

East End School District No. 1

Perry County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2008

LEGISLATIVE JOINT AUDITING COMMITTEE



EAST END SCHOOL DISTRICT NO. 1
PERRY COUNTY, ARKANSAS
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JUNE 30, 2008

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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

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, 2008, which collectively comprise the District's regulatory basis financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described more fully in Note 1, the District has prepared these financial statements using accounting practices prescribed or permitted by Arkansas Code, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2008, or the changes in financial position for the year then ended. Further, the District has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2008, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2009 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 Capital Assets (Schedule 1), Schedule of Expenditures of Federal Awards (Schedule 2), as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Schedule of Findings and Questioned Costs (Schedule 3), Federal Award Programs – Summary Schedule of Prior Audit Findings (Schedule 4) and Schedule of Selected Information for the Last Four Years – Regulatory Basis (Schedule 5) are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements. The Schedule of Expenditures of Federal Awards (Schedule 2), Schedule of Findings and Questioned Costs (Schedule 3) and Federal Award Programs – Summary Schedule of Prior Audit Findings (Schedule 4) have been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, in our opinion, are fairly stated in all material respects in relation to the regulatory basis financial statements taken as a whole. The Schedule of Capital Assets (Schedule 1) and the Schedule of Selected Information for the Last Four Years – Regulatory Basis (Schedule 5) have not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on them.

DIVISION OF LEGISLATIVE AUDIT

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

Little Rock, Arkansas
June 23, 2009
EDSD28208

Sen. Bobby L. Glover
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Rep. Johnny Hoyt
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Sen. Bill Pritchard
Senate Co-Vice Chair
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Arkansas



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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*

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

We have audited 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, 2008, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated June 23, 2009. We issued an adverse opinion because the District prepared the financial statements using accounting practices prescribed or permitted by the Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices 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 financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2008, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting as prescribed or permitted by Arkansas Code such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2008-1 to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiency described above, we consider item 2008-1 in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

Compliance and Other Matters

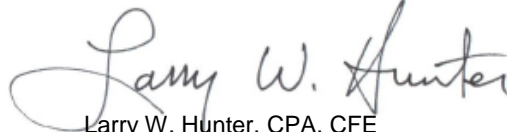
As part of obtaining reasonable assurance about whether the District's regulatory basis financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state and federal laws and regulations, contracts, and grant agreements,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

We noted certain matters that we reported to management of the District in a separate letter dated June 23, 2009.

The District's response to the findings identified in our audit, excluding the management letter findings, is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Legislative Joint Auditing Committee, the local school board and District management, state executive and oversight management, federal regulatory and oversight bodies, the federal awarding agencies and pass-through entities, and other parties as required by Arkansas Code, and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Arkansas Code Annotated § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
June 23, 2009

Sen. Bobby L. Glover
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Arkansas



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Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of the East End School District No. 1 (the "District") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2008-2.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

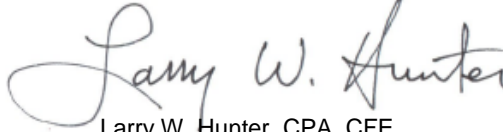
A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2008-2 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control. We did not consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Legislative Joint Auditing Committee, the local school board and District management, state executive and oversight management, federal regulatory and oversight bodies, the federal awarding agencies and pass-through entities, and other parties as required by Arkansas Code, and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Arkansas Code Annotated § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
June 23, 2009

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LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

MANAGEMENT LETTER

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

We would like to communicate the following items that came to our attention during this audit. The purpose of such comments is to provide constructive feedback and guidance, in an effort to assist management to maintain a satisfactory level of compliance with the state constitution, laws and regulations and to improve internal control. These matters were discussed previously with District officials during the course of our audit fieldwork and at the exit conference.

1. Arkansas law requires the District to distribute any increase in the Educational Excellence Trust Fund to certified personnel positions. The District did not distribute the increase to certified personnel, resulting in an underpayment of \$1,483.
2. Band instrument rental fees and fundraising sales were calculated, based on District records, to be \$1,983 more than deposits for the period July 1, 2008 through March 16, 2009. Custodian David Yarbrough deposited these funds in two non-District bank accounts, including the Booster Club account, rather than the District Activity account. In addition, Mr. Yarbrough charged \$40 to a credit card and withdrew cash of \$1,070 from the Booster Club bank account without supporting documentation. Of these improper transactions totaling \$3,093, Mr. Yarbrough whose employment will end June 30, 2009, paid band vendor invoices of \$400, leaving \$2,693 owed the District.

