

**East End School District No. 1**

**Perry County, Arkansas**

**Regulatory Basis Financial Statements  
And Other Reports**

**June 30, 2016**

LEGISLATIVE JOINT AUDITING COMMITTEE

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PERRY COUNTY, ARKANSAS  
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JUNE 30, 2016

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# Arkansas

**Sen. Jimmy Hickey, Jr.**  
Senate Chair  
**Sen. Lance Eads**  
Senate Vice Chair



**Rep. Richard Womack**  
House Chair  
**Rep. Mary Bentley**  
House Vice Chair

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

## LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS 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, 2016, 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 the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005, as described in Note 1, to meet the requirements of the State of Arkansas. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. 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, 2016, 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, 2016, 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**

*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 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 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 March 17, 2017 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.

ARKANSAS LEGISLATIVE AUDIT



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

Little Rock, Arkansas  
March 17, 2017  
EDSD28216

# Arkansas

Sen. Jimmy Hickey, Jr.  
Senate Chair  
Sen. Lance Eads  
Senate Vice Chair



Rep. Richard Womack  
House Chair  
Rep. Mary Bentley  
House Vice Chair

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

## LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS 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, 2016, and the related notes to financial statements, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated March 17, 2017. 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, 2016, 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.

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 financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described below in the Audit Findings section of this report, that we consider 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 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*.

## AUDIT FINDINGS

### Material Weakness

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.

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 statement would not be prevented, or detected and corrected on a timely basis. The District, because of cost/benefit implications, 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. Specifically, bank reconciliations of the primary operating account were prepared by the same employee responsible for the maintenance of accounting records, and payroll checks were prepared by the same employee responsible for entering changes to payroll and adding new employees, without compensating controls.

An understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statement whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures was obtained. 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 the District assets, was adversely affected by the identified weaknesses in the aforementioned internal control component. 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.

Management response: We concur with the recommendation and will implement corrective procedures to the extent possible.

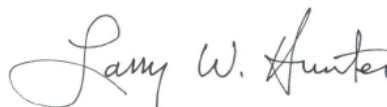
### **District's Response to Findings**

The District's response to the finding identified in our audit is described previously. 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.

ARKANSAS LEGISLATIVE AUDIT



Larry W. Hunter, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
March 17, 2017

EAST END SCHOOL DISTRICT NO. 1  
PERRY COUNTY, ARKANSAS  
BALANCE SHEET - REGULATORY BASIS  
JUNE 30, 2016

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
<b>ASSETS</b>				
Cash	\$ 1,221,215	\$ 16,235	\$ 1,225,600	\$ 19,173
Accounts receivable	429	60,496		
Deposit with paying agent			150,066	
<b>TOTAL ASSETS</b>	<b>\$ 1,221,644</b>	<b>\$ 76,731</b>	<b>\$ 1,375,666</b>	<b>\$ 19,173</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accrued liabilities	\$ 70,334			
Due student groups				\$ 19,173
<b>Total Liabilities</b>	<b>70,334</b>			<b>19,173</b>
Fund Balances:				
Restricted	91,223	\$ 76,731	\$ 517,370	
Assigned	29,391		858,296	
Unassigned	1,030,696			
<b>Total Fund Balances</b>	<b>1,151,310</b>	<b>76,731</b>	<b>1,375,666</b>	
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,221,644</b>	<b>\$ 76,731</b>	<b>\$ 1,375,666</b>	<b>\$ 19,173</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, 2016

