

**HOLLOW ROCK-BRUCETON
SPECIAL SCHOOL DISTRICT**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

FISCAL YEAR ENDED JUNE 30, 2014

**HOLLOW ROCK–BRUCETON SPECIAL SCHOOL DISTRICT
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JUNE 30, 2014**

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INTRODUCTORY SECTION

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

June 30, 2014

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

Director of Schools	David Duncan
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FINANCIAL SECTION

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Independent Auditor's Report

Board of Education
Hollow Rock–Bruceeton Special School District
Bruceeton, 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–Bruceeton Special School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the 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–Bruceeton Special School District as of June 30, 2014, 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 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.

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 January 5, 2015, 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
January 5, 2015

BASIC FINANCIAL STATEMENTS

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

June 30, 2014

ASSETS

Cash	\$ 3,565,848
Taxes receivable	612,405
Due from other governmental agencies	105,087
Inventory	1,117
Capital assets, not being depreciated	
Land	94,000
Capital assets, being depreciated	
Buildings and improvements	6,042,047
Other capital assets	151,710
Less accumulated depreciation	<u>(3,068,870)</u>
Total assets	<u>7,503,344</u>

LIABILITIES

Accrued expenses	332,936
Long-term liabilities:	
Due within one year	270,000
Due in more than one year	<u>2,820,470</u>
Total liabilities	<u>3,423,406</u>

DEFERRED INFLOW OF RESOURCES

Unavailable revenue - property taxes	<u>612,406</u>
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NET POSITION

Net investment in capital assets	128,417
Restricted for	
Federal Projects	41
Scholarships	129,165
Cafeteria	175,771
Unrestricted	<u>3,034,138</u>
Total net position	<u>\$ 3,467,532</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, 2014

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	\$2,629,535	\$ -	\$ 247,858	\$ 2,000	\$ (2,379,677)
Special education	398,629	-	364,863	-	(33,766)
Vocational education	106,137	-	16,144	-	(89,993)
Support Services:					
Student support	352,944	-	-	-	(352,944)
Instructional staff	274,763	-	-	-	(274,763)
General administration	185,352	-	-	-	(185,352)
School administration	178,918	-	-	-	(178,918)
Business administration	52,610	-	-	-	(52,610)
Operation and maintenance of plant	429,339	-	32,980	-	(396,359)
Student transportation	4,250	-	-	-	(4,250)
Central and other	2,000	-	-	-	(2,000)
Noninstructional Services					
Food service	308,758	50,176	297,683	-	39,101
Early Childhood Education	103,518	-	105,659	-	2,141
Capital outlay	33,151	-	-	-	(33,151)
Debt service	126,786	-	-	-	(126,786)
Depreciation - unallocated	142,978	-	-	-	(142,978)
Total District	\$5,329,668	\$ 50,176	\$ 1,065,187	\$ 2,000	(4,212,305)

General Revenues:

Local taxes	339,883
Property taxes	641,865
Intergovernmental:	
Basic Education Program	3,471,000
Other	35,236
Interest	27,801
Other miscellaneous revenues	20,452
Total general revenues	<u>4,536,237</u>

Change in net position

323,932

Net position, beginning - as previously reported	3,187,447
Cumulative effect of change in accounting principle	<u>(43,847)</u>
Net position, beginning - as restated	<u>3,143,600</u>
Net position, ending	<u>\$ 3,467,532</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, 2014

	<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	\$3,216,032	\$ 170,984	\$ 3,061	\$ 175,771	\$ 3,565,848
Taxes receivable	404,310	208,095	-	-	612,405
Due from other governments	99,322	5,765	-	-	105,087
Due from other funds	3,020	-	-	-	3,020
Inventory	-	-	-	1,117	1,117
Total assets	<u>\$3,722,684</u>	<u>\$ 384,844</u>	<u>\$ 3,061</u>	<u>\$ 176,888</u>	<u>\$ 4,287,477</u>
Liabilities					
Other accrued expenses	\$ 332,936	\$ -	\$ -	\$ -	\$ 332,936
Due to other funds	-	-	3,020	-	3,020
Total liabilities	<u>332,936</u>	<u>-</u>	<u>3,020</u>	<u>-</u>	<u>335,956</u>
Deferred Inflows of Resources					
Deferred revenue - taxes	404,310	208,096	-	-	612,406
Fund balances					
Nonspendable:					
Food service - inventory	-	-	-	1,117	1,117
Restricted:					
Federal Projects	-	-	41	-	41
Scholarships	129,165	-	-	-	129,165
Cafeteria	-	-	-	175,771	175,771
Assigned for:					
Debt service	-	176,748	-	-	176,748
Unassigned	2,856,273	-	-	-	2,856,273
Total fund balances	<u>2,985,438</u>	<u>176,748</u>	<u>41</u>	<u>176,888</u>	<u>3,339,115</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$3,722,684</u>	<u>\$ 384,844</u>	<u>\$ 3,061</u>	<u>\$ 176,888</u>	<u>\$ 4,287,477</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, 2014

Total governmental fund balances	\$ 3,339,115
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.	3,218,887
Long-term liabilities, including bonds, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(3,090,470)</u>
Net position of governmental activities	<u>\$ 3,467,532</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, 2014

