

**East End School District No. 1**

**Perry County, Arkansas**

**Regulatory Basis Financial Statements  
and Other Reports**

**June 30, 2013**



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PERRY COUNTY, ARKANSAS  
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House Vice Chair

# Arkansas



Roger A. Norman, JD, CPA, CFE  
Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE

### DIVISION OF LEGISLATIVE AUDIT

#### INDEPENDENT AUDITOR'S REPORT

East End School District No. 1 and School Board Members  
Legislative Joint Auditing Committee

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of each major governmental fund and the aggregate remaining fund information of the East End School District No. 1 (the "District"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's regulatory basis 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 Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005, as described in Note 1, to meet the reporting requirements of the State of Arkansas. Management is also responsible for 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 disclosure 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 District'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 District'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.

#### ***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As described in Note 1 to the financial statements, to meet the financial reporting requirements of the State of Arkansas, the financial statements are prepared by the District on the basis of the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

**Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraphs, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2013, or the changes in financial position for the year then ended.

**Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2013, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended in accordance with the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005 described in Note 1.

**Other Matters**

*Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's regulatory basis financial statements. The Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the Schedule of Capital Assets and the Schedule of Selected Information for the Last Five Years - Regulatory Basis are presented for the purposes of additional analysis and are not a required part of the regulatory basis financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the regulatory basis financial statements. Such information has been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the regulatory basis financial statements or to the regulatory basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the regulatory basis financial statements as a whole.

The Schedule of Capital Assets and the Schedule of Selected Information for the Last Five Years - Regulatory Basis have not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2014 on our consideration of the 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.

DIVISION OF LEGISLATIVE AUDIT



Roger A. Norman, JD, CPA, CFE  
Legislative Auditor

Little Rock, Arkansas  
January 15, 2014  
EDSD28213

Sen. Bryan B. King  
Senate Chair  
Rep. Kim Hammer  
House Chair  
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Senate Vice Chair  
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House Vice Chair

# Arkansas



Roger A. Norman, JD, CPA, CFE  
Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE

### DIVISION OF LEGISLATIVE AUDIT

#### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

#### INDEPENDENT AUDITOR'S REPORT

East End School District No. 1 and School Board Members  
Legislative Joint Auditing Committee

We have audited, in accordance with the 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 each major governmental fund and the aggregate remaining fund information of the East End School District No. 1 (the "District"), as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated January 15, 2014. We issued an adverse opinion because the District prepared the financial statements on the basis of the financial reporting provisions of Arkansas Code, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2013, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the regulatory basis financial statements, we considered the 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 regulatory basis 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 the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 District's regulatory basis financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2013-001 to be a material weakness.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's regulatory basis financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state and federal laws and 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*.

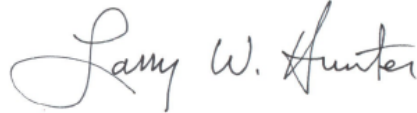
### **District's Response to Findings**

The 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 regulatory basis 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 result of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in cursive script that reads "Larry W. Hunter".

Larry W. Hunter, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
January 15, 2014

Sen. Bryan B. King  
Senate Chair  
Rep. Kim Hammer  
House Chair  
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# Arkansas



Roger A. Norman, JD, CPA, CFE  
Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE

### DIVISION OF LEGISLATIVE AUDIT

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

#### INDEPENDENT AUDITOR'S REPORT

East End School District No. 1 and School Board Members  
Legislative Joint Auditing Committee

#### Report on Compliance for Each Major Federal Program

We have audited the East End School District No. 1 (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. The 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 the 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 the District's compliance.

#### *Opinion on Each Major Federal Program*

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

#### Report on Internal Control Over Compliance

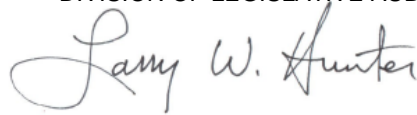
Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the 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 a 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.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in cursive script that reads "Larry W. Hunter".