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
<b>REVENUES</b>			
Property taxes (including property tax relief trust distribution)	\$ 1,535,580		
State assistance	3,807,325	\$ 15,144	\$ 44,553
Federal assistance	27,542	691,671	13,349
Activity revenues	151,229		
Meal sales		73,201	
Investment income	6,274		457
Other revenues	13,634	498	
<b>TOTAL REVENUES</b>	<b>5,541,584</b>	<b>780,514</b>	<b>58,359</b>
<b>EXPENDITURES</b>			
Regular programs	1,979,959	500	
Special education	384,158	91,739	
Career education programs	174,917		
Compensatory education programs	40,053	127,063	
Other instructional programs	228,580		
Student support services	113,719	51,469	
Instructional staff support services	333,582	116,571	
General administration support services	253,245	6,197	
School administration support services	275,645		
Central services support services	67,666		
Operation and maintenance of plant services	613,826		
Student transportation services	189,679	10,793	
Other support services	37,073		
Food services operations		424,192	
Community services operations		1,000	
Facilities acquisition and construction services	790		13,559
Activity expenditures	154,383		
Debt Service:			
Principal retirement			45,000
Interest and fiscal charges			119,520
<b>TOTAL EXPENDITURES</b>	<b>4,847,275</b>	<b>829,524</b>	<b>178,079</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>694,309</b>	<b>(49,010)</b>	<b>(119,720)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in		59,623	631,010
Transfers out	(690,633)		
Refund to grantor	(5,805)		
Proceeds from refunding bond issues			4,535,000
Net bond issuance costs			(99,991)
Payments to refunding bond escrow agents			(4,429,848)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(696,438)</b>	<b>59,623</b>	<b>636,171</b>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>(2,129)</b>	<b>10,613</b>	<b>516,451</b>
<b>FUND BALANCES - JULY 1</b>	<b>1,153,439</b>	<b>66,118</b>	<b>859,215</b>
<b>FUND BALANCES - JUNE 30</b>	<b>\$ 1,151,310</b>	<b>\$ 76,731</b>	<b>\$ 1,375,666</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 -  
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2016

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)	\$ 1,465,492	\$ 1,535,580	\$ 70,088			
State assistance	3,432,247	3,807,325	375,078	\$ 10,000	\$ 15,144	\$ 5,144
Federal assistance		27,542	27,542	612,858	691,671	78,813
Activity revenues		151,229	151,229			
Meal sales				74,000	73,201	(799)
Investment income	5,000	6,274	1,274			
Other revenues		13,634	13,634		498	498
<b>TOTAL REVENUES</b>	<b>4,902,739</b>	<b>5,541,584</b>	<b>638,845</b>	<b>696,858</b>	<b>780,514</b>	<b>83,656</b>
<b>EXPENDITURES</b>						
Regular programs	1,844,746	1,979,959	(135,213)	18,000	500	17,500
Special education	411,949	384,158	27,791	96,008	91,739	4,269
Career education programs	169,979	174,917	(4,938)			
Compensatory education programs	48,315	40,053	8,262	130,080	127,063	3,017
Other instructional programs	238,040	228,580	9,460			
Student support services	115,891	113,719	2,172	91,381	51,469	39,912
Instructional staff support services	328,232	333,582	(5,350)	101,154	116,571	(15,417)
General administration support services	254,345	253,245	1,100	6,172	6,197	(25)
School administration support services	279,486	275,645	3,841	1,000		1,000
Central services support services	66,262	67,666	(1,404)			
Operation and maintenance of plant services	557,520	613,826	(56,306)			
Student transportation services	205,136	189,679	15,457	17,000	10,793	6,207
Other support services	33,531	37,073	(3,542)			
Food services operations				381,448	424,192	(42,744)
Community services operations				1,000	1,000	
Facilities acquisition and construction services		790	(790)			
Non-programmed costs				9,527		9,527
Activity expenditures		154,383	(154,383)			
<b>TOTAL EXPENDITURES</b>	<b>4,553,432</b>	<b>4,847,275</b>	<b>(293,843)</b>	<b>852,770</b>	<b>829,524</b>	<b>23,246</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, 2016