	<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	\$ 777,801	\$ 203,947	\$ -	\$ -	\$ 981,748
Intergovernmental	3,723,377	-	560,373	314,285	4,598,035
Meal sales	-	-	-	50,176	50,176
Interest earnings	27,013	283	-	505	27,801
Miscellaneous	55,432	-	-	-	55,432
Total revenues	<u>4,583,623</u>	<u>204,230</u>	<u>560,373</u>	<u>364,966</u>	<u>5,713,192</u>
EXPENDITURES					
Instruction	2,770,670	-	392,207	-	3,162,877
Support services	1,321,451	-	159,125	-	1,480,576
Food services	-	-	-	320,802	320,802
Non-instructional services	349,288	212,117	-	-	561,405
Total expenditures	<u>4,441,409</u>	<u>212,117</u>	<u>551,332</u>	<u>320,802</u>	<u>5,525,660</u>
Revenues over expenditures	<u>142,214</u>	<u>(7,887)</u>	<u>9,041</u>	<u>44,164</u>	<u>187,532</u>
OTHER FINANCING SOURCES (USES)					
Operating transfers in	35,375	-	-	-	35,375
Operating transfers out	-	-	(9,000)	(26,375)	(35,375)
Total other financing sources (uses)	<u>35,375</u>	<u>-</u>	<u>(9,000)</u>	<u>(26,375)</u>	<u>-</u>
Net change in fund balance	<u>177,589</u>	<u>(7,887)</u>	<u>41</u>	<u>17,789</u>	<u>187,532</u>
Fund balance - July 1, 2013	2,807,849	184,635	-	161,350	3,153,834
Decrease in inventory	-	-	-	(2,251)	(2,251)
Fund balance - June 30, 2014	<u>\$ 2,985,438</u>	<u>\$ 176,748</u>	<u>\$ 41</u>	<u>\$ 176,888</u>	<u>\$ 3,339,115</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, 2014

Net change in fund balances - total governmental funds	\$ 187,532
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.	260,000
Amortization of bond discount reported in the statement of activities does not require the use of current financial resources and is not reported as an expenditure in the governmental fund.	(2,170)
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.	(2,251)
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 during the current period.	<u>(119,179)</u>
Change in net position of governmental activities	<u>\$ 323,932</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, 2014

	Original Budget	Final Budget	Actual	Variance Over (Under)
REVENUES				
Taxes:				
Local option sales tax	\$ 310,000	\$ 310,000	\$ 339,476	\$ 29,476
Interstate telecommunications tax	725	725	407	(318)
City/Special School District:				
Current property tax	355,000	355,000	381,962	26,962
Prior year's property tax	11,975	44,975	39,109	(5,866)
Interest and penalty	1,800	1,800	3,378	1,578
Payment in lieu of taxes	9,000	15,000	13,469	(1,531)
Total taxes	688,500	727,500	777,801	50,301
Intergovernmental:				
Licenses and permits:				
Marriage licenses	500	500	224	(276)
State revenues:				
State education funds:				
Basic Education Program	3,467,000	3,467,000	3,471,000	4,000
Other state education funds	105,518	164,069	169,151	5,082
Career Ladder	20,625	20,625	19,924	(701)
Career Ladder - extended contract	14,250	14,250	14,770	520
Total state education revenue	3,607,393	3,665,944	3,674,845	8,901
Other state revenues:				
Mixed drink tax	250	250	318	68
Total state revenues	3,607,643	3,666,194	3,675,163	8,969
Federal revenues:				
Other federal through state	-	-	5,000	5,000
Total intergovernmental	3,608,143	3,666,694	3,680,387	13,693
Miscellaneous:				
Other local revenues:				
Interest earned	16,000	16,000	27,013	11,013
E-rate funding	-	2,000	645	(1,355)
Miscellaneous refunds	-	7,000	5,299	(1,701)
Insurance recovery	-	31,180	32,980	1,800
Sale of equipment	-	-	150	150
Damages recovered from individuals	-	-	90	90
Contributions	-	2,000	2,000	-
Other local revenues	10,069	10,069	14,268	4,199
Total other local revenues	26,069	68,249	82,445	14,196
Total revenues	4,322,712	4,462,443	4,540,633	78,190

