

Lake View School District No. 25

Phillips County, Arkansas

**Basic Financial Statements
and Other Reports**
June 30, 2004

LEGISLATIVE JOINT AUDITING COMMITTEE



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PHILLIPS COUNTY, ARKANSAS
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Senate Co-Chair
Rep. Tommy G. Roebuck
House Co-Chair
Sen. Randy Laverly
Senate Co-Vice Chair
Rep. David Evans
House Co-Vice Chair

Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Lake View School District No. 25 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 Lake View School District No. 25 (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.

The District did not maintain adequate fixed asset accounting records for equipment; accordingly, we were unable to verify the equipment balance as of the date of the financial statements.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the equipment balance, 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 January 27, 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, 2002.

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
January 27, 2005
EDSD28904

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

Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

COMBINED REPORT(S) ON COMPLIANCE, INTERNAL CONTROLS AND OTHER MATTERS

Lake View School District No. 25 and School Board Members
Legislative Joint Auditing Committee

We have audited the basic financial statements of the Lake View School District No. 25 (the "District"), as of and for the year ended June 30, 2004, and have issued our report thereon dated January 27, 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.

Compliance

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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are disclosed below in the Audit Findings section of this letter.

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 opinion on the basic financial statements and not to provide assurance 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 numbers one (1) through eight (8) below to be material weaknesses. Other matters involving compliance and/or internal control were reported to School District management in a separate letter.

AUDIT FINDINGS

Reportable Condition(s)

1. The District had inadequate control over cash transactions because of insufficient segregation of duties due to a limited number of personnel.

2. The examination of fixed assets for the year ended June 30, 2004 disclosed the following:
 - A. Equipment purchases of \$99,901 were not posted to the equipment subsidiary ledger.
 - B. Equipment deletions in the amount of \$3,263 for the year ended June 30, 2002 were still not posted to the subsidiary ledger.
 - C. Road vehicles in the amount of \$153,590 were not listed on the equipment subsidiary ledger.
 - D. The subsidiary ledger for buildings was understated by \$500.
 - E. Depreciation expense for depreciable assets was not recorded.
 3. The general ledger was not being properly reconciled and maintained. Cash was unreconciled by \$9,826 at June 30, 2004. This reflects a material weakness in fiscal management and could preclude management and the Board of Directors from making sound business decisions and determining financial position. A similar finding has been reported since fiscal year 1995.
 4. The District did not have fiscal policies and procedures to ensure that debt obligations were paid in a timely manner. Our examination disclosed the following:
 - A. There were delinquent state unemployment taxes and related assessment of \$44,136 as of October 19, 2004. The delinquent taxes and related assessments are for the period September 30, 1994 through June 30, 2004. Payments totaling \$11,529 were made during fiscal year 2004.
 - B. The District entered into a contract with Delta Hardware Store of Elaine, Arkansas for \$44,500 for renovation performed on school facilities during the year ended June 30, 2003. The renovation was completed by June 30, 2003. A payment of \$30,000 was made on June 30, 2004. With related assessments of interest and legal cost the balance due as of November 30, 2004 is \$22,864.
- Similar findings have been reported since fiscal year 1992.
5. The District paid unauthorized compensation totaling \$23,572 to sixteen (16) employees in excess of their employment contracts. According to Ark. Code Ann. 6-13-620, a school district's board is required to employ teachers and other employees using written employment contracts and Ark. Code Ann. 6-13-701 requires that payroll disbursements conform to written contracts. We recommend the Barton-Lexa School District, the district Lake View was consolidated with, take appropriate action to correct the unauthorized compensation. A similar finding was reported in fiscal year 2003.
 6. The District's General Fund had a deficit fund balance on June 30, 2004 of \$62,820, as reflected on Exhibit C.
 7. The District is required by state law to operate within the legal revenues each fiscal year. Compliance with this law is determined by comparing total expenditures of certain funds to the applicable adjusted revenues and fund balances available for general operations. During the year ended June 30, 2004, the District exceeded the legal revenues by \$31,852. It is imperative that management properly monitors spending to ensure compliance with state law.
 8. U.S. Department of Education – Title I Grants – Local Educational Agencies (CFDA No. 84.010) – The District Treasurer's salary and benefits totaling \$16,521 was improperly paid from the Title I Grant. According to OMB Circular A-133 Compliance Supplement, dated March 2004, Title I Grant funds cannot be used to pay expenditures that would be necessary in the absence of Federal funds. We recommend the Barton-Lexa School District contact the Arkansas Department of Education to resolve this matter.

