	Variance Over (Under)
EXPENDITURES (Cont.)				
Support services (cont.):				
Business administration:				
Fiscal services:				
Accountants/bookkeepers	30,363	30,363	30,363	-
Social security	1,657	1,755	1,754	(1)
State retirement	2,332	2,648	2,648	-
Medical insurance	3,632	3,308	3,306	(2)
Unemployment compensation	8	9	9	-
Medicare	389	411	410	(1)
Travel	1,500	1,785	1,785	-
Other contracted services	5,168	4,782	4,782	-
Office supplies	1,200	3,793	3,793	-
Other charges	600	600	600	-
Total business administration	46,849	49,454	49,450	(4)
Operation and maintenance of plant:				
Operation of plant:				
Supervisor/director	23,209	22,196	22,196	-
Social security	1,439	1,377	1,376	(1)
State retirement	2,033	1,936	1,935	(1)
Unemployment compensation	10	10	9	(1)
Medicare	337	322	322	-
Other contracted services	146,155	145,719	128,575	(17,144)
Electricity	95,000	86,900	86,804	(96)
Natural gas	30,000	18,550	18,050	(500)
Water and sewer	28,000	32,542	32,492	(50)
Other supplies and materials	16,000	15,336	8,191	(7,145)
Building and contents insurance	28,000	27,355	27,355	-
Other charges	1,000	1,000	902	(98)
Total operation of plant	371,183	353,243	328,207	(25,036)
Maintenance of plant:				
Maintenance and repair	10,000	286,950	231,504	(55,446)
Other contracted services	7,900	30,615	30,592	(23)
Maintenance equipment	500	500	-	(500)
Total maintenance of plant	18,400	318,065	262,096	(55,969)
Total operation and maintenance of plant	389,583	671,308	590,303	(81,005)
Student transportation:				
Travel	2,125	2,125	2,125	-

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, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
EXPENDITURES (Cont.)				
Support services (cont.):				
Central and Other				
Other charges	2,500	1,500	1,500	-
Total support services	<u>1,270,221</u>	<u>1,561,761</u>	<u>1,433,076</u>	<u>(128,685)</u>
Non-instructional services:				
Early childhood education:				
Director	1,746	1,746	1,746	-
Principals	3,906	3,906	3,906	-
Teachers	39,400	39,400	39,400	-
Guidance personnel	3,238	3,238	3,238	-
Librarians	3,294	3,294	3,294	-
Medical personnel	904	904	904	-
Aides	11,896	11,896	11,896	-
Speech pathologist	8,000	-	-	-
Non-certified substitute teachers	2,000	3,045	3,045	-
Social security	3,181	3,287	3,287	-
State retirement	4,536	4,536	4,536	-
Medical insurance	6,178	4,490	4,490	-
Unemployment compensation	52	23	23	-
Medicare	744	769	769	-
Communication	600	600	600	-
Postal charges	100	100	100	-
Travel	200	785	785	-
Natural gas	882	882	882	-
Water and sewer	823	823	823	-
Electricity	2,794	2,794	2,794	-
Instructional supplies	1,830	1,830	1,830	-
Workers compensation insurance	350	350	350	-
In-service/staff development	300	256	256	-
Other contracted services	4,264	12,264	12,264	-
Custodial supplies	800	800	800	-
Building improvements	1,500	1,500	1,500	-
Total early childhood education	<u>103,518</u>	<u>103,518</u>	<u>103,518</u>	<u>-</u>
Capital outlay:				
Building improvements	4,000	23,000	23,000	-
Site development	1,000	500	-	(500)
Total capital outlay	<u>5,000</u>	<u>23,500</u>	<u>23,000</u>	<u>(500)</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, 2013

	Original Budget	Final Budget	Actual	Variance Over (Under)
EXPENDITURES (Cont.)				
Non-instructional services (cont.):				
Debt service:				
Principal on bonds	175,000	175,000	170,000	(5,000)
Interest on bonds	-	-	5,000	5,000
Total debt service	175,000	175,000	175,000	-
Total non-instructional services	283,518	302,018	301,518	(500)
Total expenditures	4,344,554	4,768,529	4,473,971	(294,558)
Revenues over (under) expenditures	(17,717)	(341,908)	61,889	403,797
 OTHER FINANCING SOURCES (USES)				
Operating transfers in	18,000	18,000	26,447	8,447
Net change in fund balance	\$ 283	\$ (323,908)	88,336	\$ 412,244
Fund balance - July 1, 2012			2,719,513	
Fund balance - June 30, 2013			\$ 2,807,849	