Larry W. Hunter, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
January 15, 2014



EAST END SCHOOL DISTRICT NO. 1  
PERRY COUNTY, ARKANSAS  
BALANCE SHEET - REGULATORY BASIS  
JUNE 30, 2013

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
<b>ASSETS</b>				
Cash	\$ 1,021,407		\$ 1,372,937	\$ 15,996
Accounts receivable	381	\$ 83,159	20,620	
Due from other funds	9,969			
Deposit with paying agent			60,051	
<b>TOTAL ASSETS</b>	<b>\$ 1,031,757</b>	<b>\$ 83,159</b>	<b>\$ 1,453,608</b>	<b>\$ 15,996</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable and accrued liabilities	\$ 14,014	\$ 2,573	\$ 467,626	\$ 2,919
Due student groups				13,077
Due to other funds		9,969		
<b>Total Liabilities</b>	<b>14,014</b>	<b>12,542</b>	<b>467,626</b>	<b>15,996</b>
Fund Balances:				
Restricted	59,986	70,617	570,843	
Assigned	71,366		415,139	
Unassigned	886,391			
<b>Total Fund Balances</b>	<b>1,017,743</b>	<b>70,617</b>	<b>985,982</b>	
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,031,757</b>	<b>\$ 83,159</b>	<b>\$ 1,453,608</b>	<b>\$ 15,996</b>

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

EAST END SCHOOL DISTRICT NO. 1  
PERRY COUNTY, ARKANSAS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2013

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 1,378,087		
State assistance	3,448,473	\$ 2,361	\$ 1,440,144
Federal assistance	7,866	651,780	59,983
Activity revenues	123,064		
Meal sales		77,475	
Investment income	12,832		16,615
Other revenues	73,969	473	
<b>TOTAL REVENUES</b>	<b>5,044,291</b>	<b>732,089</b>	<b>1,516,742</b>
EXPENDITURES			
Regular programs	1,701,899	997	
Special education	293,537	106,219	
Career education programs	168,262		
Compensatory education programs	8,824	85,776	
Other instructional programs	208,669		
Student support services	119,681	84,185	
Instructional staff support services	298,625	115,823	
General administration support services	241,701		
School administration support services	258,069		
Central services support services	64,344	1,997	
Operation and maintenance of plant services	460,894	317	176,656
Student transportation services	242,106	13,935	43,863
Other support services	29,291		
Food services operations		392,000	
Community services operations		52	
Facilities acquisition and construction services			3,090,363
Non-programmed costs		10,323	
Activity expenditures	126,696		
Debt Service:			
Principal retirement			528,381
Interest and fiscal charges			196,111
<b>TOTAL EXPENDITURES</b>	<b>4,222,598</b>	<b>811,624</b>	<b>4,035,374</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>821,693</b>	<b>(79,535)</b>	<b>(2,518,632)</b>
OTHER FINANCING SOURCES (USES)			
Transfers in		102,387	758,150
Transfers out	(860,537)		
Refunds to grantor		(3,382)	
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(860,537)</b>	<b>99,005</b>	<b>758,150</b>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>(38,844)</b>	<b>19,470</b>	<b>(1,760,482)</b>
FUND BALANCES - JULY 1	1,056,587	51,147	2,746,464
FUND BALANCES - JUNE 30	<u>\$ 1,017,743</u>	<u>\$ 70,617</u>	<u>\$ 985,982</u>

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

EAST END SCHOOL DISTRICT NO. 1  
PERRY COUNTY, ARKANSAS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2013

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>						
Property taxes (including property tax relief trust distribution)	\$ 1,271,702	\$ 1,378,087	\$ 106,385			
State assistance	3,414,797	3,448,473	33,676		\$ 2,361	\$ 2,361
Federal assistance		7,866	7,866	\$ 653,016	651,780	(1,236)
Activity revenues		123,064	123,064			
Meal sales				94,000	77,475	(16,525)
Investment income	16,000	12,832	(3,168)			
Other revenues		73,969	73,969		473	473
<b>TOTAL REVENUES</b>	<b>4,702,499</b>	<b>5,044,291</b>	<b>341,792</b>	<b>747,016</b>	<b>732,089</b>	<b>(14,927)</b>
<b>EXPENDITURES</b>						
Regular programs	1,692,031	1,701,899	(9,868)		997	(997)
Special education	308,116	293,537	14,579	128,698	106,219	22,479
Career education programs	157,922	168,262	(10,340)			
Compensatory education programs	15,909	8,824	7,085	85,858	85,776	82
Other instructional programs	203,411	208,669	(5,258)			
Student support services	120,635	119,681	954	60,852	84,185	(23,333)
Instructional staff support services	317,083	298,625	18,458	125,174	115,823	9,351
General administration support services	260,982	241,701	19,281			
School administration support services	256,058	258,069	(2,011)			
Central services support services	61,561	64,344	(2,783)	13,721	1,997	11,724
Operation and maintenance of plant services	515,654	460,894	54,760	1,720	317	1,403
Student transportation services	284,015	242,106	41,909	76,915	13,935	62,980
Other support services	12,000	29,291	(17,291)			
Food services operations				390,150	392,000	(1,850)
Community services operations				3,903	52	3,851
Non-programmed costs					10,323	(10,323)
Activity expenditures		126,696	(126,696)			
<b>TOTAL EXPENDITURES</b>	<b>4,205,377</b>	<b>4,222,598</b>	<b>(17,221)</b>	<b>886,991</b>	<b>811,624</b>	<b>75,367</b>