This letter is intended solely for the information and use of the Legislative Joint Auditing Committee, the local school board and District management, state executive and oversight management, federal regulatory and oversight bodies, the federal awarding agencies and pass-through entities, and other parties as required by Arkansas Code, and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Arkansas Code Annotated § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

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
June 23, 2009

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EAST END SCHOOL DISTRICT NO. 1
PERRY COUNTY, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2008

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 1,259,664	\$ 174,444	\$ 65,129	\$ 27,389
Accounts receivable	5,837			
Deposit with paying agent			185,351	
TOTAL ASSETS	\$ 1,265,501	\$ 174,444	\$ 250,480	\$ 27,389
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 11,168	\$ 1,438		
Due student groups				\$ 27,389
Deferred taxes	188,190			
Total Liabilities	199,358	1,438		27,389
Fund Balances:				
Reserved:				
Debt service			\$ 185,351	
Unreserved:				
Designated:				
Capital projects			65,129	
Undesignated	1,066,143	173,006		
Total Fund Balances	1,066,143	173,006	250,480	
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,265,501	\$ 174,444	\$ 250,480	\$ 27,389

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

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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, 2008

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 995,880		
State assistance	3,839,275	\$ 2,593	
Federal assistance	20,000	554,149	
Activity revenues	95,258		
Meal sales		78,332	
Investment income	8,759		
Other revenues	18,177	20,741	
TOTAL REVENUES	4,977,349	655,815	
EXPENDITURES			
Regular programs	1,946,811	41,274	
Special education	408,841	89,659	
Workforce education	184,520		
Compensatory education	5,498	107,697	
Other instructional programs	239,744		
Student support services	123,161	55,280	
Instructional staff support services	214,946	44,263	
General administration support services	239,407		
School administration support services	237,540		
Central services support services	82,273		
Operation and maintenance of plant services	444,019		
Student transportation services	215,187	6,740	
Other support services	17,176		
Food services operations		328,356	
Community services operations		248	
Facilities acquisition and construction services	20,857		
Activity expenditures	92,711		
Debt Service:			
Principal retirement	51,806		\$ 70,000
Interest and fiscal charges	6,030		148,800
TOTAL EXPENDITURES	4,530,527	673,517	218,800
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	446,822	(17,702)	(218,800)
OTHER FINANCING SOURCES (USES)			
Transfers in		54,066	404,151
Transfers out	(458,217)		
TOTAL OTHER FINANCING SOURCES (USES)	(458,217)	54,066	404,151
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(11,395)	36,364	185,351
FUND BALANCES - JULY 1	1,077,538	136,642	65,129
FUND BALANCES - JUNE 30	\$ 1,066,143	\$ 173,006	\$ 250,480

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, 2008

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 920,517	\$ 995,880	\$ 75,363			
State assistance	3,751,396	3,839,275	87,879	\$ 2,600	\$ 2,593	\$ (7)
Federal assistance		20,000	20,000	520,550	554,149	33,599
Activity revenues		95,258	95,258			
Meal sales				81,000	78,332	(2,668)
Investment income		8,759	8,759			
Other revenues		18,177	18,177		20,741	20,741
TOTAL REVENUES	4,671,913	4,977,349	305,436	604,150	655,815	51,665
EXPENDITURES						
Regular programs	1,895,812	1,946,811	(50,999)	35,640	41,274	(5,634)
Special education	419,791	408,841	10,950	91,284	89,659	1,625
Workforce education	185,765	184,520	1,245			
Compensatory education	38,758	5,498	33,260	167,897	107,697	60,200
Other instructional programs	264,355	239,744	24,611			
Student support services	123,930	123,161	769	70,397	55,280	15,117
Instructional staff support services	236,353	214,946	21,407	57,838	44,263	13,575
General administration support services	267,359	239,407	27,952			
School administration support services	231,734	237,540	(5,806)			
Central services support services	85,215	82,273	2,942			
Operation and maintenance of plant services	394,214	444,019	(49,805)			
Student transportation services	340,014	215,187	124,827	17,448	6,740	10,708
Other support services		17,176	(17,176)			
Food services operations				353,612	328,356	25,256
Community services operations				500	248	252
Other non-instructional services	94,177		94,177			
Facilities acquisition and construction services		20,857	(20,857)			
Activity expenditures		92,711	(92,711)			
Debt Service:						
Principal retirement		51,806	(51,806)			
Interest and fiscal charges		6,030	(6,030)			
TOTAL EXPENDITURES	4,577,477	4,530,527	46,950	794,616	673,517	121,099

