

**HOLLOW ROCK-BRUCETON
SPECIAL SCHOOL DISTRICT**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

FISCAL YEAR ENDED JUNE 30, 2015

**HOLLOW ROCK–BRUCETON SPECIAL SCHOOL DISTRICT
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JUNE 30, 2015**

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INTRODUCTORY SECTION

HOLLOW ROCK–BRUCETON SPECIAL SCHOOL DISTRICT
LIST OF PRINCIPAL OFFICIALS
June 30, 2015

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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Certified Public Accountants
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304 North Lindell
Martin, TN 38237

Phone 731.587.5145
Fax 731.587.1952
www.atacpa.net

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, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hollow Rock–Bruceton Special School District as of June 30, 2015, 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2015 the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedules relating to pensions on pages 42 through 46 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 11, 2016, 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 11, 2016

BASIC FINANCIAL STATEMENTS

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

June 30, 2015

ASSETS

Cash	\$ 3,605,053
Taxes receivable	620,061
Due from other governmental agencies	148,730
Inventory	1,200
Net pension asset	43,378
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>(3,229,378)</u>
Total assets	<u>7,476,801</u>

DEFERRED OUTFLOWS OF RESOURCES

Pension contributions subsequent to the measurement date	251,487
Pension - difference between expected and actual experience	<u>30,050</u>
Total deferred outflows of resources	<u>281,537</u>

LIABILITIES

Accrued expenses	317,654
Long-term liabilities:	
Due within one year	270,000
Due in more than one year	<u>2,552,640</u>
Total liabilities	<u>3,140,294</u>

DEFERRED INFLOWS OF RESOURCES

Unavailable revenue - property taxes	620,061
Pension - net difference between projected and actual earnings of pension plan investments	916,508
Pension- changes in proportion of net pension asset	<u>13,587</u>
Total deferred inflows of resources	<u>1,550,156</u>

NET POSITION

Net investment in capital assets	235,739
Restricted for	
Net pension asset	43,378
Federal Projects	(1,231)
Scholarships	124,393
Cafeteria	173,851
Unrestricted	<u>2,491,758</u>
Total net position	<u>\$ 3,067,888</u>

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

HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
DISTRICT-WIDE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

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	\$ 2,416,400	\$ -	\$ 259,062	\$ -	\$ (2,157,338)
Alternate education	-	-	-	-	-
Special education	423,242	-	366,528	-	(56,714)
Vocational education	94,957	-	9,500	-	(85,457)
Adult education	-	-	-	-	-
Support Services:					
Student support	351,454	-	-	-	(351,454)
Instructional staff	272,641	-	-	-	(272,641)
General administration	202,646	-	-	-	(202,646)
School administration	163,869	-	-	-	(163,869)
Business administration	51,805	-	-	-	(51,805)
Operation and maintenance of plant	402,760	-	-	-	(402,760)
Student transportation	4,250	-	-	-	(4,250)
Central and other	4,000	-	-	-	(4,000)
Noninstructional Services					
Food service	400,585	16,360	389,158	-	4,933
Early Childhood Education	98,291	-	103,518	-	5,227
Capital outlay	54,380	-	-	-	(54,380)
Debt service	116,816	-	-	-	(116,816)
Pension expense - implementation of GASB No. 68 & 71	2,631	-	-	-	(2,631)
Depreciation - unallocated	160,508	-	-	-	(160,508)
Total District	\$ 5,221,235	\$ 16,360	\$ 1,127,766	\$ -	(4,077,109)

General Revenues:

Local taxes	376,656
Property taxes	671,650
Intergovernmental:	
Basic Education Program	3,417,000
Other	38,019
Pension income - implementation of GASB No. 68 & 71	11,231
Interest	20,619
Other miscellaneous revenues	7,557
Total general revenues	4,542,732

Change in net position **465,623**

Net position, beginning	3,467,532
Restatement - GASB Statement No. 68 and 71 implementation	(865,267)
Net position, beginning - as restated	2,602,265
Net position, ending	\$ 3,067,888

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

FUND FINANCIAL STATEMENTS

HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2015

	<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	\$ 3,251,154	\$ 177,938	\$ 2,110	\$ 173,851	\$ 3,605,053
Taxes receivable	409,364	210,697	-	-	620,061
Due from other governments	127,927	4,968	15,835	-	148,730
Due from other funds	19,176	-	-	-	19,176
Inventory	-	-	-	1,200	1,200
Total assets	<u>\$ 3,807,621</u>	<u>\$ 393,603</u>	<u>\$ 17,945</u>	<u>\$ 175,051</u>	<u>\$ 4,394,220</u>
Liabilities					
Other accrued expenses	\$ 317,654	\$ -	\$ -	\$ -	\$ 317,654
Due to other funds	-	-	19,176	-	19,176
Total liabilities	<u>317,654</u>	<u>-</u>	<u>19,176</u>	<u>-</u>	<u>336,830</u>
Deferred Inflows of Resources					
Deferred revenue - taxes	<u>409,364</u>	<u>210,697</u>	<u>-</u>	<u>-</u>	<u>620,061</u>
Fund balances					
Nonspendable:					
Food service - inventory	-	-	-	1,200	1,200
Restricted:					
Federal Projects	-	-	(1,231)	-	(1,231)
Scholarships	124,393	-	-	-	124,393
Cafeteria	-	-	-	173,851	173,851
Assigned for:					
Debt service	-	182,906	-	-	182,906
Unassigned	<u>2,956,210</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,956,210</u>
Total fund balances	<u>3,080,603</u>	<u>182,906</u>	<u>(1,231)</u>	<u>175,051</u>	<u>3,437,329</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 3,807,621</u>	<u>\$ 393,603</u>	<u>\$ 17,945</u>	<u>\$ 175,051</u>	<u>\$ 4,394,220</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, 2015

Total governmental fund balances	\$ 3,437,329
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.	3,058,379
Net pension asset is not a financial resource in the current period and, therefore, are not reported an asset in governmental funds.	43,378
Deferred outflows of resources related to pensions in which the consumption of net position will occur in future periods, therefore, it is not reported in the funds	281,537
Deferred inflows of resources related to pensions in which the acquisition of net position will occur in future periods, therefore, it is not reported in the funds	(930,095)
Long-term liabilities, including bonds, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(2,822,640)</u>
Net position of governmental activities	<u><u>\$ 3,067,888</u></u>

