

Walker School District No. 33

Columbia County, Arkansas

**Basic Financial Statements
and Other Reports**

June 30, 2004



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COLUMBIA COUNTY, ARKANSAS
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Sen. Henry "Hank" Wilkins, IV
Senate Co-Chair
Rep. Tommy G. Roebuck
House Co-Chair
Sen. Randy Laverly
Senate Co-Vice Chair
Rep. Sandra Prater
House Co-Vice Chair

Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Walker School District No. 33 and School Board Members
Legislative Joint Auditing Committee

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Walker School District No. 33 (the "District"), as of and for the year ended June 30, 2004, which collectively comprise the District's basic 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2005 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note 1, the District adopted the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, Governmental Accounting Standards Board Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus* and Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Note Disclosures*, effective July 1, 2003.

The management's discussion and analysis and budgetary comparison information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in blue ink, appearing to read "Charles L. Robinson".

Charles L. Robinson, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
March 9, 2005
EDSD07004

Sen. Henry "Hank" Wilkins, IV
Senate Co-Chair
Rep. Tommy G. Roebuck
House Co-Chair
Sen. Randy Laverly
Senate Co-Vice Chair
Rep. Sandra Prater
House Co-Vice Chair

Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

Walker School District No. 33 and School Board Members
Legislative Joint Auditing Committee

We have audited the financial statements of the governmental activities, each major fund, and the aggregated remaining fund information of Walker School District No. 33 (the "District"), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 9, 2005. We conducted our audit in accordance with generally accepted auditing standards 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are disclosed below in the Audit Findings section of this letter.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the finding below to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of the state constitution, laws and regulations, 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 that are required to be reported under *Government Auditing Standards*.

AUDIT FINDINGS

Reportable Condition(s)

To ensure the proper safeguarding of assets, financial accounting duties should be distributed among appropriate employees. The District, because of limited resources, does not have adequate staff to segregate these duties to sufficiently reduce the risks of fraud or error and properly safeguard the District's assets.

These reports are intended for the information and use of the Legislative Joint Auditing Committee, state executive and oversight management and district management and are not intended to be and should not be used by anyone other than these specific parties. However, this report is a matter of public record and its distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

William R. Baum

William R. Baum, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
March 9, 2005

WALKER SCHOOL DISTRICT NO. 33
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDING JUNE 30, 2004

The discussion and analysis of Walker School District's annual financial report provides an overall review of the district's financial activities for the fiscal year ending June 30, 2004. The intent of this discussion and analysis is to look at the district's financial performance as a whole. Readers should also review the basic financial statements and notes to enhance understanding of the district's financial performance.

In June of 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34 to establish new requirements for the annual financial report of various governmental agencies, which includes school districts. Walker School District wishes to make its financial statements easier to understand and more useful to the patrons of its district as well as other entities which might use these reports. The district is required to use these reporting standards beginning with the fiscal year ending June 30, 2004. Certain comparative data is required to be present between the current and previous year. However, GASB permits the omission of prior year data in the year of implementation. Prior-year and current-year comparisons will not be necessary in future years because Walker School District is to be annexed to the Magnolia School District effective July 1, 2004.

The Walker Board of Education was aware of the financial burden thrust upon taxpayers and worked hard to utilize the monies entrusted to them to meet the educational needs of the students of the district. The board strived to do so in the most economical way possible without sacrificing quality. With this in mind, we take this opportunity to introduce you to the financial statement of Walker School District and the useful information these statements contain.

OVERVIEW OF THE FINANCIAL STATEMENT

This annual report consists of a series of financial statements and notes to those statements. The notes will explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the district's budget for the year.

The Statement of Net Assets and Statement of Activities are considered district-wide statements. These provide information about the overall or district-wide activities including short-term and long-term information and overall financial status. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

Fund financial statements provide the next level of detail and focus on individual parts of the district telling how services were financed in the short-term as well as what remains for the future spending. The District is reporting two kinds of funds, governmental and fiduciary.

Governmental fund statements tell how basic services like regular and special education programs were financed and what remains for future spending. A comparison can be made as to the amount of funds spent in each area.

