



The Little Rock School District of Pulaski County, Arkansas

ANNUAL FINANCIAL REPORT

June 30, 2011

Hudson
Cisne & co. LLP
CERTIFIED PUBLIC
ACCOUNTANTS

The Little Rock School District of Pulaski County, Arkansas

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**INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

To the Board of Education
The Little Rock School District
of Pulaski County, Arkansas
Little Rock, Arkansas

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of The Little Rock School District of Pulaski County, Arkansas (the "District") as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 opinion.

In our opinion, the basic 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 Little Rock School District of Pulaski County, Arkansas, as of June 30, 2011, and the respective changes in financial position 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 February 13, 2012 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 and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

To the Board of Education
Page Two

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11 and budgetary comparison information on page 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the District's financial statements as a whole. The accompanying schedule of expenditures of federal awards and schedule of state assistance are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Hudson, Cisne + Co. LLP

February 13, 2012
Little Rock, Arkansas

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Little Rock School District of Pulaski County, Arkansas

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended June 30, 2011

As management of The Little Rock School District of Pulaski County, Arkansas (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial balances and activities of the District as of and for the fiscal year ended June 30, 2011. This management's discussion and analysis (MD&A) gives an objective and comprehensive financial analysis of the District based on currently known facts, decisions or conditions. The intent of the MD&A is to look at the District's financial position and performance as a whole. Readers should review the financial statements found in the Financial Section starting on page 13 and the related notes thereto to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year ended June 30, 2011, are as follows:

On the District-wide Financial Statements

- Total net assets increased from \$64.2 million at June 30, 2010, to \$73.5 million at June 30, 2011, an increase of approximately \$9.3 million or 14.5%.
- In total, revenues increased from \$318.9 million in 2010 to \$335.9 million in 2011, an increase of approximately \$17 million, or 5.3%. Much of this change is attributable to additional federal and state funding for specific programs.
- General revenues totaling \$206.3 million for the year ended June 30, 2011, and \$207 million for the year ended June 30, 2010, represented approximately 61.4% and 64.9% of total revenues for the years ended June 30, 2011 and 2010, respectively. Program specific revenues, which include grants from federal and state agencies, comprise the remaining 38.6% and 35.1% of total revenues for the years ended June 30, 2011 and 2010, respectively.
- Total expenses increased from \$308.2 million in 2010 to \$326.6 million in 2011, an increase of approximately \$18.4 million, or 6.0%. Much of this increase is attributable to the District's expenditure of federal stimulus funds available for specific programs.

On the Fund Financial Statements

- The ending fund balance in the General Fund decreased from \$20.4 million at June 30, 2010, to \$16.3 million at June 30, 2011. This represents a decrease of approximately \$4.1 million or 20%. This decrease is largely attributable to increases in all General Fund expenditures. Total governmental fund balances decreased from \$36.7 million at June 30, 2010, to \$27.0 million at June 30, 2011, a decrease of approximately \$9.7 million, or 26.4%. This decrease is primarily attributable to the fund balance decrease in the General and Capital Projects of \$4.1 million and \$3 million, respectively.
- General Fund revenues totaled \$218.7 million for the year ended June 30, 2011, an increase of approximately \$3.6 million over total 2010 revenues totaling of \$215.1 million. Total resources available to all governmental funds of the District during the year ended June 30, 2011, were \$337.2 million as compared to \$314.4 million for the year ended June 30, 2010.
- General Fund expenditures have increased from \$221.6 million for the year ended June 30, 2010, to \$232.3 million for the year ended June 30, 2011, while total expenditures of the District increased from \$331.9 million to \$349.2 million. This increase of approximately \$17.3 million is primarily attributable to the increase in capital outlay and expenditure of federal stimulus funds available for specific programs during the year.

The Little Rock School District of Pulaski County, Arkansas

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended June 30, 2011

Financial Highlights (Continued)

Using the Basic Financial Statements

The District's basic financial statements consist of a series of financial statements and the related notes to those statements. The statements are organized so that the reader can understand the operations of the District as a whole. The basic financial statements include District-wide Financial Statements, Fund Financial Statements and Notes to the Financial Statements, and are presented in accordance with the financial reporting model required by the Governmental Accounting Standards Board in Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

District-wide Financial Statements

The District-wide Financial Statements, which include the Statement of Net Assets and the Statement of Activities (see pages 13 and 14), provide highly condensed financial information and render a District-wide perspective of the District's financial condition in a manner similar to a private sector business. These statements include all of the District's assets and liabilities measured under the accrual basis of accounting. This basis of accounting also takes into account all of the District's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net assets at June 30, 2011, and changes in those net assets for the year then ended. The changes in net assets are important as they identify for the reader how the financial position of the District has changed over the year. Events or transactions which may result in changes in the District's financial position may be financial or non-financial in nature. Non-financial factors that may have an impact on the District's financial condition include increases in, or the erosion of, the property tax base within the District's boundaries; the condition of school facilities and equipment; changes in state or federal law regarding the calculation or availability of funding for certain programs, or other external factors.

Fund Financial Statements

The Fund Financial Statements presented on pages 15 through 19 provide detailed information about each of the District's major funds. All of the District's activities are reported in governmental fund types, the accounting focus of which is on near-term inflows and outflows of expendable resources. Resulting fund balances represent expendable resources at the end of each fiscal year which are available for expenditure in future years. Balances and transactions are presented using the modified accrual basis of accounting, which measures cash and all other governmental activities on a current, rather than long-term, basis, indicating sources and uses of funding. Financial information presented in this manner may be useful in evaluating the District's near term financing requirements.

The District's major funds include the General, Debt Service, Capital Projects, Magnet Schools, Special Programs and Food Service funds. The major differences between the June 30, 2011 balances and transactions reported in the District-wide Financial Statements and those reported in the Fund Financial Statements are summarized on pages 16 and 18.