EAST END SCHOOL DISTRICT NO. 1  
PERRY COUNTY, ARKANSAS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2013

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 497,122	\$ 821,693	\$ 324,571	\$ (139,975)	\$ (79,535)	\$ 60,440
OTHER FINANCING SOURCES (USES)						
Transfers in	5,965,413		(5,965,413)	106,150	102,387	(3,763)
Transfers out	(6,401,944)	(860,537)	5,541,407	(10,000)		10,000
Refunds to grantor					(3,382)	(3,382)
TOTAL OTHER FINANCING SOURCES (USES)	(436,531)	(860,537)	(424,006)	96,150	99,005	2,855
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	60,591	(38,844)	(99,435)	(43,825)	19,470	63,295
FUND BALANCES - JULY 1	1,112,870	1,056,587	(56,283)	57,135	51,147	(5,988)
FUND BALANCES - JUNE 30	<u>\$ 1,173,461</u>	<u>\$ 1,017,743</u>	<u>\$ (155,718)</u>	<u>\$ 13,310</u>	<u>\$ 70,617</u>	<u>\$ 57,307</u>

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

EAST END SCHOOL DISTRICT NO. 1  
PERRY COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

**1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Reporting Entity

The Board of Education, a five member group, is the level of government, which has responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the East End School District (District). There are no component units.

B. Description of Funds

Major governmental funds (per the regulatory basis of accounting) are defined as General and Special Revenue.

General Fund – The General Fund is used to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Fund – The Special Revenue Fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Special Revenue Fund includes federal revenues and related expenditures, restricted for specific educational programs or projects, including the District's food services operations. The Special Revenue Fund also includes required matching for those federal programs, program income required to be used to further the objectives of those programs, and transfers from the general fund to supplement such programs.

Other governmental funds, presented in the aggregate, consist of the following:

Capital Projects Fund – The Capital Projects Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets. The Capital Projects Fund excludes those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Debt Service Fund – The Debt Service Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Fiduciary Fund types include the following:

Agency Funds – Agency Funds are used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities).

C. Measurement Focus and Basis of Accounting

The financial statements are prepared in accordance with a regulatory basis of accounting (RBA). This basis of accounting is prescribed by Ark. Code Ann. § 10-4-413(c), as provided in Act 2201 of 2005, and requires that financial statements be presented on a fund basis with, as a minimum, the general fund and special revenue fund presented separately and all other funds included in the audit presented in the aggregate. The law also stipulates that the financial statements consist of a balance sheet; a statement of revenues, expenditures, and changes in fund balances; a comparison of the final adopted budget to the actual expenditures for the general fund and special revenue funds of the entity; notes to financial statements; and a supplemental schedule of capital assets, including land, buildings, and equipment. The law further stipulates that the State Board of Education shall promulgate the rules necessary to administer the regulatory basis of presentation.

EAST END SCHOOL DISTRICT NO. 1  
PERRY COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

**1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

C. Measurement Focus and Basis of Accounting (Continued)

The RBA is not in accordance with generally accepted accounting principles (GAAP). GAAP require that basic financial statements present government-wide financial statements. Additionally, GAAP require the following major concepts: Management's Discussion and Analysis, accrual basis of accounting for government-wide financial statements, including depreciation expense, modified accrual basis of accounting for fund financial statements, separate financial statements for fiduciary fund types, separate identification of special and extraordinary items, inclusion of capital assets and debt in the financial statements, specific procedures for the identification of major governmental funds, and applicable note disclosures. The RBA does not require government-wide financial statements or the previously identified concepts.