These reports are intended for the information and use of the Legislative Joint Auditing Committee, state executive and oversight management and district management and is 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, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
January 27, 2005

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENT

This annual report consists of three parts – management’s discussion and analysis, (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District’s overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District’s operations in more detail than the district-wide statements.
- The governmental funds statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.
- 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.

The financial statements also include notes that 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.

District –wide Statements

The district-wide statements report information about the District using the same accounting practices employed by governmental agencies and private businesses. The statement of net assets includes all of the District’s assets and liabilities. The Districts current year revenues and expenses are accounted for in the statement of activities.

Two district-wide statements report the Districts assets and how they have changed; net assets-the difference between the District’s assets and liabilities.

- Over time increases or decreases in the District’s net assets are an indicator of whether the District’s financial position is improving or declining.
- To properly assess the District’s overall financial stability, one must consider other factors such as the changes in assessed property value used to determine the tax base, condition of school buildings and facilities, and the rise or decline in student population.

In the district-wide financial statements the District's activities are classified as:

- Governmental Activities cover such areas as Special Education, Title I and other federal program entitlements. These monies are funds received from the federal government to the state and are passed on to the District. Property taxes and the state aid formula finance are also used for most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant funds. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (repayment of long-term debt) or to show that it is properly using certain revenues (grant funds).

The District has two kinds of funds:

- Governmental Funds – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can be readily converted to cash flow in or out and (2) the balances left at the end of the year that are available for spending. As a result, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance various District programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.
- Fiduciary Funds – The District is a trustee for assets that belong to others, such as the student activities funds. The District is responsible for ensuring that those to whom the assets belong use only for their intended purpose and the assets reported in these funds. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The financial statements have been prepared using the new format specified in the Governmental Accounting Standards Board (GASB) Statement Number 34. GASB 34 does not require comparative information from the previous fiscal year in the year of implementation. Accordingly, the District has not provided comparative data from the fiscal year ending June 30, 2003.

Assets - The District's total current assets at June 30, 2004, were \$1,186,982. Capital assets, net of accumulated depreciation of \$595,480, were \$999,063.

Liabilities - The District's total liabilities at June 30, 2004, were \$293,408. The liabilities consist of current liabilities of \$131,073 and long-term liabilities of \$161,335.

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

- Invested in capital assets, net of related debt - \$779,075
- Restricted - \$30,191
- Unrestricted - \$84,308
- Total Net Assets - \$893,574

Program Revenues - Program revenues for the year ending June 30, 2004 were \$428,668. Such revenues consisted of \$379,761 operating grants and contributions and \$48,907 charges for services.

General Revenue - General revenues for the year ending June 30, 2004 was \$284,208 primarily from property taxes, \$894,904 state and federal aid not restricted to specific purposes, and \$16,903 property tax relief distribution with smaller amounts of revenue that totals \$13,708.

Total Revenues - Total revenues consisting of program and general revenues were \$1,638,391.

Program Expenses - Total expenses, primarily by function, for the year ending June 30, 2004, were \$1,585,290.

The net (expense) revenue, which is a comparison of expenses to program revenues, reflected a deficiency of \$1,156,622 for the year ending June 30, 2004.

The change in net assets for the year ending June 30, 2004 was an increase of \$43,275.

Property taxes receivable of \$151,703 was reported at June 30, 2004, in accordance with GASB Statement Number 33.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2004, the District had invested \$1,594,543 in a broad range of capital assets, including improvements of school facilities, technology, maintenance equipment, and road vehicles.

Long Term Debt

At the end of 2004, the District had \$65,000 in bonded debt, \$36,739 in capital lease obligations and \$118,249 in certificates of indebtedness.

FACTORS BEARING ON THE DISTRICT'S FUTURE

- The District has been administratively consolidated with the Barton-Lexa School District in accordance with Act 60 of the Extraordinary Session of 2003. As of July 1, 2004, all financial requirements and obligations will be the responsibility of the Barton-Lexa School District.