Fiduciary funds statements provide information about the financial relationships in which the district acts solely as a trustee or agent for the benefit of others. These would include the agency funds of the district activity funds.

FINANCIAL ANALYSIS OF THE DISTRICT

Statement of Net Assets

Assets - The district's total current assets at June 30, 2004, were \$606,083. Current assets consisted of cash and cash equivalents of \$390,737, property taxes receivable of \$212,038 and accounts receivable of \$3,308. Noncurrent assets consisted of cash and cash equivalents of \$3,024 and capital assets, net of accumulated depreciation of \$794,249, of \$1,198,961. The total assets were \$1,808,068.

Liabilities- The district's total liabilities at June 30, 2004, were \$849,349. The liabilities consisted of current liabilities of \$46,733 and long-term liabilities of \$802,616.

Net Assets- The net assets consisted of the following at June 30, 2004:

Invested in capital assets, net of related debt-	\$357,355
Restricted for Special Programs-	\$111,275
Restricted for Capital Projects	\$ 3,024
Unrestricted-	\$487,065
Net assets totaled	\$958,719

Statement of Activities

Program Revenues - Program revenues for the year ended June 30, 2004, were \$381,559. Such revenues consisted of \$239,182 operating grants and contributions, and \$55,424 charges for services, and \$86,953 capital grants and contributions.

General Revenues - General revenues for the year ended June 30, 2004, consisted primarily of \$439,614 property taxes; \$994,553 state aid not restricted to specific purposes; \$37,855 property tax relief distribution; interest and investment earnings \$1,332; Debt Service supplemental funding \$20,461 and other miscellaneous income of \$20,767.

Total Revenues - Total revenues, consisting of program and general revenues, were \$1,896,141.

Program expenses - Total expenses, primarily by function, were \$1,828,078 for the year ended June 30, 2004.

The net (expense) revenue, which is a comparison of expenses to program revenues, reflected a deficiency of \$1,446,519 for the year ended June 30, 2004.

Special items of \$187,435 consisted of disposal of fixed assets of \$108,991, net bond issue cost of \$36,806 and payment to bond escrow agent of \$41,638.

The change in net assets from the year ended June 30, 2004 was a decrease of \$119,372.

The district's diminished financial position was primarily due to disposal of fixed assets and refunding of bonds.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of the 2004 school year, the district had invested \$ 1,993,210 in a broad range of capital investments, including computer and audiovisual equipment. Capital assets, net of accumulated depreciation of \$794,249, were \$1,198,961. Current year depreciation expense exceeded \$59,317.

Long - term Debt

At the end of the fiscal year for 2004, the district has \$730,000 in general obligation bonds and \$111,606 in capital leases. On December 1, 2003, the district issued \$750,000 in refunding bonds to advance refund \$650,000 of outstanding bonds dated November 1, 2000.

THE DISTRICT'S FUTURE

On July 1, 2004 the Walker School District No. 33 was officially annexed to the Magnolia School District No. 14. This action was in compliance with Act 60 of 2003. Both districts had substantial fund balances at the end of 2003-04. The Walker School District had an ending ADM of approximately 200 to add to Magnolia School District's ADM of 2773 making a total beginning ADM of 2,973 for 2004-05. The Magnolia School District anticipates only minor adjustments with the annexation, and therefore, projects an excellent fiscal position for post-annexation.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Walker School District's finances and to demonstrate the district's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Magnolia School District, P.O. Box 649, Magnolia, Arkansas 71754-0649 or call 870 234-4933.

Peggy Comer, District Treasurer

WALKER SCHOOL DISTRICT NO. 32
 COLUMBIA COUNTY, ARKANSAS
 STATEMENT OF NET ASSETS
 AS OF JUNE 30, 2004

Exhibit A

	Governmental Activities
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 390,737
Property taxes receivable (net)	212,038
Accounts receivables	3,308
Total current assets	606,083
Noncurrent Assets:	
Cash and cash equivalents	3,024
Capital assets (net of accumulated depreciation of \$794,249)	1,198,961
Total assets	1,808,068
LIABILITIES	
Current liabilities:	
Accounts payable	7,743
Long-term obligations:	
Due within one year:	
Bonds payable, capital leases, compensated absences and contracts	38,990
Total current liabilities	46,733
Noncurrent liabilities:	
Due beyond one year:	
Bonds payable, capital leases, compensated absences and contracts	802,616
Total liabilities	849,349
NET ASSETS	
Invested in capital assets, net of related debt	357,355
Restricted for:	
Special programs	111,275
Capital projects	3,024
Unrestricted	487,065
Total net assets	\$ 958,719