The accompanying financial statements are presented on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for purposes of recording specific activities or attaining certain objectives. Revenues are reported by major sources and expenditures are reported by major function. Other transactions, which are not reported as revenues or expenditures, are reported as other financing sources and uses. Transactions related to the recording of installment contracts and capital leases are reported as other financing sources. Changes in private-purpose trust funds will be reflected in the notes to the financial statements.

D. Revenue Recognition Policies

Revenues are recognized when they become susceptible to accrual in accordance with the RBA, except for property taxes (see Note 1 F below).

E. Capital Assets

Information on capital assets and related depreciation is reported at Schedule 1. Capital assets are capitalized at historical cost or estimated historical cost, if actual data is not available. Capital assets purchased are recorded as expenditures in the applicable fund at the time of purchase. Donated capital assets are reported at fair value when received. The District maintains a threshold level of \$1,000 for capitalizing equipment. Library holdings are not capitalized.

No salvage value is taken into consideration for depreciation purposes. All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following useful lives:

Asset Class	Estimated Useful Life in Years
Improvements/infrastructure	20
Buildings	50
Equipment	5-20

F. Property Taxes

Property taxes are levied (tax rates are established) in November of each year based on property assessment (real and personal) that occurred within a specific period of time beginning January 1 of the same year. Property taxes are collectible beginning the first business day of March of the year following the levy date and are considered delinquent after October 15 of the same calendar year.

Ark. Code Ann. § 6-20-401 allows, but does not mandate, the District to accrue the difference between the amount of 2012 calendar year taxes collected by June 30, 2013 and 32 percent of the proceeds of the local taxes that are not pledged to secure bonded indebtedness. The District elected not to accrue property taxes or the option to accrue property taxes was not applicable because the amount of property taxes collected by June 30, 2013 equaled or exceeded the 32 percent calculation.

EAST END SCHOOL DISTRICT NO. 1  
PERRY COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

F. Property Taxes (Continued)

Amendment no. 74 to the Arkansas Constitution established a uniform minimum property tax millage rate of 25 mills for maintenance and operation of public schools. Ark. Code Ann. § 26-80-101 provides the uniform rate of tax (URT) shall be assessed and collected in the same manner as other school property taxes, but the net revenues from the URT shall be remitted to the State Treasurer and distributed by the State to the county treasurer of each county for distribution to the school districts in that county. For reporting purposes, URT revenues are considered property taxes.

G. Interfund Receivables and Payables

Interfund receivables and payables result from services rendered from one fund to another or from interfund loans.

H. Fund Balance Classifications

1. Restricted fund balance – represents amounts that are restricted to specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through bond covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
2. Assigned fund balance – represents amounts that are constrained by the District's *intent* to be used for specific purposes, but are neither restricted nor committed.
3. Unassigned fund balance – represents amounts that have not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. This classification can also include negative amounts in other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

I. Budget and Budgetary Accounting

The District is required by state law to prepare an annual budget. The annual budget is prepared on a fiscal year basis. The District does not prepare and submit amended budgets during the fiscal year. The State Department of Education's regulations allow for the cash basis or the modified accrual basis. However, the majority of the school districts employ the cash basis method.

The District budgets intra-fund transfers. Significant variances may result in the comparison of transfers at the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds – Regulatory Basis because only interfund transfers are reported at the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds – Regulatory Basis. Additionally, the District routinely budgets restricted federal programs as part of the special revenue fund. Significant variances may result in the budgetary comparison of the revenues and expenditures of the special revenue fund because of the reclassification of those federal programs primarily utilized for capital projects to the other aggregate funds for reporting purposes.

Budgetary perspective differences are not considered to be significant, because the structure of the information utilized in preparing the budget and the applicable fund financial statements is essentially the same.

J. Stabilization Arrangements

The District's Board of Education has not formally set aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise.

EAST END SCHOOL DISTRICT NO. 1  
PERRY COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

**1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

K. Minimum Fund Balance Policies

The District's Board of Education has not formally adopted a minimum fund balance policy.