LAKE VIEW SCHOOL DISTRICT NO. 25
 PHILLIPS COUNTY, ARKANSAS
 STATEMENT OF NET ASSETS
 AS OF JUNE 30, 2004

Exhibit A

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 36,216
Property taxes receivable	151,703
Total current assets	187,919
Noncurrent assets:	
Capital assets (net of accumulated depreciation of \$595,480)	999,063
Total assets	1,186,982
LIABILITIES	
Current liabilities:	
Accounts payable	73,420
Long-term obligations:	
Due within one year:	
Bonds payable, capital leases and contracts	58,653
Total current liabilities	132,073
Due beyond one year:	
Bonds payable, capital leases and contracts	161,335
Total liabilities	293,408
NET ASSETS	
Invested in capital assets, net of related debt	779,075
Restricted for:	
Special programs	30,191
Unrestricted	84,308
Total net assets	\$ 893,574

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

LAKE VIEW SCHOOL DISTRICT NO. 25
 PHILLIPS COUNTY, ARKANSAS
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2004

Exhibit B

		Program Revenues		Net (Expenses) Revenue and Changes in Net Assets
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Total Governmental Activities
<u>Governmental Activities:</u>				
Regular instruction	\$ 625,096	\$ 48,183	\$ 11,151	\$ (565,762)
Special education instruction	32,831		31,159	(1,672)
Workforce education instruction	122,969			(122,969)
Compensatory education services	166,981		123,625	(43,356)
Other instruction	1,082		2,000	918
Total instruction	948,959	48,183	167,935	(732,841)
 Support services:				
Student services	13,573			(13,573)
Instructional staff services	7,514			(7,514)
General administration services	287,250		122,447	(164,803)
School administration services	82,720			(82,720)
Business support services	2,951			(2,951)
Operation and maintenance of plant services	106,266		5,379	(100,887)
Student transportation services	22,198		243	(21,955)
Total support services	522,472		128,069	(394,403)
 Operation of non-instructional services:				
Food services operations	97,840	724	83,757	(13,359)
 Interest on long-term debt				
Total school district	1,585,290	48,907	379,761	(1,156,622)
 General revenues:				
Taxes:				
Property taxes, levied for general purposes				167,181
Property taxes, levied for debt service				117,027
Property tax relief distribution				16,903
State and federal aid not restricted to specific purposes				878,213
Debt service supplemental funding				16,691
Miscellaneous				13,708
Special item - unreconciled difference (Finding No. 3)				(9,826)
Total general revenues and special item				1,199,897
Change in net assets				43,275
Net assets - beginning of year				1,723,789
Prior year general long-term debt				(278,010)
Cumulative effects of changes in accounting principals				(595,480)
Net assets - beginning of year restated				850,299
Net assets - ending of year				\$ 893,574

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

LAKE VIEW SCHOOL DISTRICT NO. 25
 PHILLIPS COUNTY, ARKANSAS
 BALANCE SHEET - GOVERNMENTAL FUNDS
 JUNE 30, 2004

Exhibit C

	(Major) Governmental Fund Types			Totals
	General	Special Revenue Fund	Debt Service Fund	Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 676	\$ 30,191	\$ 5,349	\$ 36,216
Property taxes receivable	151,703			151,703
Interfund receivable		14,500		14,500
TOTAL ASSETS	\$ 152,379	\$ 44,691	\$ 5,349	\$ 202,419
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payables	\$ 58,920	\$ 14,500		\$ 73,420
Interfund payables	14,500			14,500
Deferred revenue	141,779			141,779
Total liabilities	215,199	14,500		229,699
Fund Equity:				
Fund balances:				
Unreserved:				
Undesignated, reported in:				
General fund	(62,820)			(62,820)
Special revenue		30,191		30,191
Debt service			\$ 5,349	5,349
Total fund balances	(62,820)	30,191	5,349	(27,280)
TOTAL LIABILITIES AND FUND BALANCES	\$ 152,379	\$ 44,691	\$ 5,349	\$ 202,419