The Little Rock School District of Pulaski County, Arkansas

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended June 30, 2011

Using the Basic Financial Statements (*Continued*)

District-wide Financial Analysis

All of the District's major activities are reported in the District-wide Financial Statements, including instruction, instructional support, pupil transportation, operation and maintenance of plant, school and general administration, food and community services. Property taxes, replacement taxes and state aid finance most of these activities. Additionally, all capital and debt financing activities and related balances are reported in the District-wide Financial Statements.

Statement of Net Assets

Net assets reflect the excess of the District's assets over its liabilities and are comprised of the following at June 30, 2011 and 2010:

	2011	2010
Cash and certificates of deposit	\$ 58,194,778	\$ 66,708,169
Receivables	132,933,576	135,967,179
Capital assets, net	224,997,296	209,796,518
Restricted assets	2,420,147	4,953,895
Inventories and other assets	3,527,920	1,725,038
Total Assets	422,073,717	419,150,799
Current liabilities	149,783,416	155,803,577
Long-term liabilities	198,791,277	199,187,996
Total Liabilities	348,574,693	354,991,573
Net assets:		
Invested in capital assets, net of related debt	16,719,660	5,298,124
Restricted	23,281,397	17,310,034
Unrestricted	33,497,967	41,551,068
Total Net Assets	\$ 73,499,024	\$ 64,159,226

Cash and certificates of deposit decreased \$8.5 million from 2010 balances, primarily as a result of expenditures of bond proceeds and capital outlay. Receivables decreased \$3.1 million, most of which is attributable to a decrease in the assessed property valuations.

Capital assets, net of accumulated depreciation, increased \$15.2 million over 2010 balances. This increase represents the net effect of capital asset additions of \$32.9 million, current year depreciation expense of \$17.5 million, and disposals of assets with a net book value of approximately \$196 thousand. In addition, during the year ended June 30, 2011, the District completed and placed into service projects that were included in construction in progress in the June 30, 2010 financial statements totaling approximately \$28.7 million.

At June 30, 2011 and 2010, respectively, restricted net assets are comprised primarily of \$14.4 million and \$9.8 million to be spent for capital projects.

The Little Rock School District of Pulaski County, Arkansas

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended June 30, 2011

District-wide Financial Analysis (*Continued*)

Statement of Activities

Net assets at June 30, 2011, reflect an increase of \$9.3 million from the June 30, 2010 balance. Key elements of this increase consist of the following:

	2011	2010
Revenues		
Program revenues:		
Charges for services	\$ 3,398,541	\$ 3,505,045
Grants and contributions	126,231,570	108,407,626
General revenues:		
Property taxes	142,525,611	142,693,638
Unrestricted state aid	61,436,881	63,348,415
Interest and other	2,344,978	918,322
Total Revenues	335,937,581	318,873,046
Expenses		
Instructional services	186,953,831	176,896,043
Instructional support services	43,319,188	37,435,920
Pupil transportation services	17,662,010	15,929,977
Operation and maintenance of plant	28,640,296	27,225,310
School administration	17,019,632	16,380,270
General administration	13,699,025	13,662,168
Food services	11,730,798	11,017,088
Community services	187,131	165,177
Interest on long-term debt	7,385,872	9,518,090
Total Expenses	326,597,783	308,230,043
Change in net assets	9,339,798	10,643,003
Net assets, beginning of year	64,159,226	53,516,223
Net assets, end of year	\$ 73,499,024	\$ 64,159,226

As reflected above, the costs associated with the District's activities are not all borne by the taxpayers. During the year ended June 30, 2011, approximately \$3.4 million of the total cost of operations was paid by those who used or benefited from the services rendered (e.g. charges for school lunches and summer school tuition), and approximately 38.7%, or \$126.2 million, was covered by various federal and state resources. General revenues totaling \$206.3 million were available to offset the net cost of the District's programs of \$197 million for the year ended June 30, 2011. Total revenues from all sources were sufficient to cover total expenses, resulting in an overall increase in net assets of \$9.3 million. In comparison, during the year ended June 30, 2010, approximately \$3.5 million of the cost of the District's activities was covered by charges for services, while approximately 35%, or \$108.4 million, of the District's total expenses were paid through federal and state funding. General revenues totaling \$207 million were available to offset the net cost of the District's programs of \$196.3 million for the year ended June 30, 2011. During 2010, the District's overall increase in net assets was \$10.6 million.

The Little Rock School District of Pulaski County, Arkansas

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended June 30, 2011

District-wide Financial Analysis (*Continued*)

The table below shows the total program cost and the net cost of such programs (after deductions for services and grant revenue) of the various categories of expenses for the years ended June 30, 2011 and 2010. The "net cost" presentation reflects the portion of total program cost which is ultimately borne by the District's taxpayers or by other revenue sources.

	2011		2010	
	Total Cost of Programs	Net Cost of Programs	Total Cost of Programs	Net Cost of Programs
Instructional services	\$ 186,953,831	\$ 102,352,398	\$ 176,896,043	\$ 103,879,548
Instructional support services	43,319,188	24,222,390	37,435,920	25,222,645
Pupil transportation services	17,662,010	12,171,278	15,929,977	10,670,223
Operation and maintenance	28,640,296	24,817,994	27,225,310	23,558,531
School administration	17,019,632	15,833,376	16,380,270	14,377,834
General administration	13,699,025	10,446,529	13,662,168	9,843,258
Food services	11,730,798	(168,988)	11,017,088	(754,803)
Community services	187,131	(93,177)	165,177	2,046
Interest on long-term debt	7,385,872	7,385,872	9,518,090	9,518,090
	<u>\$ 326,597,783</u>	<u>\$ 196,967,672</u>	<u>\$ 308,230,043</u>	<u>\$ 196,317,372</u>

Funds Financial Analysis

The District uses fund accounting to control and manage money for particular purposes (e.g., dedicated property taxes and bond proceeds). The Fund Financial Statements allow the District to demonstrate its stewardship over and accountability for resources provided by taxpayers and other entities. These statements also allow the reader to obtain additional insight into the financial workings of the District and further assess the District's financial condition.