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

WALKER SCHOOL DISTRICT NO. 33
COLUMBIA COUNTY, ARKANSAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

Exhibit B

<u>Functions/Programs</u>	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Governmental Activities:					
Instruction:					
Regular instruction	\$ 669,005	\$ 46,844	\$ 25,133		\$ (597,028)
Special education instruction	74,295	4,476	39,935		(29,884)
Workforce education instruction	102,611				(102,611)
Compensatory education	64,761		60,842		(3,919)
Other instruction	7,835				(7,835)
Total instruction	918,507	51,320	125,910		(741,277)
Support services:					
Student services	68,788		6,251	\$ 7,744	(54,793)
Instructional staff services	129,420		31,074		(98,346)
General administration services	153,857		5,678		(148,179)
School administration services	134,621				(134,621)
Fiscal services	6,887				(6,887)
Operation and maintenance of plant services	206,797		1,188	79,209	(126,400)
Student transportation services	59,940				(59,940)
Other support services	87				(87)
Total support services	760,397		44,191	86,953	(629,253)
Operation of non-instructional services:					
Food services operations	90,247	4,104	69,081		(17,062)
Other uses:					
Interest and fees on long-term debt	58,927				(58,927)
Total school district	\$ 1,828,078	\$ 55,424	\$ 239,182	\$ 86,953	(1,446,519)
General revenues:					
Taxes:					
Property taxes, levied for general purposes					274,759
Property taxes, levied for debt service					164,855
Property tax relief trust distribution					37,855
State and Federal aid not restricted to specific purposes					994,553
Interest and investment earnings					1,332
Debt service supplemental funding					20,461
Other					20,767
Special Items:					
Disposal of capital assets					(108,991)
Net bond issue cost					(36,806)
Payment to bond escrow agent					(41,638)
Total general revenues, special items, and extraordinary items					1,327,147
Change in net assets					(119,372)
Net assets - beginning of year as originally reported					2,604,995
Prior year general long-term debt					(779,618)
Restatement of prior year net assets					(747,286)
Net assets - beginning of year restated					1,078,091
Net assets - ending of year					\$ 958,719

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

WALKER SCHOOL DISTRICT NO. 33
 COLUMBIA COUNTY, ARKANSAS
 BALANCE SHEET - GOVERNMENTAL FUNDS
 JUNE 30, 2004

Exhibit C

	(Major) Governmental Fund Types			Totals Governmental Funds
	General	Special Revenue Fund	Capital Project Funds	
ASSETS				
Cash and cash equivalents	\$ 274,100	\$ 116,637	\$ 3,024	\$ 393,761
Property taxes receivable, net	212,038			212,038
Accounts receivable	3,308			3,308
TOTAL ASSETS	\$ 489,446	\$ 116,637	\$ 3,024	\$ 609,107
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payables	\$ 2,381	\$ 5,362		\$ 7,743
Deferred revenue	199,247			199,247
Total Liabilities	201,628	5,362		206,990
Fund Balances:				
Unreserved:				
Undesignated, reported in:				
General fund	287,818			287,818
Special revenue		111,275		111,275
Capital project funds			\$ 3,024	3,024
Total Fund Balances	287,818	111,275	3,024	402,117
TOTAL LIABILITIES AND FUND BALANCES	\$ 489,446	\$ 116,637	\$ 3,024	\$ 609,107

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

WALKER SCHOOL DISTRICT NO. 33
 COLUMBIA COUNTY, ARKANSAS
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2004

Exhibit D

Total fund balances for governmental funds:			\$	402,117
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	The cost of the assets is	\$ 1,993,210		
	The accumulated depreciation is	<u>(794,249)</u>		1,198,961
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds				199,247
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	Bonds payable	730,000		
	Capital leases payable	<u>111,606</u>		<u>(841,606)</u>
Total net assets - governmental activities			\$	<u>958,719</u>