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

LAKE VIEW SCHOOL DISTRICT NO. 25
 PHILLIPS COUNTY, ARKANSAS
 RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2004

Exhibit D

Total fund balances for governmental funds:			\$ (27,280)
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	\$ 1,594,543	
	The accumulated depreciation is	<u>(595,480)</u>	999,063
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.			141,779
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	65,000	
	Certificates of indebtedness	118,249	
	Capital leases payable	<u>36,739</u>	<u>(219,988)</u>
Total net assets - governmental activities			<u>\$ 893,574</u>

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

LAKE VIEW SCHOOL DISTRICT NO. 25
 PHILLIPS 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	
REVENUES				
Property taxes	\$ 142,429			\$ 142,429
State assistance	907,842	\$ 846	\$ 16,691	925,379
Federal assistance		366,189		366,189
Activity revenues	48,183			48,183
Meal sales		348		348
Other revenues	10,759	3,325		14,084
TOTAL REVENUES	1,109,213	370,708	16,691	1,496,612
EXPENDITURES				
Current:				
Regular programs	566,909	24,679		591,588
Special education	3,511	29,320		32,831
Workforce education	122,969			122,969
Compensatory education		166,981		166,981
Other instructional programs	1,082			1,082
Support services - students	13,573			13,573
Instructional staff support services	7,514			7,514
General administrative support services	126,157	161,093		287,250
School administration support services	82,720			82,720
Business support services	2,951			2,951
Operation and maintenance of plant services	105,762	504		106,266
Student transportation services	21,870	328		22,198
Non-instructional - food services operations	20,145	77,695		97,840
Activity expenditures	33,508			33,508
Capital outlay	91,277	21,344		112,621
Debt service:				
Principal retirement	28,022		30,000	58,022
Interest and fiscal charges	9,352		6,667	16,019
TOTAL EXPENDITURES	1,237,322	481,944	36,667	1,755,933

LAKE VIEW SCHOOL DISTRICT NO. 25
 PHILLIPS 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	
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (128,109)	\$ (111,236)	\$ (19,976)	\$ (259,321)
OTHER FINANCING SOURCES (USES)				
Transfers in			23,504	23,504
Transfers out	(23,504)			(23,504)
Unreconciled difference	(9,826)			(9,826)
TOTAL OTHER FINANCING SOURCES (USES)	(33,330)		23,504	(9,826)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(161,439)	(111,236)	3,528	(269,147)
FUND BALANCES - JULY 1	98,619	141,427	1,821	241,867
FUND BALANCES - JUNE 30	\$ (62,820)	\$ 30,191	\$ 5,349	\$ (27,280)

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

LAKE VIEW SCHOOL DISTRICT NO. 25
LINCOLN COUNTY, ARKANSAS

Exhibit F

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

Net change in fund balances -- total governmental funds \$ (269,147)

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 outlays exceeds depreciation in the current period.

Capital outlay	\$	112,621	112,621
Repayments:			
Bonds payable		30,000	
Certificates of indebtedness payable		17,017	
Capital leases payable		11,005	
Net adjustment for debt related transactions			58,022

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.

141,779

Change in net assets of governmental activities

\$ 43,275

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

LAKE VIEW SCHOOL DISTRICT NO. 25
PHILLIPS COUNTY, ARKANSAS
STATEMENT OF FIDUCIARY NET ASSETS
AS OF JUNE 30, 2004

Exhibit G

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ <u>4,285</u>
LIABILITIES	
Due to student groups	\$ <u>3,634</u>
NET ASSETS	
Reserved for scholarships	\$ <u>651</u>

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

LAKE VIEW SCHOOL DISTRICT NO. 25
PHILLIPS COUNTY, ARKANSAS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
AS OF JUNE 30, 2004

Exhibit H

	<u>Private-Purpose Trust</u>
Net assets - beginning	<u>\$ 651</u>
Net assets - ending	<u><u>\$ 651</u></u>

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

LAKE VIEW SCHOOL DISTRICT NO. 25
PHILLIPS 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 is 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.

LAKE VIEW SCHOOL DISTRICT NO. 25
PHILLIPS 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.