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 349,307	\$ 694,309	\$ 345,002	\$ (155,912)	\$ (49,010)	\$ 106,902
OTHER FINANCING SOURCES (USES)						
Transfers in	6,580,094		(6,580,094)	92,448	59,623	(32,825)
Transfers out	(6,943,888)	(690,633)	6,253,255			
Refund to grantor		(5,805)	(5,805)			
TOTAL OTHER FINANCING SOURCES (USES)	(363,794)	(696,438)	(332,644)	92,448	59,623	(32,825)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(14,487)	(2,129)	12,358	(63,464)	10,613	74,077
FUND BALANCES - JULY 1	1,130,483	1,153,439	22,956	67,191	66,118	(1,073)
FUND BALANCES - JUNE 30	\$ 1,115,996	\$ 1,151,310	\$ 35,314	\$ 3,727	\$ 76,731	\$ 73,004

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, 2016

**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.

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, inclusion of the net pension liability 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, 2016

**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 acquisition 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 2015 calendar year taxes collected by June 30, 2016 and 20 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, 2016 equaled or exceeded the 20 percent calculation.

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.

EAST END SCHOOL DISTRICT NO. 1  
PERRY COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

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

G. 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.

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. 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.

I. 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.

J. Minimum Fund Balance Policies

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

K. 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.

EAST END SCHOOL DISTRICT NO. 1  
PERRY COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

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

K. Fund Balance Classification Policies and Procedures (Continued)

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 expenditures are 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.

L. 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	2,232,223	2,348,758
Total Deposits	\$ 2,482,223	\$ 2,598,758

**3: ACCOUNTS RECEIVABLE**

Accounts receivable at June 30, 2016 were comprised of the following:

Description	Governmental Funds	
	Major	
	General	Special Revenue
Federal assistance		\$ 60,404
Meal sales		92
Other	\$ 429	
Totals	\$ 429	\$ 60,496

EAST END SCHOOL DISTRICT NO. 1  
PERRY COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

**4: COMMITMENTS**

The District was contractually obligated for the following at June 30, 2016:

A. Construction Contract

Project Name	Completion Date	Contract Balance
Anne Watson Elementary School sewer project	October 17, 2016	\$ 174,760

B. 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, 2016	Maturities To June 30, 2016
9/1/15	6/1/33	1 - 3.25%	\$ 2,865,000	\$ 2,865,000	
4/1/16	2/1/41	1 - 3.6%	1,670,000	1,670,000	
10/15/10	10/15/20	4.8%	300,000	300,000	
Totals			<u>\$ 4,835,000</u>	<u>\$ 4,835,000</u>	<u>\$ 0</u>

Changes in Long-term Debt

	Balance July 1, 2015	Issued	Retired	Balance June 30, 2016
Bonds payable	\$ 4,405,000	\$ 4,535,000	\$ 4,405,000	\$ 4,535,000
Postdated warrants	300,000			300,000
Totals	<u>\$ 4,705,000</u>	<u>\$ 4,535,000</u>	<u>\$ 4,405,000</u> *	<u>\$ 4,835,000</u>

\*Includes \$4,360,000 early retirement of debt - See Note 6

Future Principal and Interest Payments

Year Ended June 30,	Principal	Interest	Total
2017	\$ 75,000	\$ 111,330	\$ 186,330
2018	190,000	117,628	307,628
2019	210,000	115,727	325,727
2020	515,000	113,473	628,473
2021	215,000	96,358	311,358
2022-2026	1,135,000	428,105	1,563,105
2027-2031	1,270,000	301,302	1,571,302
2032-2036	780,000	130,825	910,825
2037-2041	445,000	49,020	494,020
Totals	<u>\$ 4,835,000</u>	<u>\$ 1,463,768</u>	<u>\$ 6,298,768</u>

EAST END SCHOOL DISTRICT NO. 1  
PERRY COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

**4: COMMITMENTS (Continued)**

B. Long-term Debt Issued and Outstanding (Continued)

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 \$30,000 annually into a sinking fund for 10 years for a total of \$300,000. This amount plus interest earned will be used to retire the debt when due.

Security for Debt Payments

Ark. Code Ann. § 6-20-1204 specifies procedures to be followed if a school district is delinquent in a payment to the paying agent for bonded debt. As additional security, any delinquent payment for bonded debt will be satisfied by the Arkansas Department of Education (ADE). Depending on the date of the bond issue, ADE will recover the full amount of any delinquency payment through the withholding of a school district's state funding or a direct payment from the school district. There were no delinquent bond payments incurred by the District during the audit period.