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

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

For the Year Ended June 30, 2015

	<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	\$ 835,612	\$ 207,975	\$ -	\$ -	\$ 1,043,587
Intergovernmental	3,668,372	4,719	578,045	389,158	4,640,294
Meal sales	-	-	-	16,360	16,360
Interest earnings	19,973	280	-	366	20,619
Miscellaneous	6,708	-	-	849	7,557
Total revenues	<u>4,530,665</u>	<u>212,974</u>	<u>578,045</u>	<u>406,733</u>	<u>5,728,417</u>
EXPENDITURES					
Instruction	2,795,799	-	367,860	-	3,163,659
Support services	1,301,804	-	211,457	-	1,513,261
Food services	-	-	-	408,653	408,653
Non-instructional services	337,897	206,816	-	-	544,713
Total expenditures	<u>4,435,500</u>	<u>206,816</u>	<u>579,317</u>	<u>408,653</u>	<u>5,630,286</u>
Net change in fund balance	95,165	6,158	(1,272)	(1,920)	98,131
Fund balance - July 1, 2014	2,985,438	176,748	41	176,888	3,339,115
Increase in inventory	-	-	-	83	83
Fund balance - June 30, 2015	<u>\$ 3,080,603</u>	<u>\$ 182,906</u>	<u>\$ (1,231)</u>	<u>\$ 175,051</u>	<u>\$ 3,437,329</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, 2015

Net change in fund balances - total governmental funds	\$	98,131
<p>The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This is the amount of principal repaid during the current year.</p>		
		270,000
<p>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.</p>		
		(2,170)
<p>The increase (decrease) in inventory is reported as a direct change to beginning fund balance. However, in the statement of activities this change is reported in expense based on the consumption method.</p>		
		83
<p>The payment of pension contributions consumes current financial resources in the governmental funds. These transactions do not have any effect on the net position, but are considered deferred outflows of resources.</p>		
		251,487
<p>The actuarially determined pension revenue (expense) does not consume (acquire) current financial resources and, therefore, is not reported in the governmental funds. It is reported as revenue (expense) in the statement of activities.</p>		
		8,600
<p>Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay during the current period.</p>		
		<u>(160,508)</u>
Change in net position of governmental activities	\$	<u>465,623</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, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
REVENUES				
Taxes:				
Local option sales tax	\$ 315,000	\$ 315,000	\$ 376,253	\$ 61,253
Interstate telecommunications tax	725	725	403	(322)
City/Special School District:				
Current property tax	365,000	365,000	384,376	19,376
Prior year's property tax	19,500	19,500	61,083	41,583
Interest and penalty	2,000	2,000	4,329	2,329
Payment in lieu of taxes	9,000	9,000	9,168	168
Total taxes	<u>711,225</u>	<u>711,225</u>	<u>835,612</u>	<u>124,387</u>
Intergovernmental:				
Licenses and permits:				
Marriage licenses	400	400	233	(167)
State revenues:				
State education funds:				
Basic Education Program	3,417,000	3,417,000	3,417,000	-
Other state education funds	108,518	108,518	156,566	48,048
Career Ladder	21,734	21,734	21,741	7
Career Ladder - extended contract	14,000	14,000	14,770	770
Total state education revenue	<u>3,561,252</u>	<u>3,561,252</u>	<u>3,610,077</u>	<u>48,825</u>
Other state revenues:				
Mixed drink tax	250	250	233	(17)
Other state grants	44,426	44,426	1,042	(43,384)
Total other state revenue	<u>44,676</u>	<u>44,676</u>	<u>1,275</u>	<u>(43,401)</u>
Total state revenues	3,605,928	3,605,928	3,611,352	5,424
Federal revenues:				
Special education grants to states	-	-	2,097	2,097
Other federal through state	-	-	1,900	1,900
Total federal revenue	<u>-</u>	<u>-</u>	<u>3,997</u>	<u>3,997</u>
Total intergovernmental	<u>3,606,328</u>	<u>3,606,328</u>	<u>3,615,582</u>	<u>9,254</u>
Miscellaneous:				
Other local revenues:				
Interest earned	16,000	16,000	19,973	3,973
E-rate funding	600	600	855	255
Miscellaneous refunds	-	-	1,414	1,414
Sale of equipment	-	-	410	410
Damages recovered from individuals	-	-	326	326
Contributions	2,000	2,000	-	(2,000)
Other local revenues	4,600	4,600	3,703	(897)
Total other local revenues	<u>23,200</u>	<u>23,200</u>	<u>26,681</u>	<u>3,481</u>
Total revenues	<u>4,340,753</u>	<u>4,340,753</u>	<u>4,477,875</u>	<u>137,122</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, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
EXPENDITURES				
Instruction:				
Regular education:				
Teachers	1,634,008	1,571,905	1,563,362	(8,543)
Career ladder program	9,625	9,111	9,110	(1)
Career ladder - extended contract	14,000	14,982	14,982	-
Homebound teachers	500	1,036	1,035	(1)
Teacher assistants	56,586	46,086	45,076	(1,010)
Bonus payments	-	-	36,500	36,500
Temporary/part-time personnel	-	36,500	-	(36,500)
Other salaries and wages	3,600	21,932	21,931	(1)
Non-certified substitute teachers	25,000	13,060	13,055	(5)
Social security	108,086	90,486	90,422	(64)
State retirement	153,694	144,685	143,377	(1,308)
Medical insurance	120,000	159,746	131,037	(28,709)
Unemployment compensation	400	277	(35)	(312)
Medicare	25,278	22,340	22,179	(161)
Maintenance and repair - equipment	6,000	6,700	5,570	(1,130)
Other contracted services	29,000	27,000	51,333	24,333
Instructional supplies/materials	61,650	83,150	66,111	(17,039)
Textbooks	55,000	94,000	71,065	(22,935)
Fee waivers	500	-	-	-
Other charges	4,700	9,808	8,667	(1,141)
Equipment	52,204	66,479	55,196	(11,283)
Total regular education	<u>2,359,831</u>	<u>2,419,283</u>	<u>2,349,973</u>	<u>(69,310)</u>
Special education:				
Teachers	165,637	165,637	165,637	-
Career Ladder program	2,000	2,000	2,000	-
Teacher assistants	35,063	35,068	35,068	-
Non-certified substitute teacher	1,500	1,250	1,242	(8)
Social security	11,340	11,145	11,050	(95)
State retirement	18,131	18,132	18,132	-
Medical insurance	21,303	20,342	20,342	-
Unemployment compensation	60	64	62	(2)
Medicare	2,935	2,585	2,584	(1)
Contracts with other school systems	16,534	16,534	16,534	-
Maintenance and repair - equipment	500	-	-	-
Travel	-	16,153	16,153	-
Other contracted services	1,500	1,500	754	(746)
Instructional supplies/materials	2,600	2,600	2,600	-
Total special education	<u>279,103</u>	<u>293,010</u>	<u>292,158</u>	<u>(852)</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, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
EXPENDITURES (Cont.)				
Instruction (Cont.):				
Vocational education:				
Teachers	78,216	74,066	73,478	(588)
Non-certified substitute teachers	800	730	730	-
Social security	4,403	3,703	3,700	(3)
State retirement	7,071	6,571	6,502	(69)
Medical insurance	8,001	9,838	9,837	(1)
Unemployment compensation	21	29	29	-
Medicare	1,030	880	865	(15)
Maintenance and repair - equipment	1,000	153	152	(1)
Instructional supplies	3,800	4,750	4,750	-
Other charges	500	750	385	(365)
Equipment	500	450	450	(900)
Total vocational education	<u>105,342</u>	<u>101,920</u>	<u>100,878</u>	<u>(1,942)</u>
Total instruction	<u>2,744,276</u>	<u>2,814,213</u>	<u>2,743,009</u>	<u>(72,104)</u>
Support services:				
Student support:				
Attendance:				
Director	61,940	62,340	62,340	-
Temporary/part-time personnel	-	1,400	1,400	-
Social security	3,510	3,525	3,524	(1)
State retirement	5,599	5,763	5,762	(1)
Medical insurance	5,311	5,418	5,418	-
Unemployment compensation	10	10	10	-
Medicare	821	824	824	-
Travel	500	827	827	-
Other supplies and materials	200	200	200	-
Other charges	200	200	200	-
Total attendance	<u>78,091</u>	<u>80,507</u>	<u>80,505</u>	<u>(2)</u>
Health services:				
Medical personnel	28,000	27,112	27,112	-
Social security	1,711	1,496	1,495	(1)
State retirement	2,377	2,378	2,377	(1)
Medical insurance	400	134	133	(1)
Unemployment compensation	10	10	9	(1)
Medicare	400	350	350	-
Travel	100	-	-	-
Drugs and medical supplies	200	200	200	-
Other supplies/materials	200	200	200	-
Other charges	800	1,108	917	(191)
Total health services	<u>34,198</u>	<u>32,988</u>	<u>32,793</u>	<u>(195)</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, 2015