The District completed the fiscal year ended June 30, 2011, with a combined fund balance for the District's governmental funds of \$27 million, compared to a combined fund balance of \$36.7 million as of June 30, 2010.

The fund balance of the General Fund at June 30, 2011, includes a reserve for prepaid expenses and inventories totaling approximately \$490 thousand and approximately \$711 thousand committed for the Desegregation Scholarship Program. The entire fund balances of the Capital Projects Fund and the Debt Service Fund remain restricted for capital projects and the payment of principal and interest due on the District's long-term debt, respectively.

A major source of revenue for operations and debt service is local property taxes, which, for fund financial statement reporting purposes, totaled \$140.1 million for the fiscal year ending June 30, 2011, and \$138.7 million for the fiscal year ending June 30, 2010. The amount of property taxes attributable to the District is derived from the District's operating levy of 34 mills and the debt service levy of 12.4 mills (for a total levy of 46.4 mills) applied to the assessed value of taxable property located within the District's boundaries. Other significant local revenues for the year ended June 30, 2011, include \$3.2 million from the Pulaski County Special School District and the North Little Rock School District in support of the original six magnet schools, and breakfast and lunch revenues of \$2.3 million.

The Little Rock School District of Pulaski County, Arkansas

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended June 30, 2011

Funds Financial Analysis (*Continued*)

For the years ended June 30, 2011 and 2010, resources provided by the State totaled approximately \$126.6 million and \$125.6 million, respectively. See Note 1(c) for a discussion of the District's revenue recognition policies applicable to the Fund Financial Statements. The following summarizes significant State resources available to the District during 2011 and 2010:

	2011	2010
Foundation aid, enhanced educational and declining enrollment funding	\$ 58,441,252	\$ 59,434,710
98% Uniform rate of actual tax collections adjustment	2,765,444	3,775,705
Teacher retirement and health insurance reimbursements	15,742,155	13,076,844
Professional development	941,957	940,052
Special education	6,409,700	6,763,170
Workforce education	1,571,239	1,407,063
Student special needs funding	11,243,933	7,911,696
State transportation aid	4,458,463	4,905,188
Majority to Minority transfers	2,708,737	4,054,730
Arkansas Better Chance program funding	5,260,561	5,321,700
State contribution for Magnet Schools	15,001,049	15,796,938
Other	2,092,640	2,245,212
	\$ 126,637,130	\$ 125,633,008

The U.S. Department of Education provides the largest amount of federal funding to the District, totaling \$46.7 million and \$27.2 million for the years ended June 30, 2011 and 2010, respectively, and representing approximately 83.7% and 75.1%, respectively, of total federal awards expended by the District. The majority of this increase is a result of the expenditure of Federal stimulus funds. Other significant sources of federal funding include the U.S. Department of Agriculture, which provided \$9 million and \$8.8 million during the years ended June 30, 2011 and 2010, respectively, under the School Breakfast Program, the National School Lunch Program, the Summer Food Service Program and the Child and Adult Care Food Program.

Total governmental funds expenditures are summarized below:

	2011		2010	
General	\$ 232,301,657	66.5%	\$ 221,599,970	66.8%
Debt service	15,365,361	4.4%	15,523,735	4.7%
Capital projects	11,161,713	3.2%	23,937,737	7.2%
Magnet schools	30,164,291	8.6%	30,564,724	9.2%
Special programs	47,790,475	13.7%	28,211,718	8.5%
Food service	11,445,240	3.3%	10,907,818	3.3%
Other governmental	934,170	0.3%	1,155,514	0.3%
	\$ 349,162,907	100.0%	\$ 331,901,216	100.0%

The Little Rock School District of Pulaski County, Arkansas

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended June 30, 2011

General Fund Budgetary Highlights

Arkansas Code Annotated §6-17-914 states that each school district of the State shall prepare annually a budget of expenditures and receipts, to be filed with the Arkansas Department of Education (ADE) in an electronic format. Although no provision currently exists for revisions to be submitted to the ADE, management and the District's Board of Directors, over the course of the year, may revise the District's budget, taking into consideration unexpected changes in revenues and expenditures. If those revisions are material in nature, they are submitted to the District's Board of Directors for approval. The District's Board of Directors approved the original budget in an open meeting on September 23, 2010. No revisions were made to the budget during the 2010-2011 fiscal year.

A schedule showing the General Fund's original budget compared with actual operating results (on a budgetary basis) is provided in this report on page 38.

For the 2010-2011 fiscal year the General Fund's actual revenues (budgetary basis) exceeded budgeted revenues by \$151 thousand. Actual General Fund expenditures were more than budgeted expenditures by \$1.2 million.

Capital Assets and Debt Administration

Capital Assets

During 2011 and 2010, the District successfully completed several significant construction projects, including major renovations at several schools, installation of improved security systems throughout the District, improvements and upgrades to heating and air conditioning systems and roof replacements on several of the District's buildings. In addition, the District completed construction on a new school located in West Little Rock, in 2011.

At June 30, 2011, the District had \$225 million (net of accumulated depreciation) invested in a broad range of capital assets, including land, buildings, construction in progress, furniture, buses and other vehicles, computers and other equipment. During the current fiscal year, disbursements related to construction or acquisition of assets totaled \$33 million; prior year construction in progress projects that were completed and placed into service totaled \$28.7 million; and depreciation expense totaled approximately \$17.5 million.