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, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
EXPENDITURES				
Instruction:				
Regular education:				
Teachers	1,660,244	1,613,747	1,566,547	(47,200)
Career ladder program	11,625	11,625	9,625	(2,000)
Career ladder - extended contract	14,250	16,910	16,910	-
Homebound teachers	2,000	1,100	714	(386)
Teacher assistants	47,829	47,829	44,725	(3,104)
Bonus payments	-	40,000	40,000	-
Other salaries and wages	3,600	4,800	4,800	-
Substitute teachers	-	655	654	(1)
Non-certified substitute teachers	25,000	25,000	20,887	(4,113)
Social security	107,636	96,116	114,501	18,385
State retirement	152,390	155,924	143,929	(11,995)
Medical insurance	140,266	113,315	94,102	(19,213)
Unemployment compensation	512	512	331	(181)
Medicare	27,301	22,781	26,801	4,020
Maintenance and repair - equipment	6,000	3,832	3,547	(285)
Other contracted services	29,000	43,282	39,042	(4,240)
Instructional supplies/materials	61,650	63,508	58,843	(4,665)
Textbooks	55,000	70,200	70,144	(56)
Fee waivers	500	500	-	(500)
Other charges	4,700	17,350	17,341	(9)
Equipment	52,204	107,421	107,421	-
Total regular education	<u>2,401,707</u>	<u>2,456,407</u>	<u>2,380,864</u>	<u>(75,543)</u>
Special education:				
Teachers	145,418	145,418	145,418	-
Career Ladder program	2,000	2,000	2,000	-
Teacher assistants	34,567	34,217	34,217	-
Non-certified substitute teacher	1,500	1,464	1,464	-
Social security	11,307	10,065	10,065	-
State retirement	16,125	16,074	16,074	-
Medical insurance	20,771	16,030	16,030	-
Unemployment compensation	60	55	55	-
Medicare	2,359	2,354	2,354	-
Contracts with other school systems	16,534	16,534	16,534	-
Maintenance and repair - equipment	500	684	672	(12)
Other contracted services	1,500	1,518	1,517	(1)
Instructional supplies/materials	2,600	2,428	2,429	1
Total special education	<u>255,241</u>	<u>248,841</u>	<u>248,829</u>	<u>(12)</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, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
EXPENDITURES (Cont.)				
Instruction (Cont.):				
Vocational education:				
Teachers	74,630	74,630	74,630	-
Substitute teachers	800	350	218	(132)
Social security	4,080	4,080	3,857	(223)
State retirement	6,627	6,627	6,627	-
Medical insurance	8,001	8,601	8,594	(7)
Unemployment compensation	21	21	18	(3)
Medicare	978	903	902	(1)
Maintenance and repair - equipment	1,000	100	-	(100)
Instructional supplies	3,800	3,150	3,141	(9)
Other charges	500	500	-	(500)
Equipment	500	100	-	(100)
Total vocational education	<u>100,937</u>	<u>99,062</u>	<u>97,987</u>	<u>(1,075)</u>
Total instruction	<u>2,757,885</u>	<u>2,804,310</u>	<u>2,727,680</u>	<u>(76,630)</u>
Support services:				
Student support:				
Attendance:				
Director	61,940	63,140	61,940	(1,200)
Social security	3,797	3,797	3,427	(370)
State retirement	5,500	5,500	5,500	-
Medical insurance	5,160	5,311	5,311	-
Unemployment compensation	10	10	10	-
Medicare	841	914	801	(113)
Travel	500	1,500	1,269	(231)
Other supplies and materials	200	50	-	(50)
Other charges	200	165	165	-
Total attendance	<u>78,148</u>	<u>80,387</u>	<u>78,423</u>	<u>(1,964)</u>
Health services:				
Medical personnel	31,211	27,085	27,085	-
Social security	1,935	1,448	1,448	-
State retirement	2,740	2,442	2,442	-
Medical insurance	400	650	645	(5)
Unemployment compensation	10	10	9	(1)
Medicare	453	339	339	-
Travel	100	25	-	(25)
Drugs and medical supplies	200	79	75	(4)
Other supplies/materials	200	346	346	-
Other charges	800	300	279	(21)
Total health services	<u>38,049</u>	<u>32,724</u>	<u>32,668</u>	<u>(56)</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, 2014

	<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	91,800	94,219	94,219	-
Social security	4,749	4,968	4,968	-
State retirement	8,329	8,835	8,835	-
Medical insurance	11,629	13,390	13,390	-
Unemployment compensation	21	15	15	-
Medicare	1,209	1,162	1,162	-
Evaluation/testing	4,200	4,200	4,200	-
Maintenance and repair	2,000	835	834	(1)
Other supplies/materials	2,000	2,000	2,000	-
Other charges	25,500	22,000	22,000	-
Total other student support	<u>153,437</u>	<u>153,624</u>	<u>153,623</u>	<u>(1)</u>
Total student support	<u>269,634</u>	<u>266,735</u>	<u>264,714</u>	<u>(2,021)</u>
Instructional staff:				
Regular education:				
Director	39,332	40,532	40,532	-
Career Ladder program	2,000	2,000	2,000	-
Librarian(s)	48,485	45,190	45,190	-
Instructional computer personnel	23,756	23,381	23,378	(3)
Secretary	16,288	17,455	17,455	-
Aides	11,563	22,511	22,511	-
Other salaries and wages	-	963	321	(642)
In-service/staff development	-	750	750	-
Social security	8,452	8,780	8,780	-
State retirement	12,407	13,319	13,319	-
Medical insurance	5,100	3,000	2,993	(7)
Unemployment compensation	29	4	4	-
Medicare	1,989	1,965	1,965	-
Maintenance and repair	4,000	1,850	1,806	(44)
Travel	2,000	1,375	1,372	(3)
Library books	6,000	6,000	6,000	-
Periodicals	2,000	1,580	1,580	-
Other charges	3,500	2,399	2,399	-
Total regular education	<u>186,901</u>	<u>193,054</u>	<u>192,355</u>	<u>(699)</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, 2014

	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	469	469	469	-
State retirement	687	687	687	-
Medical insurance	202	202	202	-
Medicare	110	110	110	-
Travel	750	878	878	-
Total special education	10,018	10,146	10,146	-
Vocational education:				
Director	2,000	2,000	2,000	-
Career Ladder - extended contract	1,000	1,000	1,000	-
Social security	180	180	180	-
State retirement	265	265	265	-
Medical insurance	95	95	95	-
Unemployment compensation	1	1	-	(1)
Medicare	42	42	42	-
Travel	550	550	310	(240)
Total vocational education	4,133	4,133	3,892	(241)
Total instructional staff	201,052	207,333	206,393	(940)
General administration:				
Board of Education services:				
Audit services	10,500	11,000	11,000	-
Dues and memberships	2,452	77	75	(2)
Legal services	500	500	137	(363)
Travel	6,000	9,000	6,644	(2,356)
Liability insurance	9,300	9,013	9,013	-
Premium on surety bond	630	630	630	-
Trustee commissions	11,000	11,325	10,702	(623)
Workmen's compensation insurance	13,000	11,564	11,564	-
Other charges	4,000	9,096	9,096	-
Total Board of Education services	57,382	62,205	58,861	(3,344)