Reconciliation to governmental fund financial statements:

Revenues per budget statement (page 11)	\$ 4,535,860
Non-cash revenue not included in budget statement:	
On behalf payments for fringe benefits paid by State	45,616
Revenues per governmental statement of revenues, expenditures and change in fund balances (page 9)	\$ 4,581,476
Expenditures per budget statement (above)	\$ 4,473,971
Non-cash expenditure not included in budget statement:	
On behalf payments for fringe benefits paid by State	45,616
Expenditures per governmental statement of revenues, expenditures and change in fund balances (page 9)	\$ 4,519,587

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, 2013

	<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	\$ 16,567	\$ 16,568	\$ 16,568	\$ -
Title I - Grants to local education agencies	160,970	190,487	186,612	(3,875)
Special education - IDEA	156,563	156,563	156,563	-
Special education - Preschool	16,157	16,577	16,577	-
Title II	24,058	23,949	23,949	-
Other federal through state	273,800	273,800	135,417	(138,383)
Race to the Top grant	1,300	2,500	2,500	-
Rural Education grant	13,786	13,333	13,333	-
Total revenues	<u>663,201</u>	<u>693,777</u>	<u>551,519</u>	<u>(142,258)</u>
EXPENDITURES				
Instruction:				
Regular instruction:				
Teachers	62,673	59,815	59,815	-
Social security	3,886	3,330	3,330	-
State retirement	5,566	5,311	5,311	-
Medical insurance	10,862	6,331	6,331	-
Unemployment compensation	94	20	20	-
Medicare	909	779	779	-
Travel	-	85	85	-
Instructional supplies	32,000	55,841	55,841	-
Other supplies and materials	5,873	15,046	11,171	(3,875)
Other charges	500	-	-	-
Equipment	<u>33,786</u>	<u>34,074</u>	<u>34,074</u>	<u>-</u>
Total regular instruction	<u>156,149</u>	<u>180,632</u>	<u>176,757</u>	<u>(3,875)</u>
Special education program:				
Teachers	18,620	18,620	18,620	-
Other salaries and wages	1,000	674	674	-
Social security	1,221	951	951	-
State retirement	1,734	1,713	1,713	-
Medical insurance	3,990	3,693	3,693	-
Unemployment compensation	4	9	9	-
Medicare	290	223	223	-
Contracts with other school systems	87,468	88,227	88,227	-
Other contracted services	37,079	37,296	37,296	-
Instructional supplies	<u>9,222</u>	<u>9,222</u>	<u>9,222</u>	<u>-</u>
Total special education	<u>160,628</u>	<u>160,628</u>	<u>160,628</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, 2013**

	<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	3,387	3,387	3,387	-
Other charges	400	400	400	-
Equipment	4,000	4,000	4,000	-
Total vocational education	<u>7,787</u>	<u>7,787</u>	<u>7,787</u>	<u>-</u>
Total instruction	<u>324,564</u>	<u>349,047</u>	<u>345,172</u>	<u>(3,875)</u>
Support services:				
Other student support:				
Other salaries and wages	55,886	55,886	56,816	930
Social security	2,995	2,994	2,815	(179)
State retirement	4,963	4,963	5,045	82
Medical insurance	7,592	7,592	7,587	(5)
Unemployment compensation	66	63	10	(53)
Employer medicare liability	702	702	659	(43)
Travel	4,985	4,985	4,985	-
Other contracted services	30,000	30,000	28,727	(1,273)
Other supplies and materials	5,311	5,315	5,315	-
Other charges	105,395	105,396	5,396	(100,000)
Other equipment	7,000	7,000	295	(6,705)
Total other student support	<u>224,895</u>	<u>224,896</u>	<u>117,650</u>	<u>(107,246)</u>
Regular instruction:				
Supervisor/director	22,500	25,000	17,000	(8,000)
Clerical personnel	1,500	1,500	1,500	-
Other salaries and wages	793	3,842	15,343	11,501
In-service/staff development	46,325	46,325	17,600	(28,725)
Social security	4,997	5,342	3,158	(2,184)
State retirement	7,258	7,751	4,567	(3,184)
Unemployment compensation	67	67	38	(29)
Medicare	1,174	1,254	738	(516)
Travel	6,760	7,886	7,886	-
Other supplies and materials	-	2	2	-
In-service-staff development	6,306	4,383	4,383	-
Total regular instruction	<u>97,680</u>	<u>103,352</u>	<u>72,215</u>	<u>(31,137)</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, 2013**