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

WALKER SCHOOL DISTRICT NO. 33
 COLUMBIA COUNTY, ARKANSAS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2004

Exhibit E

	Major Governmental Fund Types				Totals Governmental Funds
	General	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	
REVENUES					
Property taxes	\$ 240,367				\$ 240,367
State assistance	1,066,164	\$ 848			1,067,012
Federal assistance		311,992			311,992
Activity revenues	46,844				46,844
Meal sales		4,104			4,104
Interest on investments	1,332				1,332
Other revenues	20,767	4,476			25,243
TOTAL REVENUES	1,375,474	321,420			1,696,894
EXPENDITURES					
Regular programs	540,796	67,820			608,616
Special education	46,988	27,227			74,215
Workforce education	101,612				101,612
Compensatory education		63,431			63,431
Other instructional programs	7,835				7,835
Support services - students	63,427	5,361			68,788
Instructional staff support services	50,062	78,842			128,904
General administrative support services	147,382	5,920			153,302
School administration support services	134,621				134,621
Business support services	6,887				6,887
Operation and maintenance of plant services	163,288	1,238		\$ 9,336	173,862
Student transportation services	40,967				40,967
Non-instructional - food service operations		89,714			89,714
Activity expenditures	57,080				57,080
Capital outlay	5,257	60,515			65,772
Debt service:					
Principal retirement	18,012		\$ 20,000		38,012
Interest and fiscal charges	6,713		52,214		58,927
TOTAL EXPENDITURES	1,390,927	400,068	72,214	9,336	1,872,545

WALKER SCHOOL DISTRICT NO. 33
 COLUMBIA COUNTY, ARKANSAS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2004

Exhibit E

	Major Governmental Fund Types				Totals Governmental Funds
	General	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (15,453)	\$ (78,648)	\$ (72,214)	\$ (9,336)	\$ (175,651)
OTHER FINANCING SOURCES (USES)					
Transfers in			50,658		50,658
Transfers out	(50,658)				(50,658)
Proceeds from sale of bonds			750,000		750,000
Net bond issue cost			(36,806)		(36,806)
Payment to bond escrow agent			(41,638)		(41,638)
Bonds refunded			(650,000)		(650,000)
TOTAL OTHER FINANCING SOURCES (USES)	(50,658)		72,214		21,556
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(66,111)	(78,648)		(9,336)	(154,095)
FUND BALANCES - JULY 1	353,929	189,923		12,360	556,212
FUND BALANCES - JUNE 30	\$ 287,818	\$ 111,275	\$ 0	\$ 3,024	\$ 402,117

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

WALKER SCHOOL DISTRICT NO. 33
 COLUMBIA COUNTY, ARKANSAS
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2004

Exhibit F

Net change in fund balances -- total governmental funds \$ (154,095)

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current period.

Depreciation	\$	59,317	
Capital outlay		<u>65,772</u>	6,455

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities.

Debt issued:

Bonds issued		(750,000)	
--------------	--	-----------	--

Repayments:

Bonds payable		20,000	
---------------	--	--------	--

Bonds refunded		650,000	
----------------	--	---------	--

Certificates of indebtedness payable		<u>18,012</u>	
--------------------------------------	--	---------------	--

Net adjustment for debt related transactions			(61,988)
--	--	--	----------

Adjustments to capital assets (i.e., disposal of capital assets) that do not result from current year purchases are not reflected in governmental funds. However, such changes are reflected in the statement of activities.

(108,991)

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds and are, instead, recognized as deferred tax revenues. They are, however, recorded as revenues in the statement of activities.

199,247

Change in net assets of governmental activities \$ (119,372)

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

WALKER SCHOOL DISTRICT NO. 33
COLUMBIA COUNTY, ARKANSAS
STATEMENT OF FIDUCIARY NET ASSETS
AS OF JUNE 30, 2004

Exhibit G

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	<u>\$ 2,106</u>
LIABILITIES	
Due to student groups	<u>\$ 2,106</u>

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

WALKER SCHOOL DISTRICT NO. 33
COLUMBIA COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

This financial report has been prepared in conformity with GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June 1999.