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, 2014

	<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	78,876	78,876	74,191	(4,685)
Career Ladder program	1,000	1,000	1,000	-
Secretary(s)	18,280	18,780	18,780	-
Social security	5,566	5,566	4,830	(736)
State retirement	8,478	8,478	7,793	(685)
Medical insurance	7,108	7,521	7,521	-
Unemployment compensation	19	19	19	-
Medicare	1,302	1,302	1,239	(63)
Communication	1,500	100	100	-
Dues and memberships	914	1,828	1,828	-
Maintenance and repair	300	600	515	(85)
Postal charges	1,200	417	417	-
Travel	1,600	3,200	2,963	(237)
Office supplies	1,600	2,600	2,510	(90)
Other charges	500	2,800	2,785	(15)
Total Office of the Superintendent	<u>128,243</u>	<u>133,087</u>	<u>126,491</u>	<u>(6,596)</u>
Total general administration	<u>185,625</u>	<u>195,292</u>	<u>185,352</u>	<u>(9,940)</u>
School administration:				
Office of the Principal:				
Principals	117,774	117,774	109,764	(8,010)
Career Ladder program	2,000	2,000	2,000	-
Assistant principals	720	720	720	-
Secretary(s)	16,288	16,288	15,119	(1,169)
Social security	8,179	7,979	7,014	(965)
State retirement	12,560	12,560	11,658	(902)
Medical insurance	8,999	11,332	11,332	-
Unemployment compensation	30	30	29	(1)
Medicare	1,909	1,909	1,640	(269)
Communication	4,500	4,548	4,547	(1)
Dues and memberships	960	374	374	-
Maintenance and repair	1,500	1,700	1,694	(6)
Postal charges	1,200	1,400	1,143	(257)
Travel	450	-	-	-
Other contracted services	5,657	5,657	5,657	-
Office supplies	3,500	4,727	4,727	-
Other charges	1,500	1,500	1,500	-
Total school administration	<u>187,726</u>	<u>190,498</u>	<u>178,918</u>	<u>(11,580)</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, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
EXPENDITURES (Cont.)				
Support services (cont.):				
Business administration:				
Fiscal services:				
Accountants/bookkeepers	30,848	35,848	35,848	-
Social security	1,687	2,587	2,197	(390)
State retirement	2,708	3,308	3,301	(7)
Medical insurance	3,897	3,897	1,050	(2,847)
Unemployment compensation	10	10	10	-
Medicare	396	546	514	(32)
Travel	1,500	2,285	1,832	(453)
Other contracted services	5,382	6,182	6,182	-
Office supplies	1,200	1,200	1,200	-
Other charges	600	600	476	(124)
Total business administration	<u>48,228</u>	<u>56,463</u>	<u>52,610</u>	<u>(3,853)</u>
Operation and maintenance of plant:				
Operation of plant:				
Supervisor/director	23,557	28,157	26,173	(1,984)
Social security	1,461	1,761	1,622	(139)
State retirement	2,068	2,468	2,282	(186)
Unemployment compensation	10	10	10	-
Medicare	342	412	380	(32)
Other contracted services	148,323	146,023	145,955	(68)
Electricity	95,000	95,000	90,722	(4,278)
Natural gas	30,000	23,788	23,760	(28)
Water and sewer	29,000	27,400	26,797	(603)
Other supplies and materials	16,000	20,000	19,387	(613)
Building and contents insurance	28,000	24,848	24,848	-
Other charges	1,000	105	219	114
Total operation of plant	<u>374,761</u>	<u>369,972</u>	<u>362,155</u>	<u>(7,817)</u>
Maintenance of plant:				
Maintenance and repair	10,000	14,500	14,287	(213)
Other contracted services	7,900	53,880	52,563	(1,317)
Maintenance equipment	500	500	334	(166)
Total maintenance of plant	<u>18,400</u>	<u>68,880</u>	<u>67,184</u>	<u>(1,696)</u>
Total operation and maintenance of plant	<u>393,161</u>	<u>438,852</u>	<u>429,339</u>	<u>(9,513)</u>
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, 2014

	Original Budget	Final Budget	Actual	Variance Over (Under)
EXPENDITURES (Cont.)				
Support services (cont.):				
Central and Other				
Other charges	2,000	2,000	2,000	-
Total support services	1,289,551	1,359,298	1,321,451	(37,847)
Non-instructional services:				
Early childhood education:				
Director	1,800	1,800	1,800	-
Principals	3,950	3,950	3,950	-
Teachers	40,850	40,850	40,850	-
Guidance personnel	3,275	3,275	3,275	-
Librarians	3,295	3,295	3,295	-
Medical personnel	915	915	915	-
Aides	12,071	12,071	12,071	-
Non-certified substitute teachers	2,000	2,000	2,000	-
Social security	4,225	3,254	3,254	-
State retirement	4,675	4,680	4,680	-
Medical insurance	4,950	4,475	4,475	-
Unemployment compensation	25	26	26	-
Medicare	950	714	714	-
Communication	-	444	444	-
Postal charges	-	77	77	-
Travel	200	200	200	-
Natural gas	882	882	882	-
Water and sewer	823	823	823	-
Electricity	2,794	2,794	2,794	-
Instructional supplies	949	800	800	-
Other supplies and materials	4,264	4,614	4,614	-
Workers compensation insurance	375	375	375	-
In-service/staff development	200	404	404	-
Other contracted services	8,000	8,000	8,000	-
Custodial supplies	800	800	800	-
Building improvements	1,250	2,000	2,000	-
Total early childhood education	103,518	103,518	103,518	-
Capital outlay:				
Building improvements	8,000	98,200	53,453	(44,747)
Site development	1,000	20,000	19,818	(182)
Total capital outlay	9,000	118,200	73,271	(44,929)