L. Fund Balance Classification Policies and Procedures

The Superintendent, in conjunction with other management and accounting personnel, is authorized to assign amounts to a specific purpose. The District's Board of Education has not adopted a formal policy addressing this authorization.

The District's revenues, expenditures, and fund balances are tracked in the accounting system by numerous sources of funds. The fund balances of these sources of funds are combined to derive the District's total fund balances by fund. It is uncommon for an individual source of funds to contain restricted and unrestricted (committed, assigned, or unassigned) funds. The District does not have a policy addressing whether it considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted amounts are available. District personnel decide which resources (source of funds) to use at the time expenditures are incurred. For classification of fund balance amounts, restricted resources are considered spent before unrestricted. The District does not have a policy addressing which resources to use within the unrestricted fund balance when committed, assigned, or unassigned fund balances are available. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, committed amounts are reduced first, followed by assigned amounts, and then unassigned amounts.

M. Encumbrances

The District does not utilize encumbrance accounting.

**2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS**

Cash deposits are carried at cost (carrying value). A comparison of the bank balance and carrying value is as follows:

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 250,000	\$ 250,000
Collateralized:		
Collateral held by the District's agent, pledging bank or pledging bank's trust department or agent in the District's name	2,159,700	2,506,749
Total Deposits	\$ 2,409,700	\$ 2,756,749

The above total deposits do not include cash of \$640 which was held in the Perry County Treasury.



EAST END SCHOOL DISTRICT NO. 1  
PERRY COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

**3: ACCOUNTS RECEIVABLE**

The accounts receivable balance of \$104,160 at June 30, 2013 was comprised of the following:

Description	Governmental Funds			Total
	Major			
	General	Special Revenue	Other Aggregate	
Federal assistance		\$ 83,120	\$ 20,620	\$ 103,740
Meal sales		39		39
Other	\$ 381			381
Totals	\$ 381	\$ 83,159	\$ 20,620	\$ 104,160

**4: COMMITMENTS**

The District was contractually obligated for the following at June 30, 2013:

A. Construction Contract

Project Name	Estimated Completion Date	Contract Balance
High School addition	August 13, 2013	\$ 999,649

B. Operating Leases (noncapital leases with initial noncancellable lease terms in excess of one year)

General description of leases and leasing arrangements:

Two lease agreements with Ricoh Americas Corporation for copiers dated September 22, 2009 in the amounts of \$769 and \$92 per month for 60 months.

1. Future minimum rental payments (aggregate) at June 30, 2013: \$12,922
2. Future minimum rental payments for the succeeding years:

Year Ended June 30,	Amount
2014	\$ 10,338
2015	2,584
Total	\$ 12,922

Rental payments for the operating leases described above (including taxes) were approximately \$11,252 for the year ended June 30, 2013.

EAST END SCHOOL DISTRICT NO. 1  
PERRY COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

**4: COMMITMENTS (Continued)**

C. Long-term Debt Issued and Outstanding

The District is presently paying on the following long-term debt:

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2013	Maturities To June 30, 2013
12/1/10	6/1/33	1 - 4.375%	\$ 3,105,000	\$ 2,945,000	\$ 160,000
11/1/11	2/1/41	1.25 - 4.2%	1,780,000	1,750,000	30,000
10/15/10	10/15/20	4.8%	300,000	300,000	
<b>Totals</b>			<b>\$ 5,185,000</b>	<b>\$ 4,995,000</b>	<b>\$ 190,000</b>

Changes in Long-term Debt

	Balance July 1, 2012	Issued	Retired	Balance June 30, 2013
Bonds payable	\$ 4,825,000		\$ 130,000	\$ 4,695,000
Postdated warrants	698,381		398,381	300,000
<b>Totals</b>	<b>\$ 5,523,381</b>	<b>\$ 0</b>	<b>\$ 528,381</b>	<b>\$ 4,995,000</b>

Total long-term debt principal and interest payments are as follows:

Year Ended June 30,	Principal	Interest	Total
2014	\$ 145,000	\$ 179,649	\$ 324,649
2015	145,000	177,086	322,086
2016	160,000	174,524	334,524
2017	160,000	171,211	331,211
2018	165,000	167,611	332,611
2019-2023	1,200,000	738,325	1,938,325
2024-2028	1,065,000	531,263	1,596,263
2029-2033	1,280,000	302,433	1,582,433
2034-2038	395,000	107,862	502,862
2039-2041	280,000	23,730	303,730
<b>Totals</b>	<b>\$ 4,995,000</b>	<b>\$ 2,573,694</b>	<b>\$ 7,568,694</b>