**5: ACCRUED LIABILITIES**

Accrued liabilities at June 30, 2016 were comprised of the following:

	Governmental Fund
	Major
Description	General
Due to grantors	\$ 70,334

**6: DEBT REFUNDINGS**

On September 1, 2015, the District issued refunding bonds of \$2,865,000 with interest rates of 1 to 3.25 percent to refund \$2,745,000 of outstanding bonds dated December 1, 2010. The interest rates of the bonds refunded were 1 to 4.375 percent. Net bond proceeds of \$2,797,535 were remitted to an escrow agent to provide for all future debt service payments for the bonds refunded. These bonds were called on December 1, 2015. The remaining proceeds of \$1,361 (after payment of \$66,104 net bond issuance costs) will be utilized for subsequent debt payments. The issuance of these bonds will result in a savings of \$293,477 to the District over the life of the bonds.

On April 1, 2016, the District issued refunding bonds of \$1,670,000 with interest rates of 1 to 3.6 percent to refund \$1,615,000 of outstanding bonds dated November 1, 2011. The interest rates of the bonds refunded were 1.25 to 4.2 percent. Net bond proceeds of \$1,632,313 were remitted to an escrow agent to provide for all future debt service payments for the bonds refunded. These bonds were called on May 9, 2016. The remaining proceeds of \$3,800 (after payment of \$33,887 net bond issuance costs) will be utilized for subsequent debt payments. The issuance of these bonds will result in a savings of \$155,944 to the District over the life of the bonds.

**7: INTERFUND TRANSFERS**

The District transferred \$631,010 from the general fund to the other aggregate funds for debt related payments of \$139,599, to supplement capital projects by \$320,046, and debt refunding savings of \$171,365 required to be used for capital expenditures. Additionally, the District transferred \$59,623 from the general fund to the special revenue fund to supplement its food services operations.



EAST END SCHOOL DISTRICT NO. 1  
PERRY COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

**8: 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 employees of schools and education-related agencies, except certain non-teaching school employees. 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 District's contributions to ATRS for the year ended June 30, 2016 were \$461,574, equal to the required contributions.

Net Pension Liability

The Arkansas Department of Education has stipulated that, under the regulatory basis of accounting, the requirements of Governmental Accounting Standards Board Statement no. 68 would be limited to disclosure of the District's proportionate share of the collective net pension liability. The District's proportionate share of the collective net pension liability at June 30, 2015 (actuarial valuation date and measurement date) was \$3,548,497.

**9: PLEDGED REVENUES**

The District has pledged a portion of its property taxes to retire bonds of \$4,535,000 issued from September 1, 2015 to April 1, 2016. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$5,941,168, payable through February 1, 2041. Principal and interest paid for the current year and total property taxes pledged for debt service were \$150,120 and \$585,345, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 25.65 percent.

**10: 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.

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.

EAST END SCHOOL DISTRICT NO. 1  
PERRY COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

**10: RISK MANAGEMENT (Continued)**

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 \$300,000 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.

Settled claims have not exceeded 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.

**11: 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 \$77,546 for the year ended June 30, 2016.

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

Description	Governmental Funds		
	Major		Other Aggregate
	General	Special Revenue	
Fund Balances:			
Restricted for:			
Alternative learning environment	\$ 334		
Educational programs - national school lunch state categorical funding	18,304		
English-language learners	2,639		
Professional development	2,929		
Capital projects			\$ 359,284
Child nutrition programs		\$ 92	
Debt service			158,086
Medical services		67,451	
Special education programs	9,032		
Title I programs		6,641	
Other purposes	57,985	2,547	
Total Restricted	<u>91,223</u>	<u>76,731</u>	<u>517,370</u>
Assigned to:			
Capital projects			858,296
Student activities	29,391		
Total Assigned	<u>29,391</u>		<u>858,296</u>
Unassigned	<u>1,030,696</u>		
Totals	<u>\$1,151,310</u>	<u>\$ 76,731</u>	<u>\$1,375,666</u>