	Original Budget	Final Budget	Actual	Variance- Over (Under)
EXPENDITURES (Cont.)				
Support services (cont.):				
Special education program:				
Travel	1,000	1,592	1,592	-
Other contracted services	5,000	4,408	4,408	-
Total special education	6,000	6,000	6,000	-
Vocational education:				
Travel	400	400	400	-
Transportation:				
Travel	2,125	2,125	2,125	-
Total support services	331,100	336,773	198,390	(138,383)
Total expenditures	655,664	685,820	543,562	(142,258)
Revenues over expenditures	7,537	7,957	7,957	-
OTHER FINANCING SOURCES (USES)				
Indirect costs	(7,537)	(7,957)	(7,957)	-
Net change in fund balance	\$ -	\$ -	-	\$ -
Fund balance - July 1, 2012			-	
Fund balance - June 30, 2013			\$ -	

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

HOLLOW ROCK – BRUCETON SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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 position 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, 2013

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.

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

Cash and Investments

The District's cash as reported in the financial statements includes cash on hand and demand deposits in financial institutions. 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, 2013, investments recorded in the District's books consisted solely of certificates of deposit, which are considered demand deposits and included in cash. Cash also includes \$131,213 in certificates of deposit restricted for scholarships.

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.

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,"

HOLLOW ROCK – BRUCETON SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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, 2013 but were not available to finance expenditures for the year ended June 30, 2013, 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, 2013

Impact of recently issued accounting pronouncements

In December 2010, the GASB issued Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in non-governmental pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This statement is effective for periods beginning after December 15, 2011. The adoption of GASB 62 had no impact on the District's financial statements.

In June 2011, the GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 provides guidance for reporting deferred outflows and inflows of resources, which are distinct from assets and liabilities, and also renames as net position, rather than net assets, the residual of all other elements presented in a statement of financial position. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011. As of June 30, 2013, the District had no items that met the definition of deferred outflows or deferred inflows of resources based on the adoption of GASB 63.

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows or deferred inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for periods beginning after December 15, 2012. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements, but has not implemented its effects on items currently reported as deferred assets or liabilities in the financial statements presented herein.

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 position. Bond premiums and discounts, as well as issuance costs, have been 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 currently reported as deferred charges and have been 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.

Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balances

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

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

June 30, 2013

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. Within the unrestricted 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 these classifications can be used.

As of June 30, 2013, the District has restricted, assigned and unassigned fund balances. Restricted balances represent resources subject to externally enforceable constraints. 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. Unassigned fund balance is the difference between total fund balance in the general fund and its nonspendable, restricted, committed, and assigned components.

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 Position

The financial statements include a reconciliation between the fund balance of total governmental funds and net position 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	\$ 3,370,000
Less: Deferred charge for issuance costs (being amortized over life of debt)	(43,847)
Less: Issuance discount (being amortized as interest expense)	<u>(21,700)</u>
	<u>\$ 3,304,453</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 position 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 \$92,734 difference are as follows:

Capital outlay expenditures	\$ 253,809
Depreciation expense	<u>(161,075)</u>
	<u>\$ 92,734</u>

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

June 30, 2013

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 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.

NOTE 4 – DETAILED NOTES ON ALL FUNDS

A. Cash Deposits

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, 2013, 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, 2013. 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.