**Qualified Zone Academy Bond (QZAB)**

On October 15, 2010, the District obtained funding of \$300,000 through the Qualified Zone Academy Bond (QZAB) program, a debt financial arrangement authorized under the Taxpayer Relief Act of 1997. The District will deposit a specified amount annually into a sinking fund for 10 years. This amount plus interest earned will be used to retire the debt when due.

EAST END SCHOOL DISTRICT NO. 1  
PERRY COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

**5: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

The accounts payable and accrued liabilities balance of \$487,132 at June 30, 2013 was comprised of the following:

Description	Governmental Funds			Fiduciary Fund Types	Total
	Major				
	General	Special Revenue	Other Aggregate		
Vendor payables	\$ 10,638	\$ 2,573	\$ 467,626	\$ 2,919	\$ 483,756
Due to grantor	2,632				2,632
Other	744				744
<b>Totals</b>	<b>\$ 14,014</b>	<b>\$ 2,573</b>	<b>\$ 467,626</b>	<b>\$ 2,919</b>	<b>\$ 487,132</b>

**6: INTERFUND TRANSFERS**

The District transferred \$758,150 from the general fund to the other aggregate funds for debt related payments of \$333,204, to supplement capital projects by \$417,821, and refunding debt savings of \$7,125 required to be utilized for capital expenditures. Additionally, the District transferred \$102,387 from the general fund to the special revenue fund to supplement its food services operations.

**7: RETIREMENT PLAN**

Arkansas Teacher Retirement System

**Plan Description.** The District contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers all Arkansas public school employees, except certain nonteachers hired before July 1, 1989. ATRS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-666-2877.

**Funding Policy.** ATRS has contributory and noncontributory plans. Contributory members are required by State law to contribute 6% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 14% of covered salaries, the maximum allowed by State law. The District's contributions to ATRS for the years ended June 30, 2013, 2012, and 2011 were \$415,071, \$402,678, and \$416,755, respectively, equal to the required contributions for each year.

**8: PLEDGED REVENUES**

The District has pledged a portion of its property taxes to retire bonds of \$4,885,000 issued from December 1, 2010 through November 1, 2011. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$7,153,494, payable through February 1, 2041. Principal and interest paid for the current year and total property taxes pledged for debt service were \$311,711 and \$525,310, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 59.34 percent.

**9: RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

EAST END SCHOOL DISTRICT NO. 1  
PERRY COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

**9: RISK MANAGEMENT (Continued)**

The District carries commercial insurance for board liability. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage from the prior year in the major categories of risk.

The District participates in the Arkansas School Boards Association - Workers' Compensation Trust (the Trust), a self-insurance trust voluntarily established on July 1, 1994 pursuant to state law. The Trust is responsible for obtaining and administering workers' compensation insurance coverage for its members, as well as obtaining reinsurance coverage for those claims that exceed the standard policy limits. In its administrative capacity, the Trust is responsible for monitoring, negotiating, and settling claims that have been filed on behalf of and against member districts. The District contributes annually to this program.

Additionally, the District participates in the Arkansas School Boards Association - Risk Management Program (the Association), a self-insurance program voluntarily established on February 1, 1984 pursuant to state law. The Association is responsible for obtaining and administering insurance coverage for property and vehicles for its members, as well as obtaining reinsurance coverage for those claims that exceed the standard policy limits. In its administrative capacity, the Association is responsible for monitoring, negotiating, and settling claims that have been filed against member districts. The District pays an annual premium for its coverage of buildings, contents, and vehicles.

The District participates in the Arkansas Fidelity Bond Trust Fund administered by the Governmental Bonding Board. This program provides coverage for actual losses sustained by its members through fraudulent or dishonest acts committed by officials or employees. Each loss is limited to \$250,000 with a \$2,500 deductible. Premiums for coverage are paid by the Chief Fiscal Officer of the State of Arkansas from funds withheld from the Public School Fund.