B. REPORTING ENTITY

GASB Statement No. 14, as amended, *The Reporting Entity*, established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under provisions of this Statement, the District is considered a primary government, since it is a special purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. As used in GASB Statement No. 14, fiscally independent means that the District may, without the approval or consent of another governmental entity, determine or modify its own budget, propose its own taxes or set rates or charges, and issue bonded debt. The District also has no component units; defined by GASB Statement No. 14 as other legally separate organizations for which the elected District members are financially accountable. There are no other primary governments with which the District has a significant relationship.

C. FUNDS

The District uses funds to maintain its financial records during the year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions and activities. A fund is defined as a separate fiscal and accounting entity with a self-balancing set of accounts.

Funds of the District are classified into two categories: governmental and fiduciary, as follows:

Governmental Funds

Governmental funds account for all or most of the District's general activities. These funds focus on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may be used. Current liabilities are assigned to the fund from which they will be paid. The difference between a governmental fund's assets and liabilities is reported as fund balance. In general, fund balance represents the accumulated expendable resources, which may be used to finance future period programs or operations of the District. The following are the District's governmental funds:

General funds - account for all non-restricted funds of the District and are the primary operating fund of the District. The General Fund is available for any purpose provided it is expended or transferred in accordance with state and federal laws and according to District policy.

Special revenue funds - account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes, or designated by the District to be accounted for separately.

WALKER SCHOOL DISTRICT NO. 33
COLUMBIA COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

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

C. **FUNDS (Continued)**

Governmental Funds (Continued)

Debt service funds - account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital projects funds - account for financial resources received and used for the acquisition, construction, or improvement of capital facilities not reported in the other governmental funds.

Fiduciary Funds

Fiduciary funds include agency funds. The agency fund accounts for assets held by the District as an agent for other parties, such as school organizations. These funds are reported using the accrual basis of accounting. These funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary fund reporting focuses on net assets and changes in net assets.

D. **MEASUREMENT FOCUS/BASIS OF ACCOUNTING**

Government-Wide Financial Statements (GWFS)

The Statement of Net Assets (Exhibit A) and the Statement of Activities (Exhibit B) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary fund. Fiduciary fund activities are reported only in the Statement of Fiduciary Net Assets at the fund financial statement level.

The GWFS were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange or exchange-like transactions are recognized when the exchange occurs (regardless of when cash is received or disbursed). Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

Program Revenues - Program revenues included in the Statement of Activities (Exhibit B) derive directly from parties outside the District's taxpayers or citizenry. As a whole, program revenues reduce the net cost of the function to be financed from the District's general revenues. Such revenues include operating state and federal grants restricted for specific purposes and charges for services.

Allocation of Indirect Expenses - The District reports all direct expenses by function in the Statement of Activities (Exhibit B). Direct expenses are those that are clearly identifiable with a function. Indirect expenses of other functions are not allocated to those functions but are reported separately in the Statement of Activities. Depreciation expense, which can be specifically identified by function, is included in the direct expenses of each. Depreciation on buildings is assigned to the "operation and maintenance of plant services" function due to the fact that school buildings serve multiple purposes. Interest on general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities (Exhibit B).

WALKER SCHOOL DISTRICT NO. 33
COLUMBIA COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. MEASUREMENT FOCUS/BASIS OF ACCOUNTING (Continued)

Fund Financial Statements (FFS)

Governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds (Exhibit E) reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the GWFS are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the GWFS and the FFS.

FFS report detailed information about the District. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column.

Governmental funds and the agency fund use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers all revenues available if they are collected within 60 days after the fiscal year end. Expenditures are recorded when the related fund liability is incurred, except for interest and principal payments on general long-term debt which are recognized when due. The governmental funds use the following practices in recording revenues and expenditures:

Restricted/Unrestricted Resources

The District has no formal policy addressing which resources to use when both restricted and unrestricted net assets are available for the same purpose. District personnel decide which resources to use at the time funds are expended.

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.