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

June 30, 2013

C. Capital Assets

Capital asset activity for the year end June 30, 2013 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	5,784,027	217,899	-	6,001,926
Other capital assets	115,800	35,910	-	151,710
Total capital assets being depreciated	5,899,827	253,809	-	6,153,636
Less accumulated depreciation for:				
Buildings	2,712,356	143,511	-	2,855,867
Other capital assets	36,140	17,564	-	53,704
Total accumulated depreciation	2,748,496	161,075	-	2,909,571
Total capital assets being depreciated, net	3,151,331	92,734	-	3,244,065
Governmental activities capital assets, net	\$ 3,245,331	\$ 92,734	\$ -	\$ 3,338,065

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

Instruction	\$ 11,985
Food service	2,306
Depreciation - unallocated	146,784
Total depreciation expense - governmental activities	\$ 161,075

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, 2013, was \$3,370,000.

The annual requirements to amortize the bonds as of June 30, 2013 are as follows:

Years Ending June 30,	Series 2009 Bonds		Total
	Principal	Interest	
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	290,000	79,975	369,975
2019 - 2023	1,630,000	264,550	1,894,550
2024	365,000	15,056	380,056
	<u>\$3,370,000</u>	<u>\$ 740,491</u>	<u>\$ 4,110,491</u>

HOLLOW ROCK – BRUCETON SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

The following is a summary of long-term debt transactions for the year ended June 30, 2013:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due in One Year</u>
Governmental activities:					
Refunding bonds, Series 2009	\$ 3,620,000	\$ -	\$ (250,000)	\$ 3,370,000	\$ 250,000
Less deferred bond discount	<u>(23,870)</u>	<u>-</u>	<u>2,170</u>	<u>(21,700)</u>	<u>n/a</u>
Net long-term debt	<u>\$ 3,596,130</u>	<u>\$ -</u>	<u>\$ (247,830)</u>	<u>\$ 3,348,300</u>	<u>\$ 250,000</u>

E. Transfers

The following interfund transfers were made during the year ended June 30, 2013:

<u>Transfer From</u>	<u>Transfer To General Fund</u>
Federal Projects Fund	\$ 7,957
Centralized Cafeteria Fund	<u>18,490</u>
Total transfers	<u>\$ 26,447</u>

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

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 Tennessee

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

June 30, 2013

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, 2013, was 8.73% 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, 2013, Hollow Rock - Bruceton Special School District's annual pension cost of \$29,353 to TCRS was equal to the District's required and actual contributions. The required contribution was determined as part of the July 1, 2011 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, 2011 was 8 years. 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
6/30/13	\$29,353	100.00%	\$0
6/30/12	\$29,421	100.00%	\$0
6/30/11	\$28,586	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.

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

June 30, 2013

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%

State Employees, Teachers, and Higher Education Employees Pension Plan

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

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

Funding Policy – Most teachers are required by state statute to contribute 5.0% of salary to the plan. The employer contribution rate for Hollow Rock - Bruceton Special School District is established at an actuarially determined rate. The employer rate for the fiscal year ending June 30, 2013, was 8.88% 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, 2013, 2012, and 2011 were \$224,997, \$226,504 and \$238,152, 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

HOLLOW ROCK – BRUCETON SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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.

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, 2013, the State made contributions of \$38,796 to the Teacher Group Plan and \$6,820 to the Medicare Plan.

HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS
For the Year Ended June 30, 2013

(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, 2013

	Original Budget	Final Budget	Actual	Variance Over (Under)
REVENUES				
Other local revenues:				
Property taxes	\$ 210,800	\$ 228,866	\$ 222,170	\$ (6,696)
Interest earned	1,200	3,600	346	(3,254)
Total revenues	212,000	232,466	222,516	(9,950)
EXPENDITURES				
Current expenditures:				
Noninstructional services				
Education debt service:				
Principal on bonds	80,000	80,000	80,000	-
Interest on bonds	131,767	126,766	126,766	-
Other charges	200	350	350	-
Total expenditures	211,967	207,116	207,116	-
Revenues over expenditures	\$ 33	\$ 25,350	15,400	\$ (9,950)
Fund Balance - July 1, 2012			169,236	
Fund Balance - June 30, 2013			\$ 184,636	