Fiduciary Funds

Fiduciary funds include Agency Funds and Private Purpose trust funds. The agency fund accounts for assets held by the District as an agent for schools, and school organizations. These funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. These funds are reported using the accrual basis of accounting. Private Purpose trust funds report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments. 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. Interest on general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities (Exhibit B).

LAKE VIEW SCHOOL DISTRICT NO. 25
PHILLIPS 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 FFS 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 FFS is on major funds. Each major fund is presented in a separate column.

Governmental funds 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.

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 are accounted for as other financing sources (uses). Other financing sources (uses) also include an adjustment to cash. 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.

LAKE VIEW SCHOOL DISTRICT NO. 25
PHILLIPS 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 is prepared on a fiscal year basis. The District's expenditure budget does not represent a formal appropriation. 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 (Exhibit E).

F. SHORT-TERM INTERFUND RECEIVABLES/PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as due from other funds or due to other funds on the balance sheet. Short-term interfund loans are classified as interfund receivables/payables.

G. 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

H. 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.

LAKE VIEW SCHOOL DISTRICT NO. 25
 PHILLIPS COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. FUND EQUITY

In the FFS, undesignated fund balance indicates that a portion of fund equity is not reserved or designated for a specific purpose.

J. 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.

K. ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures, and expenses during the reporting period. Actual results could differ from those estimates.

L. 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. DEFICIT FUND EQUITY

The following individual funds have deficits in unreserved fund balance (net assets) at June 30, 2004:

Fund	Deficit Amount
General fund	\$ 62,820

3. CASH AND CASH EQUIVALENTS

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

	Bank Balance
Insured (FDIC)	\$ 8,998

The above total deposits do not include cash in the amount of \$40,501, which was held in the County Treasury.

LAKE VIEW SCHOOL DISTRICT NO. 25
 PHILLIPS COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2004

4. RECEIVABLES

The receivables of \$151,703 at June 30, 2004, are as follows:

Class of Receivable	General Fund
Taxes:	
Local	\$ 151,703

5. CAPITAL ASSETS

	Balance July 1, 2003	Additions	Balance June 30, 2004
<i>Capital assets not being depreciated:</i>			
Land	\$ 22,544		\$ 22,544
<i>Capital assets being depreciated:</i>			
Buildings	1,121,034		1,121,034
Site improvements/infrastructure	2,502		2,502
Machinery and equipment	335,842	\$ 112,621	448,463
Total depreciated	1,459,378	112,621	1,571,999
Less accumulated depreciation for:			
Buildings	470,320		470,320
Site improvements/infrastructure	1,480		1,480
Machinery and equipment	123,680		123,680
Total accumulated depreciation	595,480		595,480
Total capital assets depreciated, net	863,898	112,621	976,519
Governmental activity capital assets, net	\$ 886,442	\$ 112,621	\$ 999,063

6. ACCOUNTS AND SALARIES PAYABLES

The payables of \$73,420 at June 30, 2004, are as follows:

	General Fund
Salaries	\$ 1,446
Accounts	71,974
Total	\$ 73,420

LAKE VIEW SCHOOL DISTRICT NO. 25
 PHILLIPS COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2004

7. 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:

<u>Type</u>	<u>Recorded Amount</u>
Equipment	\$ 87,259

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:

<u>Fiscal Year Ending June 30,</u>		<u></u>
2005	\$	13,879
2006		5,119
2007		5,119
2008		5,119
2009		5,119
2010 - 2014		10,240
Total Minimum Lease Payments		44,595
Less: Amount Representing Interest		7,856
Total Present Value of Net Minimum Lease Payments	\$	36,739

8. LONG-TERM OBLIGATIONS

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

<u>Date of Issue</u>	<u>Date of Final Maturity</u>	<u>Rate of Interest</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30, 2004</u>	<u>Maturities to June 30, 2004</u>
4/1/1987	2/1/2006	5.75 to 6.70%	\$ 413,825	\$ 65,000	\$ 348,825
12/1/1998	1/1/2005	5.39%	49,975	8,311	41,664
1/1/2001	1/1/2011	6.50%	37,284	28,428	8,856
2/1/2001	11/1/2006	5.85%	34,900	17,449	17,451
12/1/2002	11/1/2012	4.95%	112,000	100,800	11,200
Totals			\$ 647,984	\$ 219,988	\$ 427,996