Capital assets, net of accumulated depreciation and amortization, at June 30, 2011 and 2010 are comprised of the following:

	2011	2010
Capital Assets		
Buildings and improvements	\$ 286,376,974	\$ 246,489,746
Furniture, equipment and other	62,598,155	54,039,266
Land	12,003,133	12,003,133
Construction in progress	6,954,729	29,190,421
Total capital assets	367,932,991	341,722,566
Less accumulated depreciation and amortization	(142,935,695)	(131,926,048)
Capital Assets, Net	\$ 224,997,296	\$ 209,796,518

Additional information concerning the District's capital assets and construction commitments can be found in Note 3 to the financial statements.

The Little Rock School District of Pulaski County, Arkansas

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended June 30, 2011

Capital Assets and Debt Administration (*Continued*)

Long-Term Debt

The principal balance outstanding of general obligation bonded indebtedness totaled \$197.7 million and \$196.7 million and at June 30, 2011 and 2010, respectively. State statutes limit the amount of general obligation debt a school district may issue to 27% of the assessed valuation. The resulting debt limitation of \$792 million at June 30, 2011, is a decrease of \$10 million over the June 30, 2010 debt limitation.

The District also has obligations outstanding for desegregation loans, Qualified Zone Academy Bonds, capital leases and compensated absences totaling approximately \$12 million at June 30, 2011 (as compared to \$14.8 million at June 30, 2010).

Additional information regarding the District's long-term debt can be found in Note 5 to the financial statements.

Economic Factors and Next Year's Budget

2011-2012 budgeted revenues total \$339.6 million (budgetary basis of accounting), including an increase of \$121 per student in State Foundation and Enhanced Educational funding. Total budgeted expenses are \$338 million. Highly qualified teachers are a necessity, and this budget ensures that the District provides competitive starting salaries and benefits. In addition, the budget supports the continued development of detailed curriculum guides and teaching specialists whose strategies and best practices enhances students' learning environments.

The 2011-2012 budget fully funds the negotiated agreement with the teachers' union and provides a total average compensation increase of 3% for eligible employees and a \$2,000 stipend for teachers who are at the top of the pay schedule. Funding is also available to provide an experience step increase for all other eligible district employees to ensure that students are served by an able and qualified workforce.

After a twenty-six year period of operations under the supervision of the United States District, Court for the Eastern District of Arkansas, on February 23, 2007, the District was declared unitary and released from all further supervision from the Court, a decision which was subsequently appealed but upheld by the Eighth Circuit Court of Appeals on April 2, 2009. The financial impact of this order on the District with respect to State funding and desegregation loans payable by the District to the State, as more fully described in Note 6 to the financial statements, has not yet been determined but could be significant to the District's operations.

Contacting the District's Financial Management

While this Management's Discussion and Analysis is designed to provide a general overview of the financial condition and operations of the District, citizens groups, taxpayers, parents, students, or creditors may want further details. To obtain additional information, please contact Kelsey Bailey, Chief Financial Officer, at the Administration Building Business Office, 810 West Markham, Little Rock, Arkansas 72201 by calling (501) 447-1010 during regular office hours, Monday through Friday, 8:00 a.m. to 5:00 p.m., Central Time, or via e-mail at Kelsey.Bailey@lrsd.org.

BASIC FINANCIAL STATEMENTS

The Little Rock School District of Pulaski County, Arkansas

STATEMENT OF NET ASSETS June 30, 2011

ASSETS	
Cash	\$ 53,126,353
Certificates of deposit	5,068,425
Receivables:	
Property tax, net	117,180,818
Intergovernmental	14,334,119
Other	1,418,639
Inventories and other assets	3,527,920
Cash held with fiscal agent	2,420,147
Capital assets, net	<u>224,997,296</u>
TOTAL ASSETS	<u><u>\$ 422,073,717</u></u>
 LIABILITIES AND NET ASSETS	
Liabilities	
Accounts payable and accrued liabilities	\$ 18,554,526
Payroll taxes and withholdings	11,955,744
Accrued interest expense	3,166,665
Deferred revenues	107,686,105
Due to fiduciary funds	2,173,718
Long-term obligations, net:	
Due within one year	6,246,658
Due in more than one year	<u>198,791,277</u>
Total Liabilities	<u><u>348,574,693</u></u>
 Net Assets	
Invested in capital assets, net of related debt	16,719,660
Restricted:	
Capital projects	14,396,779
Debt service	8,581,080
Other activities	303,538
Unrestricted	<u>33,497,967</u>
Total Net Assets (Page 16)	<u><u>73,499,024</u></u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 422,073,717</u></u>

See accompanying notes to financial statements.

The Little Rock School District of Pulaski County, Arkansas

STATEMENT OF ACTIVITIES For the Year Ended June 30, 2011

	Less Program Revenues			Changes in Net Assets	
	Expenses	Charges for Services	Grants and Contributions		Capital Grants and Contributions
GOVERNMENTAL FUNCTIONS					
Instructional services	\$ 186,953,831	\$ 1,143,378	\$ 75,328,862	\$ 8,129,193	\$ (102,352,398)
Instructional support services	43,319,188	-	14,867,286	4,229,512	(24,222,390)
Pupil transportation services	17,662,010	-	5,278,688	212,044	(12,171,278)
Operation and maintenance of plant	28,640,296	-	3,775,839	46,463	(24,817,994)
School administration	17,019,632	-	1,186,256	-	(15,833,376)
General administration	13,699,025	-	2,902,212	350,284	(10,446,529)
Food services	11,730,798	2,255,163	9,567,820	76,803	168,988
Community services	187,131	-	215,793	64,515	93,177
Interest on long-term debt	7,385,872	-	-	-	(7,385,872)
Total Governmental Functions	\$ 326,597,783	\$ 3,398,541	\$ 113,122,756	\$ 13,108,814	(196,967,672)
GENERAL REVENUES					
Property taxes, levied for general purposes					\$ 104,342,263
Property taxes, levied for debt service					38,183,348
Unrestricted state aid					61,436,881
Interest					415,593
Other general					1,929,385
Total General Revenues					206,307,470
CHANGE IN NET ASSETS (Page 18)					9,339,798
NET ASSETS, BEGINNING OF YEAR					64,159,226
NET ASSETS, END OF YEAR					\$ 73,499,024

See accompanying notes to financial statements.