	<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	99,204	95,624	95,623	(1)
Career Ladder extended program	-	1,102	1,102	-
Social security	5,515	5,285	5,120	(165)
State retirement	9,149	9,459	9,248	(211)
Medical insurance	12,256	13,556	13,456	(100)
Unemployment compensation	21	21	17	(4)
Medicare	1,289	1,232	1,197	(35)
Evaluation/testing	4,200	4,500	4,384	(116)
Maintenance and repair	2,000	440	438	(2)
Other supplies/materials	2,000	2,000	2,000	-
Other charges	25,500	1,300	1,214	(86)
Total other student support	<u>163,134</u>	<u>136,519</u>	<u>135,799</u>	<u>(720)</u>
Total student support	<u>275,423</u>	<u>250,014</u>	<u>249,097</u>	<u>(917)</u>
Instructional staff:				
Regular education:				
Director	40,482	38,762	38,758	(4)
Career Ladder program	2,000	1,500	1,250	(250)
Librarian(s)	48,485	45,580	45,580	-
Instructional computer personnel	23,756	23,756	23,756	-
Secretary	-	17,286	17,285	(1)
Clerical personnel	16,288	-	-	-
Aides	22,850	21,400	21,393	(7)
Other salaries and wages	-	874	874	-
In-service/staff development	-	-	-	-
Social security	9,223	9,223	8,913	(310)
State retirement	13,563	13,563	13,130	(433)
Medical insurance	5,100	550	547	(3)
Unemployment compensation	20	26	(136)	(162)
Medicare	2,128	2,578	2,520	(58)
Maintenance and repair	4,000	270	(253)	(523)
Travel	2,000	1,108	1,108	-
Library books	6,000	6,178	6,178	-
Periodicals	2,000	1,822	1,822	-
Other charges	3,500	3,891	3,890	(1)
Total regular education	<u>201,395</u>	<u>188,367</u>	<u>186,615</u>	<u>(1,752)</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, 2015

	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	2,100	2,100	2,100	-
Clerical personnel	2,500	2,500	2,500	-
Social security	527	387	387	-
State retirement	743	565	565	-
Medical insurance	202	-	-	-
Medicare	123	91	90	(1)
Travel	750	760	760	-
Total special education	10,845	10,303	10,302	(1)
Vocational education:				
Director	2,000	2,000	2,000	-
Clerical personnel	1,500	1,500	1,500	-
Social security	211	211	211	-
State retirement	308	309	308	(1)
Medical insurance	95	-	-	-
Unemployment compensation	1	-	-	-
Medicare	51	51	49	(2)
Travel	550	276	275	(1)
Total vocational education	4,716	4,347	4,343	(4)
Total instructional staff	216,956	203,017	201,260	(1,757)
General administration:				
Board of Education services:				
Audit services	11,500	11,500	11,500	-
Dues and memberships	2,452	4,184	4,184	-
Legal services	500	200	100	(100)
Travel	6,000	6,125	6,095	(30)
Liability insurance	9,300	17,094	17,094	-
Premium on surety bond	630	630	630	-
Trustee commissions	11,000	11,850	11,226	(624)
Workmen's compensation insurance	13,000	26,856	26,856	-
Other charges	4,000	6,200	6,158	(42)
Total Board of Education services	58,382	84,639	83,843	(796)

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, 2015

	Original Budget	Final Budget	Actual	Variance Over (Under)
EXPENDITURES (Cont.)				
Support services (cont.):				
Office of the Superintendent:				
County official/administrative officer	79,296	79,697	79,696	(1)
Career Ladder program	1,000	1,000	1,000	-
Secretary(s)	18,580	18,580	18,580	-
Social security	5,659	5,915	5,915	-
State retirement	8,840	9,051	9,051	-
Medical insurance	7,600	3,547	3,413	(134)
Unemployment compensation	19	19	19	-
Medicare	1,324	1,384	1,383	(1)
Communication	500	-	-	-
Dues and memberships	914	941	941	-
Maintenance and repair	300	-	-	-
Postal charges	1,500	37	37	-
Travel	2,600	4,100	3,943	(157)
Office supplies	2,600	2,476	2,472	(4)
Other charges	500	1,500	1,404	(96)
Total Office of the Superintendent	131,232	128,247	127,854	(393)
Total general administration	189,614	212,886	211,697	(1,189)
School administration:				
Office of the Principal:				
Principals	112,994	110,794	110,484	(310)
Career Ladder program	2,000	2,000	2,000	-
Assistant principals	720	720	720	-
Secretary(s)	16,288	16,288	15,540	(748)
Temporary/part-time personnel	-	2,200	2,200	-
Social security	7,647	7,052	7,048	(4)
State retirement	11,843	12,116	12,116	-
Medical insurance	11,551	12,311	12,308	(3)
Unemployment compensation	30	30	29	(1)
Medicare	1,799	1,549	1,547	(2)
Communication	4,500	1,800	1,786	(14)
Dues and memberships	960	960	-	(960)
Maintenance and repair	1,500	1,000	990	(10)
Postal charges	1,200	1,015	1,014	(1)
Travel	450	450	417	(33)
Other contracted services	6,000	5,657	5,657	-
Office supplies	3,500	3,903	3,877	(26)
Other charges	1,500	1,220	1,211	(9)
Total school administration	184,482	181,065	178,944	(2,121)