Other Financing Sources (Uses)

Transfers between funds that are not expected to be repaid (or any other types, such as debt extinguishments and long-term debt proceeds, et cetera) are accounted for as other financing sources (uses). Other financing sources (uses) also include certain debt related transactions and a refund to grantor. Such transactions are recognized at the time the underlying events occur.

Deferred Revenues

The District reports deferred revenues on its FFS balance sheet. Deferred revenues consist of property taxes due at June 30 but not available to pay current year liabilities.

WALKER SCHOOL DISTRICT NO. 33
 COLUMBIA COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. BUDGETS

The District uses the following budget practices:

The District is required by state law to prepare an annual budget. The annual budget covers all funds but the Activity fund. 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.

The District budgets intra-fund transfers. Significant variances may result in the comparison of transfers at the Budgetary Comparison Schedule for Governmental Funds (Schedule 1) because only interfund transfers are reported at the Statement of revenues, Expenditures and Changes in Fund Balances - Governmental Funds.

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

F. CAPITAL ASSETS

Capital assets are capitalized at historical cost or estimated historical cost, if actual data is not available. Donated capital assets are reported at fair market value when received. The District maintains a threshold level of \$1,000 for capitalizing equipment. Library holdings are not capitalized.

Capital assets are reported in the GWFS, but are not reported in the FFS. No salvage value is taken into consideration for depreciation purposes. All capital assets, other than land, are depreciated using the straight-line method over the following useful lives:

<u>Asset Class</u>	<u>Estimated Useful Life in Years</u>
Improvements/infrastructure	50
Buildings	50
Building improvements	7
Equipment	5-20

G. RESTRICTED NET ASSETS

For GWFS, net assets are reported as restricted when constraints placed on net asset use are either:

1. Externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments; and
2. Imposed by law through constitutional provisions or enabling legislation.

H. FUND EQUITY

In the FFS, governmental funds report reservations of fund balance for amounts that are not available for general used. Funds reserved for the retirement of long-term debt are reported in the FFS.

WALKER SCHOOL DISTRICT NO. 33
COLUMBIA COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. SPECIAL ITEMS

Special items are transactions or events within the control of the school board, which are either unusual in nature or infrequent in occurrence.

J. ACCOUNTING CHANGES

As a result of the adoption of GASB Statement No. 34, the District was required to make certain changes in accounting principles, specifically, the adoption of depreciation on capital assets.

2. CASH AND CASH EQUIVALENTS

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
Uninsured, Collateralized	295,867	381,012
Total Deposits	\$ 395,867	\$ 481,012

3. RECEIVABLES

The receivables of \$215,346 at June 30, 2004, are as follows:

Class of Receivable	Fund
Taxes:	
Local	\$ 212,038
Accounts	3,308
Totals	\$ 215,346

4. CAPITAL ASSETS

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
<i>Capital assets not being depreciated:</i>				
Land	\$ 11,504			\$ 11,504
<i>Capital assets being depreciated:</i>				
Buildings	1,606,462	\$ 57,138		1,663,600
Machinery and equipment	430,817	8,634	\$ 121,345	318,106
Total depreciated	2,037,279	65,772	121,345	1,981,706

WALKER SCHOOL DISTRICT NO. 33
COLUMBIA COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

4. CAPITAL ASSETS (Continued)

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Less accumulated depreciation for:				
Buildings	\$ 602,057	\$ 32,129		\$ 634,186
Machinery and equipment	145,229	27,188	\$ 12,354	160,063
Total accumulated depreciation	<u>747,286</u>	<u>59,317</u>	<u>12,354</u>	<u>794,249</u>
Total capital assets depreciated, net	<u>1,289,993</u>	<u>6,455</u>	<u>108,991</u>	<u>1,187,457</u>
Governmental activity capital assets, net	<u>\$ 1,301,497</u>	<u>\$ 6,455</u>	<u>\$ 108,991</u>	<u>\$ 1,198,961</u>

Depreciation was charged to functions as follows:

Regular instruction	\$ 3,309
Special education	80
Workforce education	999
Compensatory education	1,330
Instructional staff support	516
General administrative support	555
Operation and maintenance of plant	32,935
Student transportation	18,973
Other support	87
Non-instructional - food services	<u>533</u>
Total Allocated Depreciation	<u>\$ 59,317</u>