LAKE VIEW SCHOOL DISTRICT NO. 25
 PHILLIPS COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2004

8. 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	Reductions	Balance June 30, 2004
Bonds payable	\$ 95,000	\$ 30,000	\$ 65,000
Certificates of indebtedness	135,266	17,017	118,249
Capital leases	47,744	11,005	36,739
Total	\$ 278,010	\$ 58,022	\$ 219,988

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	\$ 30,000	\$ 35,000	\$ 65,000
Certificates of indebtedness	17,017	101,232	118,249
Capital leases	11,636	25,103	36,739
Total	\$ 58,653	\$ 161,335	\$ 219,988

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

Year Ended June 30,	Principal	Interest	Total
2005	\$ 58,653	\$ 12,164	\$ 70,817
2006	55,561	8,592	64,153
2007	20,794	5,118	25,912
2008	15,228	4,150	19,378
2009	15,494	3,322	18,816
2010 - 2014	54,258	5,228	59,486
Totals	\$ 219,988	\$ 38,574	\$ 258,562

9. INTERFUND TRANSFERS

The FFS reflects transfers from the General Fund to the Debt Service Fund in the amount of \$23,504. The transfer to the Debt Service Fund was for debt related payments.

LAKE VIEW SCHOOL DISTRICT NO. 25
PHILLIPS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

10. 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 \$73,050, \$68,440 and \$61,489, respectively. The District's contributions to ATRS for federally funded employees for the years ended June 30, 2004, 2003 and 2002 were \$13,576, \$12,824 and \$9,369, 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 \$1,574, \$1,223 and \$1,147, respectively, equal to the required contributions for each year.

11. SCHOLARSHIP FUND

The District has previously received \$651 for "Student Scholarships" from alumni donations. The scholarship is awarded to a student based on the financial need of the students submitting applications to the District. The scholarship fund had a balance of \$651 at June 30, 2004.

12. 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. As a result, the State Department of Education, on May 18, 2004, ordered the administrative consolidation of Lake View School District No. 25 with Barton-Lexa School District to be effective July 1, 2004.

LAKE VIEW SCHOOL DISTRICT NO. 25
 PHILLIPS 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	\$ 150,000	\$ 142,429	\$ (7,571)
State assistance	1,100,000	925,379	(174,621)
Federal assistance	375,000	366,189	(8,811)
Activity revenues		48,183	48,183
Meal sales		348	348
Other revenues		14,084	14,084
TOTAL REVENUES	1,625,000	1,496,612	(128,388)
EXPENDITURES			
Regular programs	690,000	591,588	98,412
Special education	33,000	32,831	169
Workforce education	124,200	122,969	1,231
Compensatory education	160,000	166,981	(6,981)
Other instructional programs	1,100	1,082	18
Support services - students	1,000	13,573	(12,573)
Instructional staff support services	8,000	7,514	486
General administrative support services	275,000	287,250	(12,250)
School administration support services	83,000	82,720	280
Business support services	3,000	2,951	49
Operation and maintenance of plant services	125,000	106,266	18,734
Student transportation services	20,000	22,198	(2,198)
Non-instructional - food services operations	92,000	97,840	(5,840)
Non-programmed costs	7,000		7,000
Activity expenditures		33,508	(33,508)
Capital outlay	110,000	112,621	(2,621)
Debt service:			
Principal retirement	55,500	58,022	(2,522)
Interest and fiscal charges	15,000	16,019	(1,019)
TOTAL EXPENDITURES	1,802,800	1,755,933	46,867
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(177,800)	(259,321)	(81,521)
OTHER FINANCING SOURCES (USES)			
Transfers in	695,000	23,504	(671,496)
Transfers out	(695,000)	(23,504)	671,496
Unreconciled difference		(9,826)	(9,826)
TOTAL OTHER FINANCING SOURCES (USES)	0	(9,826)	(9,826)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(177,800)	(269,147)	(91,347)
FUND BALANCES - JULY 1	237,464	241,867	4,403
FUND BALANCES - JUNE 30	\$ 59,664	\$ (27,280)	\$ (86,944)