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, 2015

	<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	34,848	34,848	34,848	-
Social security	2,299	2,056	2,056	-
State retirement	2,959	2,959	2,959	-
Medical insurance	3,422	2,472	2,469	(3)
Unemployment compensation	10	10	5	(5)
Medicare	468	481	481	-
Travel	1,800	1,450	1,285	(165)
Other contracted services	5,602	5,602	5,602	-
Office supplies	1,500	1,500	1,500	-
Other charges	600	600	600	-
Total business administration	<u>53,508</u>	<u>51,978</u>	<u>51,805</u>	<u>(173)</u>
Operation and maintenance of plant:				
Operation of plant:				
Supervisor/director	26,650	26,920	26,920	-
Custodial personnel	-	5,730	5,467	(263)
Social security	1,652	2,008	2,008	-
State retirement	2,263	2,288	2,286	(2)
Unemployment compensation	10	18	17	(1)
Medicare	386	471	470	(1)
Other contracted services	148,323	93,074	92,714	(360)
Electricity	95,000	81,100	81,076	(24)
Natural gas	30,000	17,600	17,565	(35)
Water and sewer	29,000	19,058	19,054	(4)
Other supplies and materials	16,000	29,500	29,465	(35)
Building and contents insurance	28,000	43,385	43,385	-
Other charges	1,000	1,000	804	(196)
Total operation of plant	<u>378,284</u>	<u>322,152</u>	<u>321,231</u>	<u>(921)</u>
Maintenance of plant:				
Maintenance and repair	10,000	35,700	34,995	(705)
Other contracted services	7,900	28,200	27,783	(417)
Maintenance equipment	500	19,725	18,867	(858)
Total maintenance of plant	<u>18,400</u>	<u>83,625</u>	<u>81,645</u>	<u>(1,980)</u>
Total operation and maintenance of plant	<u>396,684</u>	<u>405,777</u>	<u>402,876</u>	<u>(2,901)</u>
Student transportation:				
Contracts with other school systems	2,125	2,125	2,125	-
Total student transportation	<u>2,125</u>	<u>2,125</u>	<u>2,125</u>	<u>-</u>

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

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

For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Variance Over (Under)
EXPENDITURES (Cont.)				
Support services (cont.):				
Central and Other				
Other charges	3,000	4,000	4,000	-
Total support services	1,321,792	1,310,862	1,301,804	(9,058)
Non-instructional services:				
Early childhood education:				
Director	2,012	2,012	2,012	-
Principals	4,030	4,030	4,030	-
Teachers	41,035	41,035	41,035	-
Guidance personnel	3,580	3,580	3,580	-
Librarians	3,413	3,413	3,413	-
Medical personnel	888	888	888	-
Aides	12,071	12,071	12,071	-
Non-certified substitute teachers	1,000	1,000	1,000	-
Social security	4,280	4,280	4,280	-
State retirement	4,916	5,226	5,226	-
Medical insurance	7,413	7,413	7,413	-
Unemployment compensation	25	31	31	-
Medicare	1,001	1,001	1,001	-
Communication	600	492	492	-
Postal charges	49	98	98	-
Travel	350	53	53	-
Natural gas	900	900	900	-
Water and sewer	800	800	800	-
Electricity	2,800	2,800	2,800	-
Instructional supplies	400	740	739	(1)
Other supplies and materials	1,305	1,305	1,305	-
Workers compensation insurance	400	400	400	-
In-service/staff development	300	-	-	-
Other contracted services	8,150	8,150	8,150	-
Custodial supplies	800	800	800	-
Building improvements	1,000	1,000	1,000	-
Total early childhood education	103,518	103,518	103,517	(1)
Capital outlay:				
Building improvements	8,000	54,900	54,380	(520)
Site development	1,000	1,000	-	(1,000)
Total capital outlay	9,000	55,900	54,380	(1,520)

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, 2015

	Original Budget	Final Budget	Actual	Variance Over (Under)
EXPENDITURES (Cont.)				
Non-instructional services (cont.):				
Debt service:				
Principal on bonds	180,000	180,000	180,000	-
Total debt service	180,000	180,000	180,000	-
Total non-instructional services	292,518	339,418	337,897	(1,521)
Total expenditures	4,358,586	4,464,493	4,382,710	(82,683)
Revenues over (under) expenditures	(17,833)	(123,740)	95,165	219,805
 OTHER FINANCING SOURCES (USES)				
Operating transfers in	18,000	18,000	-	(18,000)
Net change in fund balance	\$ 167	\$ (105,740)	95,165	\$ 200,905
Fund balance - July 1, 2014			2,985,438	
Fund balance - June 30, 2015			\$ 3,080,603	

Reconciliation to governmental fund financial statements:

Revenues per budget statement (page 11)	\$ 4,477,875
Non-cash revenue not included in budget statement:	
On behalf payments for fringe benefits paid by State	52,790
Revenues per governmental statement of revenues, expenditures and change in fund balances (page 9)	\$ 4,530,665
Expenditures per budget statement (above)	\$ 4,382,710
Non-cash expenditure not included in budget statement:	
On behalf payments for fringe benefits paid by State	52,790
Expenditures per governmental statement of revenues, expenditures and change in fund balances (page 9)	\$ 4,435,500

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, 2015**

	<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	\$ 9,268	\$ 9,500	\$ 9,500	\$ -
Title I - Grants to local education agencies	173,842	177,563	177,563	-
Special education - IDEA	147,303	147,303	147,303	-
Special education - Preschool	15,671	17,038	17,038	-
Title II	20,624	20,627	20,627	-
Other federal through state	-	184,283	180,941	(3,342)
Rural Education grant	24,072	25,073	25,073	-
Total revenues	<u>390,780</u>	<u>581,387</u>	<u>578,045</u>	<u>(3,342)</u>
EXPENDITURES				
Instruction:				
Regular instruction:				
Teachers	61,000	61,000	61,000	-
Other salaries and wages	-	37,479	37,479	-
Social security	3,782	5,758	5,758	-
State retirement	5,515	8,644	8,644	-
Medical insurance	7,374	7,318	7,318	-
Unemployment compensation	50	120	120	-
Medicare	884	1,347	1,347	-
Other contracted services	-	-	41	41
Instructional supplies	38,000	38,124	38,124	-
Other supplies and materials	5,148	6,089	6,089	-
Other charges	500	450	450	-
Equipment	44,072	45,449	45,449	-
Total regular instruction	<u>166,325</u>	<u>211,778</u>	<u>211,819</u>	<u>41</u>
Special education program:				
Contracts with other school systems	82,671	84,936	84,936	-
Other contracted services	53,000	53,320	53,320	-
Instructional supplies	8,178	7,360	7,360	-
Equipment	4,000	3,600	3,600	-
Total special education	<u>147,849</u>	<u>149,216</u>	<u>149,216</u>	<u>-</u>