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, 2014

	Original Budget	Final Budget	Actual	Variance Over (Under)
EXPENDITURES (Cont.)				
Non-instructional services (cont.):				
Debt service:				
Principal on bonds	180,000	172,500	172,499	(1)
Interest on bonds	-	-	-	-
Total debt service	180,000	172,500	172,499	(1)
Total non-instructional services	292,518	394,218	349,288	(44,930)
Total expenditures	4,339,954	4,557,826	4,398,419	(159,407)
Revenues over (under) expenditures	(17,242)	(95,383)	142,214	237,597
 OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	10,000	35,375	25,375
Net change in fund balance	\$ (17,242)	\$ (85,383)	177,589	\$ 262,972
Fund balance - July 1, 2013			2,807,849	
Fund balance - June 30, 2014			\$ 2,985,438	

Reconciliation to governmental fund financial statements:

Revenues per budget statement (page 11)	\$ 4,540,633
Non-cash revenue not included in budget statement:	
On behalf payments for fringe benefits paid by State	42,990
Revenues per governmental statement of revenues, expenditures and change in fund balances (page 9)	\$ 4,583,623
Expenditures per budget statement (above)	\$ 4,398,419
Non-cash expenditure not included in budget statement:	
On behalf payments for fringe benefits paid by State	42,990
Expenditures per governmental statement of revenues, expenditures and change in fund balances (page 9)	\$ 4,441,409

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, 2014

	<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	\$ 16,761	\$ 16,144	\$ 16,144	\$ -
Title I - Grants to local education agencies	174,398	177,785	177,785	-
Special education - IDEA	143,808	144,156	144,156	-
Special education - Preschool	16,454	16,769	16,769	-
Title II	21,384	21,153	21,153	-
Other federal through state	209,210	174,793	171,773	(3,020)
Rural Education grant	12,593	12,593	12,593	-
Total revenues	<u>594,608</u>	<u>563,393</u>	<u>560,373</u>	<u>(3,020)</u>
EXPENDITURES				
Instruction:				
Regular instruction:				
Teachers	65,002	65,002	65,002	-
Other salaries and wages	72,207	64,450	64,450	-
Social security	8,495	7,122	7,122	-
State retirement	12,166	12,134	12,166	32
Medical insurance	11,064	11,064	11,064	-
Unemployment compensation	191	191	159	(32)
Medicare	1,987	1,869	1,869	-
Instructional supplies	38,346	40,348	40,348	-
Other charges	500	500	500	-
Equipment	<u>30,593</u>	<u>31,977</u>	<u>31,977</u>	-
Total regular instruction	<u>240,551</u>	<u>234,657</u>	<u>234,657</u>	-
Special education program:				
Teachers	19,000	19,277	19,277	-
Social security	1,178	935	935	-
State retirement	1,687	1,712	1,712	-
Medical insurance	4,000	3,962	3,962	-
Unemployment compensation	26	7	7	-
Medicare	276	219	219	-
Contracts with other school systems	76,874	79,037	79,037	-
Other contracted services	42,580	42,666	42,666	-
Instructional supplies	<u>3,516</u>	<u>1,985</u>	<u>1,985</u>	-
Total special education	<u>149,137</u>	<u>149,800</u>	<u>149,800</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, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Over (Under)</u>
EXPENDITURES (Cont.)				
Instruction (Cont.):				
Vocational education:				
Travel	750	732	732	-
Instructional supplies and materials	3,000	2,945	2,946	1
Other charges	400	-	-	-
Equipment	4,000	4,073	4,072	(1)
Total vocational education	<u>8,150</u>	<u>7,750</u>	<u>7,750</u>	<u>-</u>
Total instruction	<u>397,838</u>	<u>392,207</u>	<u>392,207</u>	<u>-</u>
Support services:				
Other student support:				
Assessment personnel	55,000	55,944	55,944	-
Other salaries and wages	1,700	1,700	1,700	-
Social security	3,515	3,515	3,516	1
State retirement	5,041	5,119	5,119	-
Unemployment compensation	12	11	11	-
Employer medicare liability	823	823	822	(1)
Communication	300	-	-	-
Maintenance and repair	1,500	-	-	-
Travel	4,333	2,457	2,457	-
Other contracted services	25,000	13,000	13,000	-
Other charges	5,878	5,661	5,661	-
Total other student support	<u>103,102</u>	<u>88,230</u>	<u>88,230</u>	<u>-</u>
Regular instruction:				
Supervisor/director	18,000	18,000	18,000	-
Clerical personnel	5,000	5,000	5,000	-
Other salaries and wages	10,000	9,293	9,293	-
Social security	2,150	2,475	2,475	-
State retirement	3,020	3,398	3,398	-
Medical insurance	1,123	1,123	1,123	-
Unemployment compensation	60	63	63	-
Medicare	563	667	667	-
Communications	250	250	250	-
Consultants	7,500	-	-	-
Maintenance and repair	1,500	-	-	-
Postal charges	100	100	100	-
Travel	8,882	7,928	7,769	(159)
Other contracted services	6,995	6,995	6,995	-
Other supplies and materials	1,500	3,473	3,473	-
In-service-staff development	8,000	7,666	4,764	(2,902)
Other equipment	2,500	-	-	-
Total regular instruction	<u>77,143</u>	<u>66,431</u>	<u>63,370</u>	<u>(3,061)</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, 2014**

	Original Budget	Final Budget	Actual	Variance- Over (Under)
EXPENDITURES (Cont.)				
Support services (cont.):				
Special education program:				
Travel	1,000	824	824	-
Other contracted services	4,000	4,176	4,176	-
Total special education	5,000	5,000	5,000	-
Vocational education:				
Travel	400	400	400	-
Transportation:				
Travel	2,125	2,125	2,125	-
Total support services	187,770	162,186	159,125	(3,061)
Total expenditures	585,608	554,393	551,332	(3,061)
Revenues over expenditures	9,000	9,000	9,041	41
OTHER FINANCING SOURCES (USES)				
Indirect costs	(9,000)	(9,000)	(9,000)	-
Net change in fund balance	\$ -	\$ -	41	\$ 41
Fund balance - July 1, 2013			-	
Fund balance - June 30, 2014			\$ 41	

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

HOLLOW ROCK–BRUCETON SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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 (GASB), these financial statements present all funds which comprise the District. After considering the criteria established by GASB, the District has determined that there are no component units that should be included in its 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.