5. ACCOUNTS, SALARIES AND OTHER PAYABLES

The payables of \$7,743 at June 30, 2004, are as follows:

	General Fund	Special Revenue Funds	Total
Accounts	<u>\$ 2,381</u>	<u>\$ 5,362</u>	<u>\$ 7,743</u>

6. LEASES

The District records items under capital leases as an asset and an obligation in the accompanying financial statements. The following is an analysis of capital leases:

Type	Recorded Amount
Buses	\$ 139,796
Equipment	<u>22,645</u>
Total	<u>\$ 162,441</u>

WALKER SCHOOL DISTRICT NO. 33
COLUMBIA COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

6. LEASES (Continued)

The following is a schedule of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments, as of June 30, 2004:

	\$	
2005		24,725
2006		24,725
2007		24,725
2008		24,725
2009		16,981
2010		13,987
Total Minimum Lease Payments		129,868
Less: Amount Representing Interest		18,262
Total Present Value of Net Minimum Lease Payments	\$	111,606

The District has operating leases as follows:

The minimum annual commitments under noncancelable operating leases are as follows:

General description of lease and leasing arrangements:

Lease of four (4) copiers for sixty (60) months at \$439.42 per month

1. Future minimum rental payments (aggregate) at June 30, 2004: \$11,381
2. The minimum annual commitments under noncancelable operating leases are as follows:

Year Ended June 30,	Amount
2005	\$ 5,273
2006	5,273
2007	835
Total	\$ 11,381

7-A. LONG-TERM OBLIGATIONS

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, 2004	Maturities to June 30, 2004
6/21/1999	6/21/2009	5.65%	\$ 22,645	\$ 12,889	\$ 9,756
11/15/1999	11/15/2007	6.20%	47,696	26,707	20,989
5/28/2002	5/13/2010	4.875%	92,100	72,010	20,090
12/1/2003	6/1/2028	2.75 - 2.85%	750,000	730,000	20,000
Totals			\$ 912,441	\$ 841,606	\$ 70,835

WALKER SCHOOL DISTRICT NO. 33
COLUMBIA COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

7-A. LONG-TERM OBLIGATIONS (Continued)

The following is a summary of the long-term obligation transactions for the year ended June 30, 2004:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004
Bonds payable	\$ 650,000	\$ 750,000	\$ 670,000	\$ 730,000
Capital leases	129,618		18,012	111,606
Totals	\$ 779,618	\$ 750,000	\$ 688,012	\$ 841,606

Includes advance refunding of bonds of \$650,000. See Note 7-B.

The following is a summary of the current (due in one year or less) and the long-term (due in more than one year) portions of long-term obligations as of June 30, 2004:

	Current	Long-term	Total
Bonds payable	\$ 20,000	\$ 710,000	\$ 730,000
Capital leases	18,990	92,616	111,606
Totals	\$ 38,990	\$ 802,616	\$ 841,606

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

Year Ended June 30,	Principal	Interest	Total
2005	\$ 38,990	\$ 37,450	\$ 76,440
2006	40,022	35,867	75,889
2007	41,112	34,228	75,340
2008	42,260	32,529	74,789
2009	35,730	30,767	66,497
2010-2014	133,492	134,870	268,362
2015-2019	145,000	107,160	252,160
2020-2024	185,000	70,740	255,740
2025-2028	180,000	21,825	201,825
Totals	\$ 841,606	\$ 505,436	\$ 1,347,042

7-B. ADVANCE REFUNDING OF DEBT

On December 1, 2003, the District issued \$750,000 in refunding bonds with interest rates from 2.75 to 4.85 percent to advance refund \$650,000 of outstanding bonds dated November 1, 2000, with interest rates from 4.90 to 5.75 percent. The net proceeds of \$691,638 were used to purchase U.S. Government securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2000 bonds. As a result, the 2000 bonds are considered to be defeased and the liability for these bonds has been removed from the long-term debt. An additional \$3,721 (after payment of net bond issue costs of \$36,806 and interest expense of \$17,835) was received as a result of the refunding to be used for debt service on the new issue. The bonds will be called for redemption prior to maturity on February 1, 2006.