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

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

For the Year Ended June 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Over (Under)</u>
EXPENDITURES (Cont.)				
Instruction (Cont.):				
Vocational education:				
Instructional supplies and materials	2,704	2,925	2,925	-
Other charges	400	400	400	-
Equipment	<u>3,500</u>	<u>3,500</u>	<u>3,500</u>	-
Total vocational education	<u>6,604</u>	<u>6,825</u>	<u>6,825</u>	-
Total instruction	<u>320,778</u>	<u>367,819</u>	<u>367,860</u>	<u>41</u>
Support services:				
Other student support:				
Assessment personnel	-	64,211	64,211	-
Other salaries and wages	1,700	22,630	22,630	-
Social security	105	6,748	6,748	-
State retirement	154	6,594	6,593	(1)
Unemployment compensation	3	114	114	-
Employer medicare liability	25	1,575	1,575	-
Travel	2,315	2,883	2,884	1
Other contracted services	500	14,708	13,000	(1,708)
Other supplies and materials	-	-	1,709	1,709
Other equipment	<u>-</u>	<u>280</u>	<u>280</u>	-
Total other student support	<u>4,802</u>	<u>119,743</u>	<u>119,744</u>	<u>1</u>
Regular instruction:				
Supervisor/director	15,000	21,000	21,000	-
Clerical personnel	-	10,000	10,000	-
Other salaries and wages	10,000	12,250	12,250	-
Social security	1,550	2,812	2,812	-
State retirement	2,260	3,855	3,855	-
Unemployment compensation	35	47	47	-
Medicare	364	720	720	-
Travel	7,267	7,420	7,420	-
Other contracted services	-	6,995	6,995	-
In-service-staff development	<u>8,000</u>	<u>8,000</u>	<u>5,890</u>	<u>(2,110)</u>
Total regular instruction	<u>44,476</u>	<u>73,099</u>	<u>70,989</u>	<u>(2,110)</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, 2015**

	Original Budget	Final Budget	Actual	Variance- Over (Under)
EXPENDITURES (Cont.)				
Support services (cont.):				
Special education program:				
Travel	2,000	2,003	2,003	-
Other contracted services	16,250	16,249	16,247	2
Total special education	18,250	18,252	18,250	2
Vocational education:				
Travel	349	349	349	-
Transportation:				
Contract with other school systems	2,125	2,125	2,125	-
Total support services	70,002	213,568	211,457	(2,107)
Total expenditures	390,780	581,387	579,317	(2,066)
Net change in fund balance	\$ -	\$ -	(1,272)	\$ (1,276)
Fund balance - July 1, 2014			41	
Fund balance - June 30, 2015			\$ (1,231)	

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

HOLLOW ROCK–BRUCETON SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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, 2015

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, 2015, 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 \$124,393 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 \$1.4786 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.

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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.

Summary of Significant Accounting Policies

Pensions: For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teacher Legacy Pension Plan, Teacher Retirement Plan, and District's participation in the Public Employee Retirement Plan in the Tennessee Consolidated Retirement System (TCRS) and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Teacher Legacy Pension Plan, Teacher Retirement Plan, and District's participation in the Public Employee Retirement Plan, respectively. Investments are reported at fair value.

Impact of recently issued accounting pronouncements

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

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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. The implementation of this statement resulted in a restatement of beginning net position for (\$865,267). Net pension asset/liability and deferred inflows and outflows of resources on the government wide statement are now reported.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* – an amendment of GASB Statement No. 68. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require the beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68. The implementation of this statement resulted in a restatement of net position in the government wide statement of activities to report the beginning deferred outflows of resources.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The items that qualify for reporting as deferred outflows of resources are disclosed on page 5.

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 items that qualify for reporting as deferred outflows of resources are disclosed on page 5.

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.

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

Net Position Flow Assumption

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

Fund Balances

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

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, 2015, 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	\$ 2,840,000
Less: Issuance discount (being amortized as interest expense)	<u>(17,360)</u>
	<u>\$ 2,822,640</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 \$159,756 difference are as follows:

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Depreciation expense	\$ 160,508
	<u>\$ 160,508</u>

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for governmental funds, with the exception of State on-behalf payments for fringe benefits and commodities. These non-cash revenue and expenditure items are included in the governmental fund statements and district-wide statement of activities, but not in the budgetary comparison statements.

The Board of Education approves and appropriates the budgets annually. All annual appropriations lapse at the end of the fiscal year. As an extension of the formal budgetary process, the Board may transfer or appropriate additional funds for expenditures not anticipated at the time of budget adoption. Line item transfers within major categories are made upon the recommendation of the Director of Schools and approval by the Board. The District's policy is to not allow expenditures to exceed budgetary amounts at the function level without obtaining additional appropriation approval from the Board of Education.

NOTE 4 – DETAILED NOTES ON ALL FUNDS

A. Cash Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policies limit deposits and investments to those instruments allowed by applicable state laws as described in Note 1. State statute requires that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of uninsured deposits. The deposits must be collateralized by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the District's agent in the District's name, or by the Federal Reserve Banks acting as third-party agents. As of June 30, 2015, 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, 2015. 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, 2015, was as follows:

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Land	\$ 94,000	\$ -	\$ 94,000
Capital assets, being depreciated			
Buildings	6,042,047	-	6,042,047
Other capital assets	<u>151,710</u>	<u>-</u>	<u>151,710</u>
Total capital assets being depreciated	<u>6,193,757</u>	<u>-</u>	<u>6,193,757</u>
Less accumulated depreciation for:			
Buildings	2,992,510	137,852	3,130,362
Other capital assets	<u>76,360</u>	<u>22,656</u>	<u>99,016</u>
Total accumulated depreciation	<u>3,068,870</u>	<u>160,508</u>	<u>3,229,378</u>
Total capital assets being depreciated, net	<u>3,124,887</u>	<u>(160,508)</u>	<u>2,964,379</u>
Governmental activities capital assets, net	<u>\$ 3,218,887</u>	<u>\$ (160,508)</u>	<u>\$ 3,058,379</u>

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

Instruction	\$ 14,014
Food service	2,307
Depreciation - unallocated	<u>144,187</u>
Total depreciation expense - governmental activities	<u>\$ 160,508</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, 2015, was \$2,840,000.

The annual requirements to amortize the bonds as of June 30, 2015, are as follows:

Years Ending June 30,	Series 2009 Bonds		Total
	Principal	Interest	
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	315,000	64,220	379,220
2021-2024	<u>1,375,000</u>	<u>141,571</u>	<u>1,516,571</u>
	<u>\$2,840,000</u>	<u>\$ 546,091</u>	<u>\$ 3,386,091</u>

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The following is a summary of long-term debt transactions for the year ended June 30, 2015:

	Beginning Balance	Additions	Retirements	Ending Balance	Due in One Year
Governmental activities:					
Refunding bonds, Series 2009	\$ 3,110,000	\$ -	\$ (270,000)	\$ 2,840,000	\$ 270,000
Less deferred bond discount	(19,530)	-	2,170	(17,360)	n/a
Net long-term debt	<u>\$ 3,090,470</u>	<u>\$ -</u>	<u>\$ (267,830)</u>	<u>\$ 2,822,640</u>	<u>\$ 270,000</u>

E. Interfund Balances

There was \$19,176 due from the Federal Projects Fund to the General Fund as of June 30, 2015, 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