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.

HOLLOW ROCK–BRUCETON SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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, 2014, 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 \$129,165 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".

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.

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

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

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

June 30, 2014

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 \$10,000 (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

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.

Impact of recently issued accounting pronouncements

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 were effective for financial statements for periods beginning after December 15, 2011.

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 has implemented this pronouncement for the year ended June 30, 2014, which resulted in a restatement of beginning net position for \$43,847 of unamortized debt issuance costs now required to be expensed. Additionally, unavailable revenue from property taxes previously reported as a liability is now reported as a deferred inflow of resources.

HOLLOW ROCK–BRUCETON SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

In June 2012, the GASB issued Statement 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement 25*, and Statement 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Statement 67, effective for fiscal years beginning after June 15, 2013, revises existing standards of financial reporting by state and local government pension plans and will be adopted by the pension plan itself. Statement 68 will affect the governments that participate as employers in these plans and is effective for fiscal years beginning after June 15, 2014. For governments to adopt Statement 68, the underlying pension plans must first adopt Statement 67. These statements establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement – determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. Statement 68 details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. The objective of Statement 68 is to improve accounting and financial reporting by state and local governments for pensions. These pension standards include significant changes to how governmental employers will report liabilities related to pension obligations. Management is currently evaluating the impact that the adoption of Statement 68 will have on the District's financial statements.

Deferred Inflows of Resources

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District currently has one item that qualifies for reporting in this category. Property taxes reported as receivables in the statements of financial position before the period for which they were levied are deferred and recognized as an inflow of resources in the period that the amounts become available. This item is reported as unavailable revenue in both the governmental funds balance sheet and the statement of net position.

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 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 that were previously reported as deferred charges and amortized over the term of the related debt have been expensed through a prior period adjustment as the result of adopting GASB 65.

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.

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

June 30, 2014

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. 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, 2014, the District has restricted, assigned and unassigned spendable 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

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	\$ 3,110,000
Less: Issuance discount (being amortized as interest expense)	<u>(19,530)</u>
	<u>\$ 3,090,470</u>

There is also a reconciliation between the net change in governmental fund balances and the change in net position of governmental activities. One element of this reconciliation 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 depreciation exceeded capital outlay in the current year.” The details of this \$119,179 difference are as follows:

Capital outlay expenditures	\$ 40,120
Depreciation expense	<u>(159,299)</u>
	<u>\$ (119,179)</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

HOLLOW ROCK–BRUCETON SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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. As of June 30, 2014, 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 position. No allowance for uncollectible receivables was recorded as of June 30, 2014. 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, 2014, 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	6,001,927	40,120	-	6,042,047
Other capital assets	151,710	-	-	151,710
Total capital assets being depreciated	<u>6,153,637</u>	<u>40,120</u>	<u>-</u>	<u>6,193,757</u>
Less accumulated depreciation for:				
Buildings	2,855,867	136,643	-	2,992,510
Other capital assets	53,704	22,656	-	76,360
Total accumulated depreciation	<u>2,909,571</u>	<u>159,299</u>	<u>-</u>	<u>3,068,870</u>
Total capital assets being depreciated, net	<u>3,244,066</u>	<u>(119,179)</u>	<u>-</u>	<u>3,124,887</u>
Governmental activities capital assets, net	<u>\$ 3,338,066</u>	<u>\$ (119,179)</u>	<u>\$ -</u>	<u>\$ 3,218,887</u>

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

June 30, 2014

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

Instruction	\$ 14,014
Food service	2,307
Depreciation - unallocated	<u>142,978</u>
Total depreciation expense - governmental activities	<u>\$ 159,299</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, 2014, was \$3,110,000.

The annual requirements to amortize the bonds as of June 30, 2014, are as follows:

Years Ending June 30,	Series 2009 Bonds		Total
	Principal	Interest	
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	305,000	73,815	378,815
2020 - 2024	<u>1,690,000</u>	<u>205,791</u>	<u>1,895,791</u>
	<u>\$3,110,000</u>	<u>\$ 639,391</u>	<u>\$ 3,749,391</u>

The following is a summary of long-term debt transactions for the year ended June 30, 2014:

	Beginning Balance	Additions	Retirements	Ending Balance	Due in One Year
Governmental activities:					
Refunding bonds, Series 2009	\$ 3,370,000	\$ -	\$ (260,000)	\$ 3,110,000	\$ 270,000
Less deferred bond discount	<u>(21,700)</u>	<u>-</u>	<u>2,170</u>	<u>(19,530)</u>	n/a
Net long-term debt	<u>\$ 3,348,300</u>	<u>\$ -</u>	<u>\$ (257,830)</u>	<u>\$ 3,090,470</u>	<u>\$ 270,000</u>

E. Transfers and Interfund Balances

The following interfund transfers were made during the year ended June 30, 2014:

Transfer From	Transfer To General Fund
Federal Projects Fund	\$ 9,000
Centralized Cafeteria Fund	<u>26,375</u>
Total transfers	<u>\$ 35,375</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, 2014

There was \$3,020 due from the Federal Projects Fund to the General Fund as of June 30, 2014, for grant expenses paid by the General Fund in anticipation of grant funds to be received by the Federal Projects Fund.