The Little Rock School District of Pulaski County, Arkansas

BALANCE SHEET – GOVERNMENTAL FUNDS June 30, 2011

	General	Debt Service	Capital Projects	Magnet Schools	Special Programs	Food Service	Other Governmental	Total Governmental Funds
ASSETS								
Cash	\$ 53,126,353	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 53,126,353
Certificates of deposit	-	-	5,068,425	-	-	-	-	5,068,425
Receivables:								
Property tax, net	85,865,258	31,315,560	-	-	-	-	-	117,180,818
Intergovernmental	3,308,447	-	-	2,255,195	7,301,189	1,469,288	-	14,334,119
Other	1,333,128	-	20,145	-	-	-	65,366	1,418,639
Inventories and other assets	490,187	-	-	-	-	335,123	-	825,310
Cash held with fiscal agent	-	2,420,147	-	-	-	-	-	2,420,147
Due from other funds	3,649,594	15,516,547	4,224,377	33,828	-	64,474	677,670	24,166,490
TOTAL ASSETS	\$ 147,772,967	\$ 49,252,254	\$ 9,312,947	\$ 2,289,023	\$ 7,301,189	\$ 1,868,885	\$ 743,036	\$ 218,540,301
LIABILITIES AND FUND BALANCES								
Liabilities								
Accounts payable and accrued liabilities	\$ 15,959,322	\$ 15,453	\$ 589,507	\$ 13,100	\$ 1,853,798	\$ 86,915	\$ 36,431	\$ 18,554,526
Payroll taxes and withholdings	11,955,744	-	-	-	-	-	-	11,955,744
Deferred revenues	85,806,724	45,201,368	-	2,255,195	869,142	326,290	256,772	134,715,491
Due to other funds	15,620,937	-	-	2,306,079	4,651,366	1,441,813	146,295	24,166,490
Due to fiduciary funds	2,173,718	-	-	-	-	-	-	2,173,718
Total Liabilities	131,516,445	45,216,821	589,507	4,574,374	7,374,306	1,855,018	439,498	191,565,969
Fund Balances								
Nonspendable:								
Inventories and other assets	490,187	-	-	-	-	335,123	-	825,310
Restricted for:								
Debt service	-	4,035,433	-	-	-	-	-	4,035,433
Capital projects	-	-	8,723,440	-	-	-	-	8,723,440
Committed to:								
Desegregation scholarship program	710,672	-	-	-	-	-	-	710,672
Unassigned	15,055,663	-	-	(2,285,351)	(73,117)	(321,256)	303,538	12,679,477
Total Fund Balances (page 17)	16,256,522	4,035,433	8,723,440	(2,285,351)	(73,117)	13,867	303,538	26,974,332
TOTAL LIABILITIES AND FUND BALANCES	\$ 147,772,967	\$ 49,252,254	\$ 9,312,947	\$ 2,289,023	\$ 7,301,189	\$ 1,868,885	\$ 743,036	\$ 218,540,301

See accompanying notes to financial statements.

**The Little Rock School District
of Pulaski County, Arkansas**

**BALANCE SHEET – GOVERNMENTAL FUNDS
Reconciliation to the Statement of Net Assets
June 30, 2011**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS (Page 15)		\$ 26,974,332
Capital assets used in governmental activities are not current financial resources and therefore are not reported as assets in the governmental funds.	\$ 224,997,296	
Certain revenues recorded in the Statement of Activities will not be received soon enough after year end to pay current liabilities and are therefore presented as additional deferred revenues in the Balance Sheet - Governmental Funds.	27,029,386	
Long-term debt and certain obligations for compensated absences are not reported as liabilities in the governmental funds.	(205,037,935)	
Bond issuance costs are reported as an other asset in the Statement of Net Assets but were recorded as expenditures in the year they were paid in the governmental funds.	2,702,610	
Accrued interest expense is not reported as a liability in the governmental funds.	<u>(3,166,665)</u>	
		<u>46,524,692</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES (Page 13)		<u><u>\$ 73,499,024</u></u>

See accompanying notes to financial statements.

The Little Rock School District of Pulaski County, Arkansas

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS For the Year Ended June 30, 2011