Teacher Legacy Pension Plan of Tennessee Consolidated Retirement System

Plan description

Teachers with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 of Hollow Rock-Bruceton Special School District are provided with pensions through the Teacher Legacy Pension Plan, a cost sharing multiple-employer pension plan administered by the TCRS. The Teacher Legacy Pension Plan closed to new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, the Teacher Retirement Plan became effective for teachers employed by Local Education Agencies (LEAs) after June 30, 2014. The Teacher Retirement Plan is a separate costsharing, multiple-employer defined benefit plan. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided

Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Teacher Legacy Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. A reduced early retirement benefit is available at age 55 and vested. Members are vested with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each

HOLLOW ROCK-BRUCETON SPECIAL SCHOOL DISTRICT
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July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Contributions

Contributions for teachers are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Teachers contribute 5 percent of salary. The Local Education Agencies (LEAs) make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Teacher Legacy Pension Plan are required to be paid. The TCRS may intercept the state shared taxes of the sponsoring governmental entity of the LEA if the required employer contributions are not remitted. Employer contributions by Hollow Rock-Bruceton Special School District for the year ended June 30, 2015 to the Teacher Legacy Pension Plan were \$219,565 which is 9.04 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension asset

At June 30, 2014, the Hollow Rock-Bruceton Special School District reported an asset of \$10,455 for its proportionate share of net pension asset. The net pension asset was measured as of June 30, 2014, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. Hollow Rock-Bruceton Special School District's proportion of the net pension liability was based on Hollow Rock-Bruceton Special School District's employer contributions to the pension plan during the year ended June 30, 2014 relative to the contributions of all LEAs for the year ended June 30, 2014. At the June 30, 2014 measurement date, Hollow Rock-Bruceton Special School District's proportion was 0.064341 percent. The proportion measured as of June 30, 2013 was 0.065305 percent.

Pension income

For the year ended June 30, 2015, Hollow Rock-Bruceton Special School District recognized a pension income of \$11,231.

Deferred outflows of resources and deferred inflows of resources

For the year ended June 30, 2015, Hollow Rock-Bruceton Special School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 25,383	\$ -
Net difference between projected and actual earnings on pension plan investments	-	861,439
Changes in proportion of Net Pension Liability (Asset)	-	13,587
Contributions subsequent to the measurement date of June 30, 2014	219,565	-
Total	\$ 244,948	\$ 875,026

Hollow Rock-Bruceton Special School District employer contributions of \$219,565, reported as pension related deferred outflows of resources, subsequent to the measurement date, will be recognized as an increase in net pension asset in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30:</u>	
2016	\$ (213,394)
2017	(213,394)
2018	(213,394)
2019	(213,394)
2020	1,966
Thereafter	1,966

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of-Living Adjustment	2.5 percent

HOLLOW ROCK–BRUCETON SPECIAL SCHOOL DISTRICT
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Mortality rates are customized based on the June 30, 2012 actuarial experience study and included some adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2014 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. Equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		<u>100%</u>

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the all LEAs will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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Sensitivity of the proportionate share of net pension liability (asset) to changes in the discount rate

The following presents Hollow Rock- Bruceton Special School District's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what Hollow Rock- Bruceton Special School District's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Hollow Rock- Bruceton Special School District's proportionate share of the net pension liability (asset)	\$ 1,763,382	\$ (10,455)	\$ (1,479,000)

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report.

Payable to the Pension Plan

At June 30, 2015, Hollow Rock- Bruceton Special School District reported a payable of \$50,912 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2015.

Teacher Retirement Plan of Tennessee Consolidated Retirement System

Plan description

Teachers with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 of Hollow Rock-Bruceton Special School District are provided with pensions through the Teacher Legacy Pension Plan, a cost sharing multiple-employer pension plan administered by the TCRS. The Teacher Legacy Pension Plan is closed to new membership. Teachers with membership in the TCRS after June 30, 2014 are provided with pensions through a legally separate plan referred to as the Teacher Retirement Plan, a cost sharing multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits Provided

Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Teacher Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-

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service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest. Under the Teacher Retirement Plan, benefit terms and conditions, including COLA, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

Contributions

Contributions for teachers are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Teachers contribute 5 percent of salary. The Local Education Agencies (LEAs) make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4 percent, except for in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, employer contributions for the Teacher Retirement Plan are required to be paid. The TCRS may intercept the state shared taxes of the sponsoring governmental entity of the LEA if the required employer contributions are not remitted. Employer contributions for the year ended June 30, 2015 to the Teacher Retirement Plan were \$688, which is 4.0 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liabilities

Since the measurement date is June 30, 2014, which is prior to the July 1, 2014 inception of the Teacher Retirement Plan, there is not a net pension liability to report at June 30, 2015.

Pension expense

Since the measurement date is June 30, 2014, Hollow Rock-Bruceton Special School District did not recognize a pension expense at June 30, 2015.

Deferred outflows of resources and deferred inflows of resources

For the year ended June 30, 2015, Hollow Rock-Bruceton Special School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to the measurement date of June 30, 2014	\$ <u>688</u>	<u>-</u>

Hollow Rock-Bruceton Special School District’s employer contributions of \$688 reported as pension related deferred outflows of resources, subsequent to the measurement date, will be recognized as a reduction in net pension liability in the year ended June 30, 2016.

Payable to the Pension Plan

At June 30, 2015, Hollow Rock-Bruceton Special School District reported a payable of \$0 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2015.

Political Subdivision Pension Plan

Plan Description

Employees of Hollow Rock-Bruceton Special School District are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits Provided

Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member’s highest five consecutive year average compensation and the member’s years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

HOLLOW ROCK–BRUCETON SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 June 30, 2015

Employees Covered by Benefit Terms

At the measurement date of June 30, 2014, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	7
Inactive employees entitled to but not yet receiving benefits	22
Active employees	21
	50

Contributions

Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of salary. Hollow Rock-Bruceton Special School District makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2015, employer contributions for Hollow Rock-Bruceton Special School District were \$31,234 based on a rate of 4.02% percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept Hollow Rock-Bruceton Special School District's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability (Asset)

Hollow Rock-Bruceton Special School District's net pension liability (asset) was measured as of June 30, 2014, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total pension liability as of June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of-Living Adjustment	2.5 percent

Mortality rates were based on actual experience from the June 30, 2012 actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2014 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2)

HOLLOW ROCK–BRUCETON SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 June 30, 2015

the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. Equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		<u>100%</u>

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from Milan Special School District will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

HOLLOW ROCK-BRUCETON SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Changes in the Net Pension Liability (Asset)