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 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, 2014, 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, 2014, Hollow Rock–Bruceton Special School District's annual pension cost of \$32,353 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

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

June 30, 2014

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, 2013, which established contribution rates effective July 1, 2014.

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/14	\$32,353	100.00%	\$0
6/30/13	\$29,353	100.00%	\$0
6/30/12	\$29,421	100.00%	\$0

Funded Status and Funding Progress - As of July 1, 2013, the most recent actuarial valuation date, the plan was 94.42% percent funded. The actuarial accrued liability for benefits was \$803 thousand, and the actuarial value of assets was \$758 thousand, resulting in an unfunded actuarial accrued liability (UAAL) of \$45 thousand. The covered payroll (annual payroll of active employees covered by the plan) was \$333 thousand, and the ratio of the UAAL to the covered payroll was 13.44% 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
7/01/13	\$758	\$803	\$45	94.42%	\$333	13.44%

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. 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

HOLLOW ROCK–BRUCETON SPECIAL SCHOOL DISTRICT NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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, 2014, 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, 2014, 2013, and 2012 were \$224,255, \$224,997 and \$226,504, 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.

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, 2014, the State made contributions of \$36,174 to the Teacher Group Plan and \$6,816 to the Medicare Plan.

HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS
For the Year Ended June 30, 2014

(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, 2013	\$758	\$803	\$45	94.42%	\$333	13.44%
July 1, 2011	\$641	\$735	\$95	87.13%	\$336	28.21%
July 1, 2009	\$480	\$482	\$1	99.70%	\$284	0.51%

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, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
REVENUES				
Other local revenues:				
Property taxes	\$ 210,799	\$ 210,799	\$ 203,947	\$ (6,852)
Interest earned	<u>1,201</u>	<u>1,351</u>	<u>283</u>	<u>(1,068)</u>
Total revenues	<u>212,000</u>	<u>212,150</u>	<u>204,230</u>	<u>(7,920)</u>
EXPENDITURES				
Current expenditures:				
Noninstructional services				
Education debt service:				
Principal on bonds	80,000	80,000	87,501	7,501
Interest on bonds	131,767	131,767	124,266	(7,501)
Other charges	<u>200</u>	<u>350</u>	<u>350</u>	<u>-</u>
Total expenditures	<u>211,967</u>	<u>212,117</u>	<u>212,117</u>	<u>-</u>
Revenues over expenditures	<u>\$ 33</u>	<u>\$ 33</u>	<u>(7,887)</u>	<u>\$ (7,920)</u>
Fund balance - July 1, 2013			<u>184,635</u>	
Fund balance - June 30, 2014			<u>\$ 176,748</u>	

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, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
REVENUES				
Charges for current services:				
Lunch payments - children	\$ 69,000	\$ 69,000	\$ 44,528	\$ (24,472)
Income from breakfast	500	500	595	95
Special milk sales	375	375	104	(271)
A la carte sales	6,700	6,700	4,454	(2,246)
Other charges for services	<u>-</u>	<u>-</u>	<u>495</u>	<u>495</u>
Total charges for current services	<u>76,575</u>	<u>76,575</u>	<u>50,176</u>	<u>(26,399)</u>
Other local revenues:				
Other local revenues	126	126	-	(126)
Interest earned	<u>800</u>	<u>800</u>	<u>505</u>	<u>(295)</u>
Total other local revenues	<u>926</u>	<u>926</u>	<u>505</u>	<u>(421)</u>
State education funds:				
School food services	<u>4,000</u>	<u>4,000</u>	<u>3,534</u>	<u>(466)</u>
Federal through State:				
USDA - lunch	198,000	198,000	188,870	(9,130)
USDA - breakfast	<u>110,000</u>	<u>110,000</u>	<u>105,279</u>	<u>(4,721)</u>
Total Federal through State	<u>308,000</u>	<u>308,000</u>	<u>294,149</u>	<u>(13,851)</u>
Total revenues	<u>389,501</u>	<u>389,501</u>	<u>348,364</u>	<u>(41,137)</u>
EXPENDITURES				
Current expenditures:				
Food services:				
Cafeteria personnel	96,500	96,500	94,037	(2,463)
Other salaries and wages	4,500	2,500	-	(2,500)
Social security	6,262	6,262	5,791	(471)
State retirement	8,414	8,414	7,814	(600)
Medicare liability	88	88	71	(17)
Unemployment compensation	1,465	1,465	1,346	(119)
Communication	150	150	108	(42)
Maintenance and repair - equipment	3,000	3,000	2,278	(722)
Postal charges	46	46	-	(46)
Travel	1,000	1,000	923	(77)