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, 2008

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 94,436	\$ 446,822	\$ 352,386	\$ (190,466)	\$ (17,702)	\$ 172,764
OTHER FINANCING SOURCES (USES)						
Transfers in	2,372,965		(2,372,965)	106,359	54,066	(52,293)
Transfers out	(2,697,924)	(458,217)	2,239,707			
TOTAL OTHER FINANCING SOURCES (USES)	(324,959)	(458,217)	(133,258)	106,359	54,066	(52,293)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(230,523)	(11,395)	219,128	(84,107)	36,364	120,471
FUND BALANCES - JULY 1	981,188	1,077,538	96,350	136,642	136,642	
FUND BALANCES - JUNE 30	\$ 750,665	\$ 1,066,143	\$ 315,478	\$ 52,535	\$ 173,006	\$ 120,471

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

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EAST END SCHOOL DISTRICT NO. 1
PERRY COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

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 the general operating fund and is used to account for all financial resources, except those required to be reported in another fund.

Special Revenue Fund - The Special Revenue Fund is used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

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

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments).

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

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 Arkansas Code Annotated § 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.

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.

EAST END SCHOOL DISTRICT NO. 1
PERRY COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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 in November based on property assessment made between January 1 and May 31 and are an enforceable lien on January 1 for real property and June 1 for personal property. The tax records are opened on the first business day of March of the year following the levy date and are considered delinquent after October 10 of the same calendar year. Property taxes are accrued or deferred, as applicable, in accordance with guidelines issued by the Arkansas Department of Education (ADE), which were effective beginning with the fiscal year ended June 30, 2006. Arkansas law defines revenue receipts of a school district and includes 40% of the proceeds of local taxes which are not pledged to secure bonded indebtedness or 40% of the revenue from the uniform rate of tax whichever is greater collected in the succeeding calendar year, commonly known as 40% pullback, within that definition. The ADE has determined that school districts must utilize the 40% pullback amount, as calculated by the ADE and reflected on the respective county's abstract of assessments, in recording property tax revenue as follows:

- If the amount of 40% pullback collected by June 30th is less than the calculated 40% pullback amount, the difference must be accrued;
- If the amount of 40% pullback collected by June 30th is more than the calculated 40% pullback amount, the excess must be recorded as deferred taxes.

EAST END SCHOOL DISTRICT NO. 1
PERRY COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

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. Arkansas Code Annotated § 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. Fund Balance Designations

1. Reserved fund balance - represents that portion of the fund balance which is not appropriable for expenditure or is legally segregated for a specific future use.
2. Designated fund balance - represents that portion of the fund balance which indicates tentative plans for financial resource utilization in a future period.
3. Undesignated fund balance - indicates that portion of the fund balance not reserved or designated.

H. 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.

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.

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)	\$ 100,000	\$ 100,000
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the District's name	1,426,626	1,851,116
Total Deposits	\$ 1,526,626	\$ 1,951,116

EAST END SCHOOL DISTRICT NO. 1
PERRY COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

3: ACCOUNTS RECEIVABLE

The accounts receivable balance of \$5,837 at June 30, 2008 was comprised of the following:

Description	Governmental Fund
	Major
	General
Other	\$ 5,837

4: COMMITMENTS

The District was contractually obligated for the following at June 30, 2008:

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, 2008	Maturities To June 30, 2008
11/1/03	6/1/33	4.7%	\$ 3,435,000	\$ 3,160,000	\$ 275,000
6/18/03	6/18/13		148,381	148,381	
9/24/02	9/24/12		250,000	250,000	
4/28/04	6/1/09	7%	138,634	31,774	106,860
2/14/05	3/10/10	4.4%	109,500	46,813	62,687
Totals			\$ 4,081,515	\$ 3,636,968	\$ 444,547

Changes in Long-term Debt

	Balance July 1, 2007	Issued	Retired	Balance June 30, 2008
Bonds payable	\$ 3,230,000		\$ 70,000	\$ 3,160,000
Postdated warrants	398,381			398,381
Capital leases	130,393		51,806	78,587
Totals	\$ 3,758,774	\$ 0	\$ 121,806	\$ 3,636,968

EAST END SCHOOL DISTRICT NO. 1
PERRY COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

4: COMMITMENTS (Continued)