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Magnet Schools</u>	<u>Special Programs</u>	<u>Food Service</u>	<u>Other Governmental</u>	<u>Governmental Funds</u>
REVENUES								
Property taxes	\$ 103,339,532	\$ 36,771,648	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 140,111,180
Federal revenues	130,036	-	-	-	47,664,888	8,794,730	193,459	56,783,113
State revenues	110,936,241	-	-	15,001,049	9,345	75,215	615,280	126,637,130
Tuition, fees and other	4,148,402	-	3,382,782	3,195,677	162,281	2,255,163	74,044	13,218,349
Interest	112,450	244,693	56,717	-	-	1,733	-	415,593
Total Revenues	218,666,661	37,016,341	3,439,499	18,196,726	47,836,514	11,126,841	882,783	337,165,365
EXPENDITURES								
Instructional services	131,368,327	-	-	21,226,802	21,249,254	-	542,071	174,386,454
Instructional support services	27,097,343	-	-	3,526,108	11,055,706	-	250,191	41,929,348
Pupil transportation services	16,582,012	-	-	34,466	881,563	-	15,495	17,513,536
Operation and maintenance of plant	26,518,101	-	572,434	2,234,841	-	-	-	29,325,376
School administration	14,024,470	-	-	2,576,903	210,120	-	-	16,811,493
General administration	10,826,128	-	-	405,563	915,623	-	2,483	12,149,797
Food services	-	-	-	-	-	11,307,843	-	11,307,843
Community services	-	-	-	-	369,396	-	-	369,396
Capital outlay	5,885,276	-	10,589,279	159,608	13,108,813	137,397	123,930	30,004,303
Debt service:								
Principal paid	-	6,295,017	-	-	-	-	-	6,295,017
Interest	-	7,479,512	-	-	-	-	-	7,479,512
Fiscal agent fees	-	1,590,832	-	-	-	-	-	1,590,832
Total Expenditures	232,301,657	15,365,361	11,161,713	30,164,291	47,790,475	11,445,240	934,170	349,162,907
Revenues over (under) expenditures	(13,634,996)	21,650,980	(7,722,214)	(11,967,565)	46,039	(318,399)	(51,387)	(11,997,542)
OTHER FINANCING SOURCES (USES)								
Operating Transfers In (Out)								
Property taxes	19,394,315	(19,394,315)	-	-	-	-	-	-
Magnet schools funding	(10,227,420)	-	-	10,227,420	-	-	-	-
Interest reduction transfer	-	(4,630,712)	4,630,712	-	-	-	-	-
Lease payments	(424,268)	431,273	-	-	-	-	(7,005)	-
Other	1,910	-	99,000	-	-	-	(100,910)	-
Payments to Bond Refunding Escrow Agent	-	(81,388,642)	-	-	-	-	-	(81,388,642)
Original Issue Premium	-	177,482	-	-	-	-	-	177,482
Proceeds of Long-Term Debt								
Capital lease obligations	703,040	-	-	-	-	-	-	703,040
Refunding bonds	-	82,795,000	-	-	-	-	-	82,795,000
Total Other Financing Sources (Uses)	9,447,577	(22,009,914)	4,729,712	10,227,420	-	-	(107,915)	2,286,880
NET CHANGE IN FUND BALANCE (Page 18)	(4,187,419)	(358,934)	(2,992,502)	(1,740,145)	46,039	(318,399)	(159,302)	(9,710,662)
FUND BALANCE, BEGINNING OF YEAR	20,443,941	4,394,367	11,715,942	(545,206)	(119,156)	332,266	462,840	36,684,994
FUND BALANCE, END OF YEAR	\$ 16,256,522	\$ 4,035,433	\$ 8,723,440	\$ (2,285,351)	\$ (73,117)	\$ 13,867	\$ 303,538	\$ 26,974,332

See accompanying notes to financial statements.

The Little Rock School District of Pulaski County, Arkansas

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS Reconciliation to the Statement of Activities June 30, 2011

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS (Page 17)		\$ (9,710,662)
Additions to capital assets are reported as expenditures in the Fund Financial Statements.	\$ 32,902,937	
The costs of capital assets are depreciated over their estimated useful lives for District-wide Financial Statement reporting purposes.	(17,506,099)	
The net book value of capital assets that are disposed during the year are not reflected in the Fund Financial Statements.	(196,060)	
In the Statement of Activities, expense related to compensated absences is measured based on amounts earned during the year. In the Fund Financial Statements, expenditures for these items are measured by the amount of compensation paid.	(352,000)	
Repayment of long-term debt is recorded as an expenditure in the Fund Financial Statements, but it reduces long-term liabilities in the Statement of Net Assets.	6,295,017	
Payment to bond refunding escrow agent is recorded as an other financing use in the Fund Financial Statements but as a reduction of long-term debt in the Statement of Net Assets.	81,388,642	
Proceeds from the issuance of long-term debt are recorded as other financing sources in Fund Financial Statements, but are recorded as increases in long-term liabilities in the District-wide Financial Statements.	(83,675,522)	
Property tax revenues are recognized in the District-wide Financial Statements in the period for which they are levied, while they are recognized in the Fund Financial Statements to the extent collected within sixty days after year end.	2,414,431	
Certain deferred revenues are recognized in different fiscal years for District-wide Financial Statements than for Fund Financial Statements purposes due to the timing of collection.	(3,938,696)	
Fiscal agent fees were recognized as expense in the Fund Financial Statements, but are recorded as an asset in the District-wide Financial Statements.	1,590,832	
Amortization of deferred bond costs and Qualified Zone Academy Bonds discounts is not reported in the Fund Financial Statements, but is reported in the District-wide Financial Statements.	(307,722)	
Interest expenditures are recognized in the Fund Financial Statements when paid, but interest expense accrued when due in the District-wide Financial Statements.	434,700	
		19,050,460
CHANGE IN NET ASSETS (Page 14)		\$ 9,339,798

See accompanying notes to financial statements.

**The Little Rock School District
of Pulaski County, Arkansas**

**STATEMENT OF NET ASSETS – FIDUCIARY FUNDS
June 30, 2011**

ASSETS

Due from governmental funds

\$ 2,173,718

TOTAL ASSETS

\$ 2,173,718

LIABILITIES

Due to student groups and other

\$ 2,173,718

TOTAL LIABILITIES

\$ 2,173,718

See accompanying notes to financial statements.

The Little Rock School District of Pulaski County, Arkansas

NOTES TO FINANCIAL STATEMENTS June 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Little Rock School District of Pulaski County, Arkansas (the District), have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the District's accounting policies are described below.

(a) Reporting Entity

The District is a body politic and corporate, established in 1853 for the purpose of providing educational services as mandated by state and federal agencies. The District operates under the direction of a locally-elected seven-member Board of Directors (the Board), which has oversight responsibility and control over all activities related to public school education provided by the District.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. Component units, if any, are legally separate organizations for which the primary government is financially accountable or for which the primary government is not financially accountable; however, based on the nature and significance of their relationship with the primary government, it would be misleading to exclude them from the financial statements of the primary government.