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, 2014**

	Original Budget	Final Budget	Actual	Variance Over (Under)
EXPENDITURES (Cont.)				
Current expenditures (cont.):				
Food services (cont.):				
Other contracted services	2,500	4,000	4,000	-
Food supplies	216,000	210,900	172,057	(38,843)
Office supplies	1,000	4,600	3,875	(725)
Uniforms	700	900	815	(85)
Utilities	-	1,800	1,786	(14)
Other supplies and materials	14,000	14,000	5,303	(8,697)
Workers compensation	1,500	1,500	1,500	-
Other charges	2,000	2,000	2,496	496
Equipment	4,000	4,000	-	(4,000)
Total expenditures	363,125	363,125	304,200	(58,925)
 Revenues over expenditures	 26,376	 26,376	 44,164	 17,788
 OTHER FINANCING SOURCES (USES)				
Indirect costs	(26,375)	(26,375)	(26,375)	-
 Net change in fund balance	 \$ 1	 \$ 1	 17,789	 \$ 17,788
 Fund balance - July 1, 2013			161,350	
Decrease in inventory			(2,251)	
 Fund balance - June 30, 2014			 \$ 176,888	
 Reconciliation to governmental fund financial statements:				
Revenues per budget statement (page 36)		\$ 348,364		
Non-cash revenue not included in budget statement:				
Commodities received		16,602		
Revenues per governmental statement of revenues, expenditures and change in fund balance (page 9)		\$ 364,966		
 Expenditures per budget statement (above)		\$ 304,200		
Non-cash expenditure not included in budget statement:				
Commodities used		16,602		
Expenditures per governmental statement of revenues, expenditures and change in fund balance (page 9)		\$ 320,802		

See independent auditor's report

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

June 30, 2014

Year Ended <u>June 30,</u>	Bonds Payable Series 2009	
	Principal	Interest
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
	\$ 3,110,000	\$ 639,391

See independent auditor's report

HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
SCHEDULE OF SALARIES AND BONDS
June 30, 2014

	<u>Salary</u>	<u>Bond</u>	
Director of Schools	<u>\$78,876</u>	<u>\$180,000</u>	*

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

See independent auditor's report

HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

Federal Grantor/ Pass-through Grantor/ Program	Federal CFDA Number	Expenditures/ Amount Earned/ Amount Issued
U.S. DEPARTMENT OF EDUCATION/ Pass-through the Tennessee Department of Education/ Special Education Grants to States		
IDEA Program, Part B	84.027	\$ 144,156
IDEA Program, Preschool	84.173	<u>16,769</u>
Total Special Education Grants to States Cluster		160,925
Title I, Grants to Local Education Agencies	84.010A	174,724
Career and Technical Education - Basic Grants to States	84.048	16,144
Title VI, Part B, Subpart 2 - Rural and Low-Income School Program	84.358	12,592
Improving Teacher Quality State Grants	84.367A	21,153
Teacher Incentive Fund Grant	84.374A	99,864
Teacher Incentive Fund Grant	84.374A	<u>74,929</u>
		174,793
Total Department of Education		<u>560,331</u>
U.S. DEPARTMENT OF AGRICULTURE/ Pass-through the Tennessee Department of Agriculture/ School Breakfast Program		
National School Lunch Program	10.553	105,279 *
Food Distribution - Commodities	10.555	188,870 *
Food Distribution - Commodities	10.555	<u>16,602 *</u>
Total Department of Agriculture		<u>310,751</u>
Total federal awards		<u><u>\$ 871,082</u></u>

* major program

Note - The above schedule 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, 2014

Grantor/ Program	<u>Expenditures</u>
Tennessee Department of Education/ Early Childhood - Lottery	\$ 105,659
Tennessee Energy Efficient Schools Council Energy Efficient Schools Initiative	<u>7,000</u>
Total State Awards	<u>\$ 112,659</u>

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

See independent auditor's report

INTERNAL CONTROL AND COMPLIANCE SECTION

Members of:

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AICPA Governmental Audit Quality Center
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INDEPENDENT AUDITOR'S REPORT

Board of Education
Hollow Rock–Bruceeton Special School District
Bruceeton, 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–Bruceeton Special School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 5, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hollow Rock–Bruceeton 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–Bruceeton 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as Item 2014-001, that we consider to be significant deficiencies.

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*.

We noted certain matters that we reported to the management of Hollow Rock–Bruceton Special School District in a separate letter dated January 5, 2015.

Hollow Rock–Bruceton Special School District's Response to Findings

The Hollow Rock–Bruceton Special School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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
January 5, 2015

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INDEPENDENT AUDITOR'S REPORT

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

Report on Compliance for Each Major Federal Program

We have audited Hollow Rock–Bruceeton 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, 2014. Hollow Rock–Bruceeton 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–Bruceeton 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–Bruceeton Special School District's compliance.

Opinion on Each Major Federal Program

In our opinion Hollow Rock–Bruceeton 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, 2014.

Report on Internal Control Over Compliance

Management of Hollow Rock–Bruceeton 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

January 5, 2015

**HOLLOW ROCK-BRUCETON SPECIAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2014**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unmodified

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: unmodified

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, 2014

Section II – Financial Statement Findings

2014-001 Improper Journal Entries

Condition: The District's books contain several journal entries posted directly to fund balance, rather than through the appropriate income and expense accounts. As a result, the auditors are required to make adjustments to reclassify these entries to the proper accounts. Entries totaling \$58,391 were required for the year ended June 30, 2014. The prior year had a \$50,000 entry and a \$78,780 entry posted directly to equity. The year ended June 30, 2012, required corrections to equity of \$88,843.

Criteria: Generally accepted accounting principles for governmental units as prescribed by the Governmental Accounting Standards Board state that, as a rule, all activity that results in increases and decreases in net position should be reported in the statement of activities and statement of revenues, expenditures and changes in fund balances. Only changes in accounting principles, prior period adjustments and corrections of errors in previously issued financial statements require posting entries directly to net position/fund balance.

Effect: The District has made entries that require audit adjustments after year end to correct equity accounts.

Recommendation: The District should refrain from posting entries directly to equity that require reclassification by auditors to correct equity for the yearend financial statements.

Response: *We will make every effort to correct any errors.*

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, 2014

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

There were no prior year financial statement findings.