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, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
REVENUES				
Charges for current services:				
Lunch payments - children	\$ 68,075	\$ 68,341	\$ 46,297	\$ (22,044)
Lunch payments - adults	-	-	58	58
Income from breakfast	985	1,261	688	(573)
Special milk sales	250	96	96	-
A la carte sales	7,670	7,670	5,071	(2,599)
Other charges for services	<u>-</u>	<u>-</u>	<u>870</u>	<u>870</u>
Total charges for current services	<u>76,980</u>	<u>77,368</u>	<u>53,080</u>	<u>(24,288)</u>
Other local revenues:				
Other local revenues	125	100	-	(100)
Interest earned	<u>200</u>	<u>927</u>	<u>587</u>	<u>(340)</u>
Total other local revenues	<u>325</u>	<u>1,027</u>	<u>587</u>	<u>(440)</u>
State education funds:				
School food services	<u>-</u>	<u>3,738</u>	<u>3,738</u>	<u>-</u>
Federal through State:				
USDA - lunch	198,000	197,140	194,030	(3,110)
USDA - breakfast	<u>106,000</u>	<u>109,913</u>	<u>109,144</u>	<u>(769)</u>
Total Federal through State	<u>304,000</u>	<u>307,053</u>	<u>303,174</u>	<u>(3,879)</u>
Total revenues	<u>381,305</u>	<u>389,186</u>	<u>360,579</u>	<u>(28,607)</u>
EXPENDITURES				
Current expenditures:				
Food services:				
Cafeteria personnel	93,000	93,215	93,215	-
Other salaries and wages	4,500	-	-	-
Social security	6,045	5,761	5,757	(4)
State retirement	8,110	6,710	6,642	(68)
Medicare liability	80	82	82	-
Unemployment compensation	1,414	1,354	1,346	(8)
Communication	800	120	112	(8)
Laundry service	1,800	510	510	-
Maintenance and repair - equipment	4,000	3,825	2,921	(904)
Payments to schools - lunch	-	150	150	-
Postal charges	46	46	46	-
Travel	1,500	1,100	1,013	(87)

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, 2013**

	Original Budget	Final Budget	Actual	Variance Over (Under)
EXPENDITURES (Cont.)				
Current expenditures (cont.):				
Food services (cont.):				
Other contracted services	4,000	2,175	2,167	(8)
Food supplies	210,000	194,994	194,994	-
Office supplies	1,000	2,600	2,436	(164)
Utilities	-	1,812	1,812	-
Other supplies and materials	16,000	10,906	10,906	-
Workers compensation	1,450	1,450	1,450	-
Other charges	2,000	-	-	-
Equipment	5,000	43,886	4,367	(39,519)
Total expenditures	360,745	370,696	329,926	(40,770)
 Revenues over expenditures	 20,560	 18,490	 30,653	 12,163
 OTHER FINANCING SOURCES (USES)				
Indirect costs	(18,490)	(18,490)	(18,490)	-
 Net change in fund balance	 \$ 2,070	 \$ -	 12,163	 \$ 12,163
Fund balance - July 1, 2012			147,276	
Increase in inventory			1,911	
Fund balance - June 30, 2013			\$ 161,350	
 Reconciliation to governmental fund financial statements:				
Revenues per budget statement (page 36)		\$ 360,579		
Non-cash revenue not included in budget statement:				
Commodities received		17,132		
Revenues per governmental statement of revenues, expenditures and change in fund balance (page 9)		\$ 377,711		
Expenditures per budget statement (above)		\$ 329,926		
Non-cash expenditure not included in budget statement:				
Commodities used		17,132		
Expenditures per governmental statement of revenues, expenditures and change in fund balance (page 9)		\$ 347,058		

See independent auditor's report

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

June 30, 2013

Year Ended <u>June 30,</u>	Bonds Payable Series 2009	
	Principal	Interest
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
	\$ 3,370,000	\$ 740,491

See independent auditor's report

HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
SCHEDULE OF SALARIES AND BONDS
June 30, 2013

	<u>Salary</u>	<u>Bond</u>	
Director of Schools	<u>\$ 82,970</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, 2013