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

Year Ended June 30,	Principal	Interest	Total
2009	\$ 129,671	\$ 148,784	\$ 278,455
2010	98,916	143,592	242,508
2011	80,000	139,800	219,800
2012	80,000	136,600	216,600
2013	80,000	133,400	213,400
2014-2018	873,381	613,550	1,486,931
2019-2023	600,000	500,153	1,100,153
2024-2028	745,000	350,720	1,095,720
2029-2033	950,000	147,500	1,097,500
Totals	<u>\$ 3,636,968</u>	<u>\$ 2,314,099</u>	<u>\$ 5,951,067</u>

Capital Leases

The District has executed the following capital leases:

Class of Property	Asset Balance June 30, 2008
Equipment	\$ 138,634
Buses	109,500
Total	<u>\$ 248,134</u>
	<u>June 30, 2008</u>
Total Minimum Lease Payments	\$ 82,363
Less: Amount Representing Interest	<u>3,776</u>
Total Present Value of Net Minimum Lease Payments	<u>\$ 78,587</u>

Qualified Zone Academy Bond (QZAB)

On September 24, 2002 and June 18, 2003, the District obtained funding through the Qualified Zone Academy Bond (QZAB) program, a financial arrangement created by the Tax Relief Act of 1997. A QZAB does not generally require interest payments from the borrower. The eligible financial institution holding the bond receives a tax credit in lieu of interest payments. The principal is not due until the end of the term. The District borrowed \$250,000 and \$148,381, respectively, through this program by issuing postdated warrants. The District will deposit \$22,823 and \$13,698 annually into a sinking fund for ten years for a total of \$228,230 and \$136,980, respectively. This amount plus interest will be used to retire the debt when due.

EAST END SCHOOL DISTRICT NO. 1
PERRY COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

5: ACCOUNTS PAYABLE

The accounts payable balance of \$12,606 at June 30, 2008 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
Vendor payables	\$ 11,168	\$ 1,438	\$ 12,606

6: INTERFUND TRANSFERS

The District transferred \$54,066 from the general fund to the special revenue fund to supplement its food services operations. The District also transferred \$404,151 from the general fund to the other aggregate funds for debt related payments of \$255,321 and to reclassify the beginning balance of the deposit with paying agent of \$148,830 to the proper fund.

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, 2008, 2007 and 2006 were \$421,490, \$443,332 and \$436,730, respectively, equal to the required contributions for each year.

8: 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.

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.

EAST END SCHOOL DISTRICT NO. 1
PERRY COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

8: RISK MANAGEMENT (Continued)

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 \$1,000 deductible. Premiums for coverage are paid by the Chief Fiscal Officer of the State of Arkansas from funds withheld from the Public School Fund.

EAST END SCHOOL DISTRICT NO. 1
PERRY COUNTY, ARKANSAS
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2008
(Unaudited)

Schedule 1

	Balance June 30, 2008
<i>Nondepreciable capital assets:</i>	
Land	\$ 70,383
<i>Depreciable capital assets:</i>	
Buildings	5,395,479
Improvements/infrastructure	394,908
Equipment	961,879
Total depreciable capital assets	6,752,266
Less accumulated depreciation for:	
Buildings	1,184,617
Improvements/infrastructure	188,959
Equipment	612,204
Total accumulated depreciation	1,985,780
Total depreciable capital assets, net	4,766,486
Capital assets, net	\$ 4,836,869

EAST END SCHOOL DISTRICT NO. 1
PERRY COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
CHILD NUTRITION CLUSTER			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
School Breakfast Program	10.553	53-01	\$ 48,143
National School Lunch Program	10.555	53-01	126,149
TOTAL CHILD NUTRITION CLUSTER			174,292
OTHER PROGRAMS			
<u>U. S. Department of Agriculture</u>			
Food Donation (Notes 2 and 4)			
	10.550		665
Passed Through State Department of Human Services:			
Food Donation (Notes 3 and 4)	10.550	53-01	18,331
Total U. S. Department of Agriculture			18,996
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants - Local Educational Agencies	84.010	53-01	121,521
Special Education - Grants to States	84.027	53-01	147,538
Safe and Drug-Free Schools and Communities - State Grants	84.186	53-01	4,255
Twenty-First Century Community Learning Centers	84.287	53-01	5,983
State Grants for Innovative Programs	84.298	53-01	658
Improving Teacher Quality State Grants	84.367	53-01	35,290
Total U. S. Department of Education			315,245
TOTAL OTHER PROGRAMS			334,241
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 508,533