The District's financial statements include the activities and balances related to the Felder Alternative Learning Academy (the Academy), which is the only component unit included in the District's financial statements. The Academy is a charter school established during the year ended June 30, 2006, for the purpose of establishing a structured educational setting for students in grades six through twelve who have been truant or have committed certain significant offenses or violations of their district's code of conduct. Pursuant to the Academy's charter agreement, the District is the lead educational agency responsible for oversight of the daily operations of the Academy and is eligible for funding related to students attending the Academy. Activities of the Academy are funded solely by the District.

(b) Basis of Presentation

District-wide Financial Statements

The District-wide Financial Statements display financial information about the District as a whole and include the Statement of Net Assets and the Statement of Activities. These statements include all funds, account balances, and financial activities of the District, except for those related to the student activity funds, which the District holds as agent for various student groups and parent organizations. Eliminations of interfund transactions have been made to avoid "double-counting" of internal balances and activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. "Direct expenses" are those that are clearly identifiable with a specific function. "Program revenues" include charges or fees collected from students as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes and other revenues not included among program revenues are reported as "general revenues."

The Little Rock School District of Pulaski County, Arkansas

NOTES TO FINANCIAL STATEMENTS June 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of Presentation (Continued)

Fund Financial Statements

Separate financial statements are provided for the District's governmental and fiduciary fund types. These financial statements include the Balance Sheet – Governmental Funds; the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds; and the Statement of Net Assets – Fiduciary Funds.

The reporting focus of the Fund Financial Statements is on each of the District's major funds, rather than reporting aggregate totals of funds by type. Each major fund is presented in a separate column, and all non-major funds are aggregated into one column. The District reports the following major governmental funds in the Fund Financial Statements:

- The General Fund is the primary operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to another fund are accounted for in this fund. General operating expenditures and capital improvement costs that are not paid through other funds are paid from this fund.
- The Debt Service Fund is used to account for and report financial resources that are restricted, committed or assigned to expenditure for principal and interest. This includes the accumulation of resources for the payment of principal and interest maturing in future periods.
- The Capital Projects Fund is used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.
- The Magnet Schools Fund is used to account for and report the state and local resources that are restricted for funding the operations of the District's magnet schools.
- The Special Programs Fund is used primarily to account for and report all federal and certain state funding received by the District that is restricted for specified purposes, with the exception of federal funding related to the District's food service program, which is accounted for in the Food Service Fund.
- The Food Service Fund is used to account for and report all financial transactions, including federal funding that is restricted for the District's food service program.

The District reports all funds held in a fiduciary capacity on behalf of various student groups and parent organizations in an agency fund, which is the only fund presented in the Statement of Net Assets - Fiduciary Funds.

(c) Measurement Focus and Basis of Accounting

District-wide Financial Statements

The District-wide Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value

The Little Rock School District of Pulaski County, Arkansas

NOTES TO FINANCIAL STATEMENTS June 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Measurement Focus and Basis of Accounting (Continued)

District-wide Financial Statements (Continued)

in exchange, include property taxes, entitlements, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements and donations are recognized in the fiscal year when all eligibility requirements, including restrictions on the availability or use of funds, have been satisfied.

Fund Financial Statements

The activities and balances of the District's governmental and agency funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recorded when they are measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers all property taxes to be available if the revenues are collected within sixty days after the end of the fiscal year; all other revenues are considered to be available if they are collected within ninety days after the end of the fiscal year. Property taxes, investment interest, grants, entitlements and contributions associated with the current fiscal period are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures are recorded when a liability is incurred, as under the accrual method of accounting, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent that they have matured or payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

(d) Cash and Certificates of Deposit

The District's cash consists of cash on hand and demand deposits maintained at financial institutions. State of Arkansas (State) statutes require that the District's funds be deposited in banks located in the State and that all deposit balances in excess of FDIC insurance limits be collateralized in accordance with State statutes. The District is party to a collateral management agreement with two financial institutions whereby all unrestricted deposits that are not FDIC insured are secured by collateral as required by State law. Collateral securities are held in the District's name by the District's agent.

At June 30, 2011, certificates of deposit held by the District generally mature within one year of the date of purchase. State statutes generally permit the District to invest in general obligation bonds of the United States; in bonds, notes, debentures, or other obligations issued by an agency of the United States Government; in general obligation bonds of the State; or in bank certificates of deposit. The District does not have a formal investment policy that places any further restrictions on the nature of types of investments that may be purchased.

(e) Restricted Cash and Investments

The District maintains restricted cash and investment balances consisting of three guaranteed interest deposit accounts and a U.S. government agency security held by fiscal agents, which are restricted for repayment of the District's Qualified Zone Academy Bonds (Note 5). The total carrying amount and related bank balances of these cash accounts of \$1,799,793 as of June 30, 2011, is not covered by FDIC insurance, nor is it collateralized. The investment, the fair value of which was \$620,354 at June 30, 2011, is not held in the District's name and is not insured.

The Little Rock School District of Pulaski County, Arkansas

NOTES TO FINANCIAL STATEMENTS June 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Inventories

Materials, supplies and food commodities are valued at cost using the first-in, first-out method, and are recorded as expenditures when consumed rather than when purchased.

(g) Capital Assets

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal repairs and maintenance that do not add significantly to the total value of the asset or materially extend the life of an asset are not capitalized.

Capital assets, excluding land and construction in progress, are depreciated using the straight line method over the following estimated useful lives:

Buildings and improvements	10 – 50 years
Furniture and equipment	5 – 20 years

In accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, the District evaluates events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. If the District determines that a capital asset is impaired in accordance with this standard, and that impairment is significant and other than temporary, impairment losses will be recorded and reflected in the District's financial statements.

(h) Interfund Balances and Transactions

In the Fund Financial Statements, receivables and payables resulting from short-term interfund loans are classified as "due to" or "due from" other funds. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. All other interfund transactions are reported as transfers.

Interfund balances and transfers are eliminated for purposes of financial statement presentation in the District-wide Financial Statements.