WALKER SCHOOL DISTRICT NO. 33
COLUMBIA COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

8. INTERFUND TRANSFERS

The FFS reflects interfund transfers of \$50,658 from the general fund to the debt service fund for debt related payments.

9. RETIREMENT PLANS

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 prior to July 1, 1989. ATRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit and contribution 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 non-contributory plans. Contributory members are required by law to contribute 6% of their salary. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current employer rate is 13%. The District's contribution to ATRS for nonfederally funded employees for the years ended June 30, 2004, 2003 and 2002 were \$104,045, \$88,317 and \$88,499, respectively. The District's contributions to ATRS for federally funded employees for the years ended June 30, 2004, 2003 and 2002 were \$13,360, \$7,969 and \$4,825, respectively, equal to the required contributions for each year.

Arkansas Public Employees Retirement System

Plan Description. The District contributes to the Arkansas Public Employees Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan that covers certain nonteaching Arkansas public school employees hired before July 1, 1989. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit and contribution provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 W. Capitol, Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

Funding Policy. PERS has contributory and non-contributory plans. Contributory members are required by law to contribute 6% of their salary. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current statutory employer rate is 4% of annual covered payroll. The District's contributions to PERS for the years ended June 30, 2004, 2003 and 2002 were \$389, \$362 and \$322, respectively, equal to the required contributions for each year.

10. SUBSEQUENT EVENTS

Act 60 of the 2nd Extraordinary Session of the 84th General Assembly of the State of Arkansas, which became effective January 29, 2004, provides for the consolidation of school districts with fewer than three hundred fifty (350) students. Isolated school districts will consolidate administratively but will retain their campus. Walker School District was annexed into the Magnolia School District effective July 1, 2004.

WALKER SCHOOL DISTRICT NO. 33
COLUMBIA COUNTY, ARKANSAS
BUDGETARY COMPARISON SCHEDULE FOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

Schedule 1

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Property taxes	\$ 237,000	\$ 240,367	\$ 3,367
State assistance	1,004,421	1,067,012	62,591
Federal assistance	152,038	311,992	159,954
Activity revenues		46,844	46,844
Meal sales		4,104	4,104
Interest on investments		1,332	1,332
Other revenues	23,000	25,243	2,243
TOTAL REVENUES	1,416,459	1,696,894	280,435
EXPENDITURES			
Regular programs	676,420	608,616	67,804
Special education	79,800	74,215	5,585
Workforce education	121,667	101,612	20,055
Compensatory education	66,010	63,431	2,579
Other instructional programs	7,800	7,835	(35)
Support services - students	85,547	68,788	16,759
Instructional staff support services	139,188	128,904	10,284
General administrative support services	141,100	153,302	(12,202)
School administration support services	137,100	134,621	2,479
Business support services		6,887	(6,887)
Operation and maintenance of plant services	171,800	173,862	(2,062)
Student transportation services	45,900	40,967	4,933
Other support services	8,500		8,500
Non-instructional - food services operations		89,714	(89,714)
Community services	316		316
Non-programmed costs	15,000		15,000
Activity expenditures		57,080	(57,080)
Capital outlay		65,772	(65,772)
Debt service:			
Principal retirement	45,000	38,012	6,988
Interest and fiscal charges	43,970	58,927	(14,957)
TOTAL EXPENDITURES	1,785,118	1,872,545	(87,427)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(368,659)	(175,651)	193,008
OTHER FINANCING SOURCES (USES)			
Transfers in		50,658	50,658
Transfers out		(50,658)	(50,658)
Proceeds from sale of bonds		750,000	750,000
Net bond issue cost		(36,806)	(36,806)
Payment to bond escrow agent		(41,638)	(41,638)
Bonds refunded		(650,000)	(650,000)
TOTAL OTHER FINANCING SOURCES (USES)		21,556	21,556
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(368,659)	(154,095)	214,564
FUND BALANCES - JULY 1	569,327	556,212	(13,115)
FUND BALANCES - JUNE 30	\$ 200,668	\$ 402,117	\$ 201,449