	Total Pension Liability	Increase (Decrease)	Net Pension Liability
	(a)	Plan Fiduciary Net Position	(Asset)
	<u>(a)</u>	<u>(b)</u>	<u>(a) - (b)</u>
Balance at 6/30/13	\$ 775,283	\$ 728,082	\$ 47,201
Changes for the year:			
Service cost	29,354	-	29,354
Interest	59,331	-	59,331
Differences between expected and actual experience	5,601	-	5,601
Contributions-employer	-	32,353	(32,353)
Contributions-employees	-	18,534	(18,534)
Net investment income	-	124,304	(124,304)
Benefit payments, including refunds of employee contributions	(27,129)	(27,129)	-
Administrative expense	-	(781)	781
Net changes	<u>67,157</u>	<u>147,281</u>	<u>(80,124)</u>
Balance at 6/30/14	<u>\$ 842,440</u>	<u>\$ 875,363</u>	<u>\$ (32,923)</u>

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension liability (asset) of Hollow Rock-Bruceton Special School District calculated using the discount rate of 7.5 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease	Current	1% Increase
	(6.5%)	Discount Rate	(8.5%)
	<u>(6.5%)</u>	<u>(7.5%)</u>	<u>(8.5%)</u>
Hollow Rock-Bruceton Special School District's net pension liability (asset)	\$ 96,106	\$ (32,923)	\$ (139,369)

HOLLOW ROCK-BRUCETON SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension Expense

For the year ended June 30, 2015, Hollow Rock-Bruceton Special School District recognized pension expense of \$2,631.

Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2015, Hollow Rock-Bruceton Special School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 4,667	\$ -
Net difference between projected and actual earnings on pension plan investments	-	55,069
Contributions subsequent to the measurement date of June 30, 2014	31,234	-
Total	\$ 35,901	\$ 55,069

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2014," will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30:</u>	
2016	\$ (12,833)
2017	(12,833)
2018	(12,833)
2019	(12,833)
2020	934
Thereafter	-

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

HOLLOW ROCK–BRUCETON SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Payable to the Pension Plan

At June 30, 2015, Hollow Rock-Bruceton Special School District reported a payable of \$5,684 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2015.

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, 2015, the State made contributions of \$46,040 to the Teacher Group Plan and \$6,750 to the Medicare Plan.

HOLLOW ROCK-BRUCETON SPECIAL SCHOOL DISTRICT
SCHEDULE OF THE SYSTEM'S PROPORTIONATE SHARE OF THE NET PENSION ASSET
TEACHER LEGACY PENSION PLAN OF TCRS
Fiscal Year Ended June 30*

	2014
Hollow Rock-Bruceton Special School District's proportion of the net pension asset	0.064341%
Hollow Rock-Bruceton Special School District's proportionate share of the net pension asset	\$ 10,455
Hollow Rock-Bruceton Special School District's covered employee payroll	\$ 2,525,386
Hollow Rock-Bruceton Special School District's proportionate share of the net pension asset as a percentage of its covered-employee payroll	0.41%
Plan fiduciary net position as a percentage of the total pension liability	100.08%

* The amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

**HOLLOW ROCK-BRUCETON SPECIAL SCHOOL DISTRICT
SCHEDULE OF THE SYSTEM'S CONTRIBUTIONS
TEACHER LEGACY PENSION PLAN OF TCRS
Fiscal Year Ending June 30**

	<u>2014</u>	<u>2015</u>
Actuarially determined contribution (ADC)	\$ 224,255	\$ 219,565
Contributions in relation to the actuarially determined contributions	<u>224,255</u>	<u>219,565</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 2,525,386	\$ 2,501,044
Contributions as a percentage covered-employee payroll	8.88%	8.78%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

**HOLLOW ROCK-BRUCETON SPECIAL SCHOOL DISTRICT
SCHEDULE OF THE SYSTEM'S CONTRIBUTIONS
TEACHER RETIREMENT PLAN OF TCRS
Fiscal Year Ending June 30**

	2014
Actuarially determined contribution (ADC)	\$ 430
Contributions in relation to the actuarially determined contributions	688
Contribution deficiency (excess)	\$ (258)
Covered-employee payroll	\$ 11,941
Contributions as a percentage covered-employee payroll	5.76%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

HOLLOW ROCK-BRUCETON SPECIAL SCHOOL DISTRICT
SCHEDULE OF CHANGES IN HOLLOW ROCK-BRUCETON SPECIAL SCHOOL DISTRICT'S
NET PENSION LIABILITY (ASSET) AND RELATED RATIOS
BASED ON PARTICIPATION IN THE PUBLIC EMPLOYEE PENSION PLAN OF TCRS
Last Fiscal Year Ending June 30

	2014
Total pension liability	
Service cost	\$ 29,354
Interest	59,331
Changes in benefit terms	-
Difference between actual & expected experience	5,601
Change of assumptions	-
Benefit payments, including refunds of employee contributions	(27,129)
Net change in total pension liability	67,157
Total pension liability - beginning	775,283
Total pension liability - ending (a)	\$ 842,440
Plan fiduciary net position	
Contributions - employer	\$ 32,353
Contributions - employee	18,534
Net investment income	124,304
Benefit payments, including refunds of employee contributions	(27,129)
Administrative expense	(781)
Net change in plan fiduciary net position	147,281
Plan fiduciary net position - beginning	728,082
Plan fiduciary net position - ending (b)	\$ 875,363
Net Pension Liability (Asset) - ending (a) - (b)	\$ (32,923)
Plan fiduciary net position as a percentage of total pension liability	103.91%
Covered - employee payroll	\$ 370,668
Net pension liability (asset) as a percentage of covered-employee payroll	8.88%

This is a 10-year schedule; however the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

HOLLOW ROCK-BRUCETON SPECIAL SCHOOL DISTRICT
SCHEDULE OF HOLLOW ROCK-BRUCETON SPECIAL SCHOOL DISTRICT'S CONTRIBUTIONS
BASED ON PARTICIPATION IN THE PUBLIC EMPLOYEE PENSION PLAN OF TCRS
 Last Fiscal Year Ending June 30

	<u>2014</u>	<u>2015</u>
Actuarially determined contribution	\$ 32,353	\$ 32,234
Contributions in relation to the actuarially determined contributions	<u>32,353</u>	<u>32,234</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>
Covered-employee payroll	\$ 370,668	\$ 367,888
Contributions as a percentage covered-employee payroll	8.73%	8.76%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

Notes to Schedule:

Valuation Date : Actuarially determined contribution rates for 2015 were calculated based on the July 1, 2013 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Frozen initial liability
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	14 years
Asset valuation	10-year smoothed within a 20 percent corridor to market value
Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of living adjustments	2.5 percent

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, 2015

	Original Budget	Final Budget	Actual	Variance Over (Under)
REVENUES				
Other local revenues:				
Property taxes	\$ 206,700	\$ 206,700	\$ 207,975	\$ 1,275
Payments in lieu of taxes	-	-	4,719	4,719
Interest earned	250	250	280	30
Total revenues	206,950	206,950	212,974	6,024
EXPENDITURES				
Current expenditures:				
Noninstructional services				
Education debt service:				
Principal on bonds	90,000	90,000	90,000	-
Interest on bonds	116,466	116,466	116,466	-
Other charges	450	350	350	-
Total education debt service	206,916	206,816	206,816	-
Total expenditures	206,916	206,816	206,816	-
Revenues over expenditures	\$ 34	\$ 134	6,158	\$ 6,024
Fund balance - July 1, 2014			176,748	
Fund balance - June 30, 2015			\$ 182,906	