**10: ON-BEHALF PAYMENTS**

The allocation of the health insurance premiums paid by the Arkansas Department of Education to the Employee Benefits Division, on-behalf of the District's employees, totaled \$51,432 for the year ended June 30, 2013.

**11: DETAILS OF GOVERNMENTAL FUND BALANCE CLASSIFICATIONS DISPLAYED IN THE AGGREGATE**

Description	Governmental Funds			Total
	Major			
	General	Special Revenue	Other Aggregate	
<b>Fund Balances:</b>				
<b>Restricted for:</b>				
Educational programs - national school lunch state categorical funding	\$ 24,032			\$ 24,032
Professional development	6,754			6,754
Capital projects			\$ 508,110	508,110
Child nutrition programs		\$ 476		476
Debt service			62,733	62,733
Medical services		60,381		60,381
Special education programs		2,525		2,525
Title I programs		255		255
Other purposes	29,200	6,980		36,180
<b>Total Restricted</b>	<u>59,986</u>	<u>70,617</u>	<u>570,843</u>	<u>701,446</u>
<b>Assigned to:</b>				
Capital projects			415,139	415,139
Student activities	71,366			71,366
<b>Total Assigned</b>	<u>71,366</u>		<u>415,139</u>	<u>486,505</u>
<b>Unassigned</b>	<u>886,391</u>			<u>886,391</u>
<b>Totals</b>	<u>\$1,017,743</u>	<u>\$ 70,617</u>	<u>\$ 985,982</u>	<u>\$2,074,342</u>

EAST END SCHOOL DISTRICT NO. 1  
PERRY COUNTY, ARKANSAS  
SCHEDULE OF CAPITAL ASSETS  
FOR THE YEAR ENDED JUNE 30, 2013  
(Unaudited)

Schedule 1

	Balance June 30, 2013
<i>Nondepreciable capital assets:</i>	
Land	\$ 79,583
Construction in progress	2,724,777
Total nondepreciable capital assets	2,804,360
 <i>Depreciable capital assets:</i>	
Buildings	5,186,934
Improvements/infrastructure	850,209
Equipment	1,417,784
Total depreciable capital assets	7,454,927
 Less accumulated depreciation for:	
Buildings	1,616,929
Improvements/infrastructure	282,133
Equipment	806,621
Total accumulated depreciation	2,705,683
Total depreciable capital assets, net	4,749,244
Capital assets, net	\$ 7,553,604

EAST END SCHOOL DISTRICT NO. 1  
PERRY COUNTY, ARKANSAS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2013

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>CHILD NUTRITION CLUSTER</b>			
<u>U. S. Department of Agriculture</u>			
Direct Program:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 3)	10.555		\$ 1,999
Passed Through State Department of Education:			
School Breakfast Program - Cash Assistance	10.553	53-01	48,276
National School Lunch Program - Cash Assistance	10.555	53-01	141,392
Total State Department of Education			<u>189,668</u>
Passed Through State Department of Human Services:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 4)	10.555	5301000	18,113
			<u>18,113</u>
<b>TOTAL CHILD NUTRITION CLUSTER</b>			<u>209,780</u>
<b>OTHER PROGRAMS</b>			
<u>U. S. Department of Education</u>			
Direct Program:			
Rural Education	84.358		45,583
Passed Through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	53-01	160,186
Special Education - Grants to States	84.027	53-01	187,819
Rural Education	84.358	53-01	469
Improving Teacher Quality State Grants	84.367	53-01	25,932
Total State Department of Education			<u>374,406</u>
Total U. S. Department of Education			<u>419,989</u>
<u>U. S. Department of Health and Human Services</u>			
Passed Through State Department of Education:			
Temporary Assistance for Needy Families	93.558	0000200179	7,185
			<u>7,185</u>
<b>TOTAL OTHER PROGRAMS</b>			<u>427,174</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 636,954</u>

The accompanying notes are an integral part of this schedule.

EAST END SCHOOL DISTRICT NO. 1  
PERRY COUNTY, ARKANSAS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2013

Schedule 2

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

- Note 1: Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of East End School District No. 1 (District) under programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in financial position of the District.
- Note 2: Summary of Significant Accounting Policies - Expenditures reported on the Schedule are reported on the regulatory basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.
- Note 3: Nonmonetary assistance is reported at the approximate value as provided by the U. S. Department of Defense through an agreement with the U. S. Department of Agriculture.
- Note 4: Nonmonetary assistance is reported at the approximate value as provided by the State Department of Human Services.
- Note 5: During the year ended June 30, 2013, the District received Medicaid funding of \$40,128 from the State Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above schedule.