EAST END SCHOOL DISTRICT NO. 1  
PERRY COUNTY, ARKANSAS  
SCHEDULE OF CAPITAL ASSETS  
FOR THE YEAR ENDED JUNE 30, 2016  
(Unaudited)

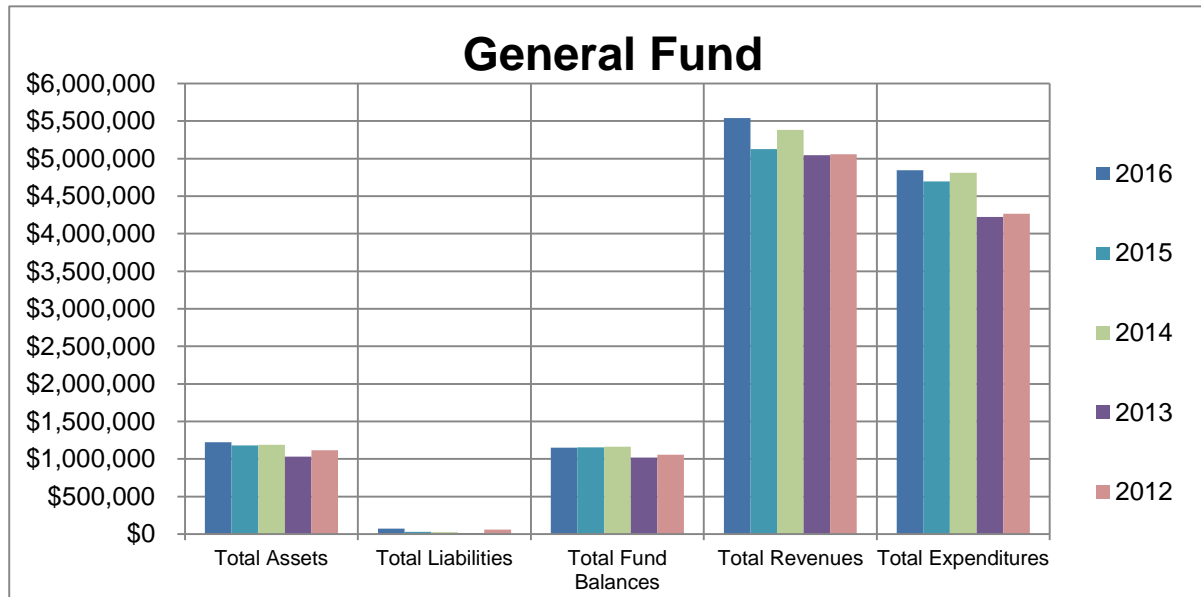
Schedule 1

	Balance June 30, 2016
<i>Nondepreciable capital assets:</i>	
Land	\$ 107,583
Construction in progress	5,500
Total nondepreciable capital assets	113,083
 <i>Depreciable capital assets:</i>	
Buildings	9,062,122
Improvements/infrastructure	920,437
Equipment	1,613,374
Total depreciable capital assets	11,595,933
 Less accumulated depreciation for:	
Buildings	2,143,870
Improvements/infrastructure	376,892
Equipment	1,058,692
Total accumulated depreciation	3,579,454
 Total depreciable capital assets, net	 8,016,479
 Capital assets, net	 \$ 8,129,562

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, 2016  
(Unaudited)