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, 2015

	Original Budget	Final Budget	Actual	Variance Over (Under)
REVENUES				
Charges for current services:				
Lunch payments - children	\$ 50,000	\$ 50,000	\$ 282	\$ (49,718)
Lunch payments - adults	-	-	10,345	10,345
Income from breakfast	350	350	425	75
Special milk sales	125	125	154	29
A la carte sales	4,500	4,500	4,597	97
Other charges for services	-	920	557	(363)
Total charges for current services	54,975	55,895	16,360	(39,535)
Other local revenues:				
Other local revenues	25	83	83	-
Miscellaneous refund	-	766	766	-
Interest earned	350	413	366	(47)
Total other local revenues	375	1,262	1,215	(47)
State education funds:				
School food services	3,500	3,500	3,433	(67)
Federal through State:				
USDA - lunch	198,000	210,750	233,664	22,914
USDA - breakfast	107,000	114,556	126,366	11,810
USDA - other	-	-	3,000	3,000
Total Federal through State	305,000	325,306	363,030	37,724
Total revenues	363,850	385,963	384,038	(1,925)
EXPENDITURES				
Current expenditures:				
Food services:				
Cafeteria personnel	96,500	85,492	85,492	-
Temporary/part-time personnel	-	3,500	3,500	-
Social security	5,983	14,391	14,391	-
State retirement	8,193	7,985	7,985	-
Medicare liability	1,399	1,402	1,402	-
Unemployment compensation	88	73	73	-
Communication	150	57	57	-
Maintenance and repair - equipment	2,000	2,691	2,691	-
Postal charges	49	-	-	-
Travel	1,000	655	655	-

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, 2015**

	Original Budget	Final Budget	Actual	Variance Over (Under)
EXPENDITURES (Cont.)				
Current expenditures (cont.):				
Food services (cont.):				
Other contracted services	1,240	7,907	7,907	-
Food supplies	200,000	196,165	196,165	-
Office supplies	3,000	11,371	11,371	-
Uniforms	700	323	323	-
Commodities	-	933	933	-
Utilities	26,375	26,375	26,375	-
Other supplies and materials	11,000	5,874	5,874	-
Workers compensation	1,622	1,622	1,622	-
Other charges	1,500	1,541	1,542	1
Equipment	3,000	17,600	17,600	-
Total expenditures	363,799	385,957	385,958	1
 Net change in fund balance	\$ 51	\$ 6	(1,920)	\$ (1,926)
 Fund balance - July 1, 2014			176,888	
Increase in inventory			83	
 Fund balance - June 30, 2015			\$ 175,051	
 Reconciliation to governmental fund financial statements:				
Revenues per budget statement (page 48)		\$ 384,038		
Non-cash revenue not included in budget statement:				
Commodities received		22,695		
Revenues per governmental statement of revenues, expenditures and change in fund balance (page 9)		\$ 406,733		
 Expenditures per budget statement (above)		\$ 385,958		
Non-cash expenditure not included in budget statement:				
Commodities used		22,695		
Expenditures per governmental statement of revenues, expenditures and change in fund balance (page 9)		\$ 408,653		

See independent auditor's report.

HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS
GENERAL OBLIGATION DEBT
 June 30, 2015

Year Ended <u>June 30,</u>	Bonds Payable Series 2009	
	Principal	Interest
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
	\$ 2,840,000	\$ 546,091

See independent auditor's report.

HOLLOW ROCK - BRUCETON SPECIAL SCHOOL DISTRICT
SCHEDULE OF SALARIES AND BONDS
June 30, 2015

	<u>Salary</u>	<u>Bond</u>	
Director of Schools	<u>\$ 81,268</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, 2015

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	\$ 147,303
IDEA Program, Preschool	84.173	17,038
Special Education High Cost Program	84.173	<u>2,097</u>
Total Special Education Grants to States Cluster		166,438
 Title I, Grants to Local Education Agencies	 84.010A	 177,563
 Career and Technical Education - Basic Grants to States	 84.048	 9,500
 Title VI, Part B, Subpart 2 - Rural and Low-Income School Program	 84.358	 25,073
 Improving Teacher Quality State Grants	 84.367A	 20,627
 Teacher Incentive Fund Grant	 84.374A	 137,426
Teacher Incentive Fund Grant	84.374A	<u>43,515</u>
		180,941
 Total Department of Education		 <u>580,142</u>
U.S. DEPARTMENT OF AGRICULTURE/ Pass-through the Tennessee Department of Agriculture/		
School Breakfast Program	10.553	126,366 *
National School Lunch Program	10.555	233,664 *
Food Distribution - Commodities	10.555	<u>22,695</u> *
Total Department of Agriculture Cluster		382,725
 School Nutrition Direct Certification Award	 10.589	 <u>3,000</u>
 Total Department of Agriculture		 <u>385,725</u>
 Total federal awards		 <u>\$ 965,867</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, 2015

Grantor/ Program	<u>Expenditures</u>
Tennessee Department of Education/ Early Childhood - Lottery	\$ 103,518
Tennessee Energy Efficient Schools Council Energy Efficient Schools Initiative	<u>1,750</u>
Total State Awards	<u>\$ 105,268</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:

American Institute of Certified Public Accountants
AICPA Center for Public Company Audit Firms
AICPA Governmental Audit Quality Center
AICPA Employee Benefit Plan Audit Quality Center
Tennessee Society of Certified Public Accountants
Kentucky Society of Certified Public Accountants



Certified Public Accountants
Offices in Tennessee & Kentucky

304 North Lindell
Martin, TN 38237

Phone 731.587.5145
Fax 731.587.1952
www.atacpa.net

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, 2015, 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 11, 2016.

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 opinions 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. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hollow Rock–Bruceeton 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–Bruceeton Special School District in a separate letter dated January 11, 2016.

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

The Hollow Rock–Bruceeton 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 11, 2016

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Martin, TN 38237

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Fax 731.587.1952
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INDEPENDENT AUDITOR'S REPORT

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

Report on Compliance for Each Major Federal Program

We have audited Hollow Rock–Bruceton Special School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2015. Hollow Rock–Bruceton Special School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Hollow Rock–Bruceton Special School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Hollow Rock–Bruceton Special School District's compliance.

Opinion on Each Major Federal Program

In our opinion Hollow Rock–Bruceton Special School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

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 11, 2016

**HOLLOW ROCK-BRUCETON SPECIAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2015**

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, 2015**

Section II – Financial Statement Findings

There were no current year financial statement findings.

Section III – Federal Award Findings and Questioned Costs

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

**HOLLOW ROCK-BRUCETON SPECIAL SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
June 30, 2015**

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

Finding Numbers	Finding Title	Status
2014-001	Improper Journal Entries (original finding #2014-001)	Corrected