Federal Grantor/ Pass-through Grantor/ Program	Federal CFDA Number	Balance 7/1/12	Cash Receipts	Expenditures/ Amount Earned/ Amount Issued	Balance Unearned (Receivable) 6/30/13
U.S. DEPARTMENT OF EDUCATION/ Pass-through the Tennessee Department of Education/ Special Education Grants to States					
IDEA Program, Part B	84.027	\$ -	\$ 156,563	\$ 156,563	\$ -
IDEA Program, Preschool	84.173	-	16,577	16,577	-
Special Education High Cost Program	84.173	-	22,985	22,985	-
Total Special Education Grants to States Cluster		-	196,125	196,125	-
Title I, Grants to Local Education Agencies	84.010A	(3,875)	190,487	186,612	-
ARRA - Title 1, Grants to Local Education Agencies	84.389	-			-
Total Title 1 Cluster		(3,875)	190,487	186,612	-
Career and Technical Education - Basic Grants to States	84.048	-	16,568	16,568	-
Title VI, Part B, Subpart 2 - Rural and Low-Income School Program	84.358	-	13,333	13,333	-
Improving Teacher Quality State Grants	84.367A	-	23,949	23,949	-
Teacher Incentive Fund Grant	84.374A	-	135,417	135,417	-
State Fiscal Stabilization Fund - Government Services					
ARRA - Government Services - Safe Schools	84.397	-	3,900	3,900	-
ARRA - Government Services - SSMS	84.397	-	1,808	1,808	-
ARRA - Race to the Top - District Grants	84.416	-	2,500	2,500	-
Total State Fiscal Stabilization Fund Cluster		-	8,208	8,208	-
Total Department of Education		(3,875)	584,087	580,212	-

See independent auditor's report

HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2013

Federal Grantor/ Pass-through Grantor/ Program	Federal CFDA Number	Balance 7/1/12	Cash Receipts	Expenditures/ Amount Earned/ Amount Issued	Balance Unearned (Receivable) 6/30/13
U.S. DEPARTMENT OF AGRICULTURE/ Pass-through the Tennessee Department of Agriculture/					
School Breakfast Program	10.553	-	109,144	109,144	- *
National School Lunch Program	10.555	-	194,030	194,030	- *
Food Distribution - Commodities	10.555	-	17,132	17,132	- *
Total Department of Agriculture		-	320,306	320,306	-
Total federal awards		<u>\$ (3,875)</u>	<u>\$ 904,393</u>	<u>\$ 900,518</u>	<u>\$ -</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, 2013

Grantor/ Program	Balance 7/1/12	Cash Receipts	Expenditures	Balance Unearned (Receivable) 6/30/13
Tennessee Department of Education/ Early Childhood - Lottery	\$ -	\$ 103,518	\$ 103,518	\$ -

See independent auditor's report

INTERNAL CONTROL AND COMPLIANCE SECTION

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INDEPENDENT AUDITOR'S REPORT

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

We have audited, 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, the 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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 19, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hollow Rock - Bruceton Special School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of Hollow Rock - Bruceton Special School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Alexander Thompson Arnold PLLC

Martin, Tennessee
November 19, 2013

Members of:

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AICPA Governmental Audit Quality Center
AICPA Employee Benefit Plan Audit Quality Center
Tennessee Society of Certified Public Accountants
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INDEPENDENT AUDITOR'S REPORTS

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

Report on Compliance for Each Major Federal Program

We have audited Hollow Rock-Bruceton Special School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Hollow Rock-Bruceton Special School District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Hollow Rock-Bruceton Special School District's compliance.

Opinion on Each Major Federal Program

In our opinion Hollow Rock-Bruceton Special School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Hollow Rock-Bruceton Special School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. 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.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Alexander Thompson Arnold PLLC

Martin, Tennessee
November 19, 2013

**HOLLOW ROCK – BRUCETON SPECIAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013**

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>Federal Program Name or Cluster</u>	<u>CFDA No.</u>
Child Nutrition Cluster:	
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, 2013**

Section II – Financial Statement Findings

There were no current year financial statement findings.

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
June 30, 2013

Schedule of Prior Year Findings Relative to Federal Award Programs

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

Schedule of Financial Statement Findings Required by Audit Contract

11-1 Expenditures in Excess of Budget - corrected