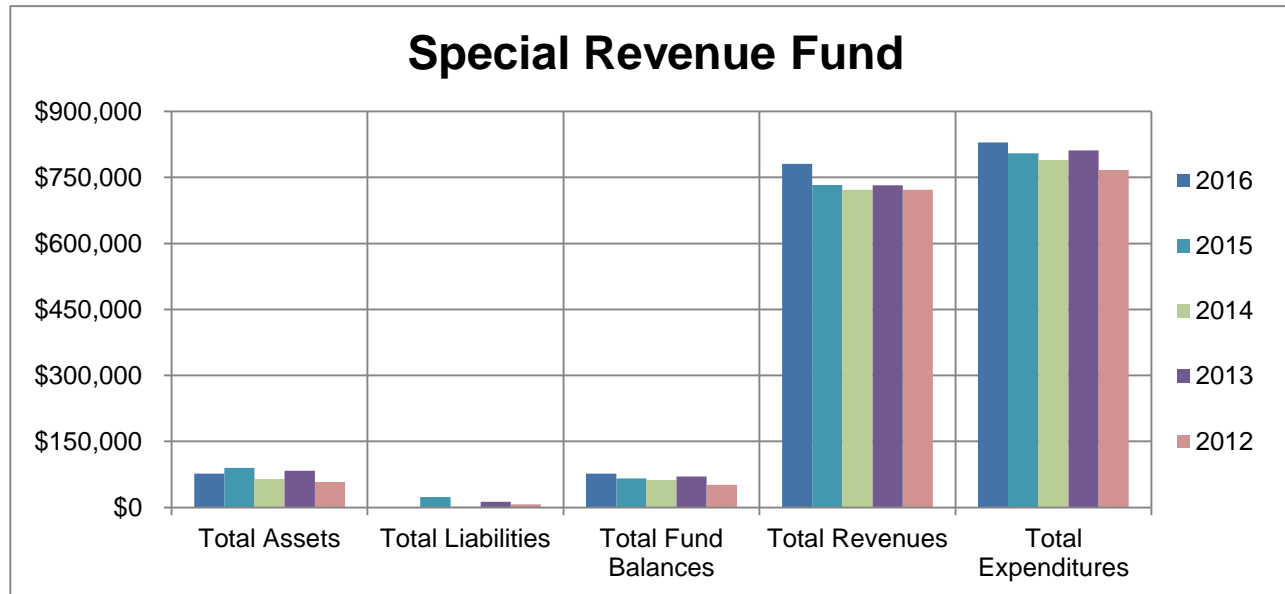
Schedule 2

<b>General Fund</b>	Year Ended June 30,				
	2016	2015	2014	2013	2012
Total Assets	\$ 1,221,644	\$ 1,182,210	\$ 1,189,734	\$ 1,031,757	\$ 1,115,008
Total Liabilities	70,334	28,771	25,081	14,014	58,421
Total Fund Balances	1,151,310	1,153,439	1,164,653	1,017,743	1,056,587
Total Revenues	5,541,584	5,125,177	5,383,821	5,044,291	5,060,266
Total Expenditures	4,847,275	4,696,985	4,812,326	4,222,598	4,265,079
Total Other Financing Sources (Uses)	(696,438)	(439,406)	(424,585)	(860,537)	(837,085)



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, 2016  
(Unaudited)

<u>Special Revenue Fund</u>	Year Ended June 30,				
	2016	2015	2014	2013	2012
Total Assets	\$ 76,731	\$ 89,703	\$ 64,726	\$ 83,159	\$ 58,067
Total Liabilities		23,585	2,145	12,542	6,920
Total Fund Balances	76,731	66,118	62,581	70,617	51,147
Total Revenues	780,514	732,712	721,909	732,089	721,692
Total Expenditures	829,524	804,548	789,637	811,624	766,992
Total Other Financing Sources (Uses)	59,623	75,373	59,692	99,005	27,202



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, 2016  
 (Unaudited)

<u>Other Aggregate Funds</u>	Year Ended June 30,				
	2016	2015	2014	2013	2012
Total Assets	\$ 1,375,666	\$ 859,215	\$ 819,652	\$ 1,453,608	\$ 2,748,772
Total Liabilities				467,626	2,308
Total Fund Balances	1,375,666	859,215	819,652	985,982	2,746,464
Total Revenues	58,359	59,502	563,081	1,516,742	91,064
Total Expenditures	178,079	383,972	1,088,459	4,035,374	839,427
Total Other Financing Sources (Uses)	636,171	364,033	359,048	758,150	2,515,656