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, 2008

Schedule 2

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

- Note 1: Basis of Presentation - The accompanying schedule of expenditures of federal awards includes the federal grant activity of East End School District No. 1 and is presented on the regulatory basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the regulatory basis financial statements.
- Note 2: 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 3: Nonmonetary assistance is reported at the approximate value as provided by the State Department of Human Services.
- Note 4: CFDA Number 10.550 pertains to food commodities distributed by USDA for use in the following categorical program: National School Lunch Program (CFDA 10.555). USDA deleted this number from the CFDA in April 2008. The audit covering the District's fiscal year beginning July 1, 2008, and future audits, will therefore identify commodity assistance by the CFDA numbers of the programs in which the commodities are used.
- Note 5: During the year ended June 30, 2008, the District received Medicaid funding of \$19,725 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, 2008

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 - unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? 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 that are not considered to be material weakness(es)? yes none reported

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? yes no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553 and 10.555 84.027	Child Nutrition Cluster Special Education - Grants to States

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, 2008

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

SIGNIFICANT DEFICIENCY

2008-1. 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 embodied in the financial statements.

Condition: A deficiency 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 more than a remote likelihood that a misstatement of the District's financial statements that would be more than inconsequential would not be prevented or detected. The District has not segregated financial accounting duties among appropriate employees to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting.

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, were adversely affected by the identified weakness 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 effectively address the deficiency 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.

EAST END SCHOOL DISTRICT NO. 1
PERRY COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

Schedule 3

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

SIGNIFICANT DEFICIENCY

U. S. DEPARTMENT OF AGRICULTURE
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
CHILD NUTRITION CLUSTER - CFDA NUMBERS 10.553 AND 10.555
PASS-THROUGH NUMBER 53-01
AUDIT PERIOD - YEAR ENDED JUNE 30, 2008

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
SPECIAL EDUCATION - GRANTS TO STATES - CFDA NUMBER 84.027
PASS-THROUGH NUMBER 53-01
AUDIT PERIOD - YEAR ENDED JUNE 30, 2008

2008-2. Allowable Costs/Cost Principles

Criteria or specific requirement: Office of Management and Budget (OMB) Circular A-87 requires the preparation of monthly personnel activity reports or equivalent documentation when District employees work multiple activities. Periodic time certifications are required when an employee works solely on a single federal program.

Condition: Monthly personnel activity reports were not prepared for three child nutrition employees and six special education employees who also worked other activities. Periodic time certifications were not prepared for eight employees who worked solely with the child nutrition programs and four employees who worked solely with the special education program.

Context: Examination of documentation substantiating time worked by employees.

Effect: The District was unable to provide required documentation substantiating the time charged to the child nutrition or special education programs.

Cause: The District was unaware of the OMB Circular A-87 requirement pertaining to monthly personnel activity reports and periodic time certifications.

Recommendation: The District should prepare the monthly personnel activity reports and periodic time certifications for all applicable employees.

Views of responsible officials: We concur with this finding. The District will provide the required time distribution reports in the future.

EAST END SCHOOL DISTRICT NO. 1
PERRY COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008

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 FOUR YEARS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2008
(Unaudited)

	Year Ended June 30,			
	2008	2007	2006	2005
<u>General Fund</u>				
Total Assets	\$ 1,265,501	\$ 1,245,808	\$ 1,036,722	\$ 998,811
Total Liabilities	199,358	168,270	81,232	20,463
Total Fund Balances	1,066,143	1,077,538	955,490	978,348
Total Revenues	4,977,349	4,994,256	4,938,767	4,884,003
Total Expenditures	4,530,527	4,555,241	4,634,293	4,387,953
Total Other Financing Sources (Uses)	(458,217)	(316,967)	(327,332)	(192,047)
<u>Special Revenue Fund</u>				
Total Assets	174,444	136,642	143,443	207,035
Total Liabilities	1,438			8,540
Total Fund Balances	173,006	136,642	143,443	198,495
Total Revenues	655,815	713,561	709,068	752,494
Total Expenditures	673,517	815,929	867,252	824,360
Total Other Financing Sources (Uses)	54,066	95,567	103,132	87,634
<u>Other Aggregate Funds</u>				
Total Assets	250,480	65,129	109,487	610,430
Total Liabilities				
Total Fund Balances	250,480	65,129	109,487	610,430
Total Revenues			6,588	9,370
Total Expenditures	218,800	265,758	731,731	1,380,433
Total Other Financing Sources (Uses)	404,151	221,400	224,200	213,963