EAST END SCHOOL DISTRICT NO. 1  
PERRY COUNTY, ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013

Schedule 3

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

FINANCIAL STATEMENTS

Types of auditor's reports issued: GAAP basis of reporting - adverse  
Regulatory basis opinion units - 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>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553 and 10.555 84.010	Child Nutrition Cluster Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee?  yes  no



EAST END SCHOOL DISTRICT NO. 1  
PERRY COUNTY, ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013

Schedule 3

**SECTION II - FINANCIAL STATEMENT FINDINGS**

**MATERIAL WEAKNESS**

2013-001. Internal Control

Criteria or specific requirement: Internal control is a process consisting of five interrelated components - *control environment, risk assessment, information and communication, control activities, and monitoring*. Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions in the financial statements.

Condition: Deficiencies in the internal control component of control activities adversely affected the District's ability to initiate, authorize, record, process, and report financial data in accordance with the regulatory basis of accounting such that there was a reasonable possibility that a material misstatement of the District's financial statements would not be prevented, or detected and corrected on a timely basis. Financial accounting duties were not adequately segregated among employees. Primarily, the responsibilities of receipting, disbursing, and reconciliation procedures were not adequately segregated.

Context: An understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures was obtained.

Effect: The District's ability to initiate, authorize, record, process, and report transactions consistent with management's assertions embodied in the financial statements, as well as the ability to safeguard District assets, was adversely affected by the identified weaknesses in the above internal control component.

Cause: District management, due to cost/benefit implications, which hindered the District's ability to adequately segregate financial accounting duties among employees, did not affectively address the deficiencies in internal control.

Recommendation: District management should adopt sound accounting policies and establish and maintain internal control that will initiate, authorize, record, process, and report transactions consistent with management's assertions embodied in the financial statements and that will safeguard District assets.

Views of responsible officials and planned corrective actions: We concur with the recommendation and will implement corrective procedures to the extent possible.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.

EAST END SCHOOL DISTRICT NO. 1  
PERRY COUNTY, ARKANSAS  
FEDERAL AWARD PROGRAMS -  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2013

Schedule 4

There were no findings in the prior audit.

EAST END SCHOOL DISTRICT NO. 1  
PERRY COUNTY, ARKANSAS  
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2013  
(Unaudited)

<b>General Fund</b>	Year Ended June 30,				
	2013	2012	2011	2010	2009
Total Assets	\$ 1,031,757	\$ 1,115,008	\$ 1,306,268	\$ 1,292,618	\$ 1,298,447
Total Liabilities	14,014	58,421	207,783	208,546	205,710
Total Fund Balances	1,017,743	1,056,587	1,098,485	1,084,072	1,092,737
Total Revenues	5,044,291	5,060,266	4,931,310	5,054,256	5,123,325
Total Expenditures	4,222,598	4,265,079	4,335,991	4,607,961	4,735,586
Total Other Financing Sources (Uses)	(860,537)	(837,085)	(580,906)	(454,960)	(361,145)
<b>Special Revenue Fund</b>					
Total Assets	83,159	58,067	120,627	107,068	94,376
Total Liabilities	12,542	6,920	53,415	4,787	726
Total Fund Balances	70,617	51,147	67,212	102,281	93,650
Total Revenues	732,089	721,692	958,991	883,756	726,264
Total Expenditures	811,624	766,992	1,031,362	912,591	888,274
Total Other Financing Sources (Uses)	99,005	27,202	49,802	37,466	82,654
<b>Other Aggregate Funds</b>					
Total Assets	1,453,608	2,748,772	1,048,036	483,489	286,579
Total Liabilities	467,626	2,308	66,832		
Total Fund Balances	985,982	2,746,464	981,204	483,489	286,579
Total Revenues	1,516,742	91,064	594,266	2,847	2,324
Total Expenditures	4,035,374	839,427	942,439	217,800	220,800
Total Other Financing Sources (Uses)	758,150	2,515,656	833,388	411,863	254,575