(i) Deferred Revenue

The District reports deferred revenue to the extent that resources have been accrued or received before the applicable revenue recognition criteria have been met.

(j) Compensated Absences

It is the District's policy to permit employees to accumulate earned vacation and sick pay benefits. Employees may receive compensation for unused vacation and sick pay upon separation from service with the District. In the District-wide Financial Statements, a liability for vacation pay is accrued as it is earned by District employees. A liability for earned but unused vacation pay is reflected in the governmental funds only to the extent that employees have separated from service with the District and are due payment. Accumulated personal leave days are not paid upon termination and are not recorded as a liability in the District-wide or Fund Financial Statements.

The Little Rock School District of Pulaski County, Arkansas

NOTES TO FINANCIAL STATEMENTS June 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Long-term Liabilities

In the Statement of Net Assets, long-term debt and other long-term obligations are reported as liabilities. Bond and other debt premiums and discounts, as well as deferred refunding and bond issuance costs, are generally deferred and amortized over the life of the bonds using the effective interest method. As allowed under the transition provisions of GASB No. 34, premiums, discounts, and debt issuance costs have not been deferred or amortized for long-term debt that was outstanding on July 1, 2001. Long-term debt is reported net of the applicable premiums, discounts and deferred costs.

In the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds, bond premiums and the face amount of bonds or other long-term debt issued are reported as “other financing sources,” while discounts are reported as “other financing uses.” Issuance or refunding costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(l) Net Asset Classifications

In the District-wide financial statements, equity is classified as net assets and displayed in three components:

- Investments in capital assets, net of related debt consists of capital assets including capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of these assets.
- Restricted net assets consists of net assets with constraints placed on their use either by external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets consists of all other net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted”.

(m) Fund Balance Classifications

The Governmental Accounting Standards Board (GASB) released Statement 54 “Fund Balance Reporting and Governmental Fund Type Definitions” (GASB 54) on March 11, 2009 which is effective for the District’s fiscal year ending June 30, 2011. This Statement is intended to improve the usefulness of the amounts reported in fund balance by providing more structured classifications. Under GASB 54, fund balance is reported under the following five classifications:

- Nonspendable Fund Balance consists of amounts that are not in a spendable form or are required to be maintained intact.
- Restricted Fund Balance consists of amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation. The Restricted for State Programs and Restricted for Federal Programs balances reflect amounts restricted for specific state and federal programs as mandated by respective state and federal grant or funding agreements. The Restricted for Debt Service and Capital Projects balance reflects amounts that are restricted for construction or other capital outlay projects.

The Little Rock School District of Pulaski County, Arkansas

NOTES TO FINANCIAL STATEMENTS June 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Fund Balance Classifications (Continued)

- Committed Fund Balance consists of amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority (the Board of Education) and does not lapse at year end. The committed fund balance reflects board commitments for the Desegregation Scholarship Program.
- Assigned Fund Balance consists of amounts intended for a specific purpose by the Board of Education or by a District official that has been delegated authority to assign amounts; however, there is no assigned fund balance for the District.
- Unassigned Fund Balance consists of any remaining fund balance that has not been reported in any other classification.

For the purposes of fund balance classification, the District's policy is to have expenditures spent from the restricted fund balances first, followed in order by committed fund balance (if any), assigned fund balance (if any) and last unassigned fund balance.

(n) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates included in the District's financial statements relate to the determination of the uncollectible portion of property taxes receivable, the calculation of certain deferred revenues, and the useful lives used to determine depreciation expense related to the District's capital assets.

(o) Annual Budget

As required by State statutes, the District prepares an annual budget that is filed with the Arkansas Department of Education (ADE). The budget is required to be approved by the District's Board and submitted to the ADE no later than September 30 of each year. Budget amendments, if any, are not required to be submitted for approval to ADE. The District's budget, although legally required, is not an appropriated budget and thus not legally restrictive.

(p) Recently Issued Accounting Standards

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance. This statement will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so they derive from a single source. In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, to provide reporting guidance for deferred outflows and inflows of resources. The District's management has not yet determined the impact implementation of these standards, which is required July 1, 2012, will have on the District's financial statements, if any.

The Little Rock School District of Pulaski County, Arkansas

NOTES TO FINANCIAL STATEMENTS June 30, 2011

NOTE 2: PROPERTY TAXES

Property taxes are levied each November based on the assessed value of taxable property as of January 1 of that year. Tangible personal property acquired after January 1 and before June 1 is required to be assessed in the year of acquisition. Otherwise, only property owned by a taxpayer on January 1 is assessed on that date for that calendar year. The millage rates in effect on the date of the levy are multiplied by the assessed value of taxable property to determine the total amount of tax. The tax records are opened and taxes are billed in March of the year following the levy. Taxes not received by October 15 of the year following the levy are considered delinquent and are subject to penalties.

Although an enforceable lien attaches to the property on the date of assessment, the District does not record a receivable until the levy date, as that is the date when the amount of tax attributable to the District is known. A receivable is recorded in the General Fund and the Debt Service Fund equal to each fund's proportionate share of the assessment. The millage rates attributable to the District for the levy which occurred during the fiscal year ending June 30, 2011, were 34 mills for operations and maintenance and 12.4 mills for debt service.

Property taxes are recognized as revenue in the Statement of Activities in the period the taxes are intended to finance. Property tax revenue is also recognized in the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds in the period the taxes are intended to finance, but only to the extent that such taxes are both measurable and available.

Pursuant to Arkansas statute, the District recognizes as current revenues forty percent (40%) of the operations and maintenance tax levy (40% pullback) which occurs during the District's fiscal year. The remaining sixty percent (60%) of the levy for operations and maintenance may not be recognized as revenue until the following fiscal year. The debt service tax levied during any given fiscal year is intended to finance the District's debt service requirements for the fiscal year beginning on July 1 of the year following the levy.

In the Statement of Net Assets and in the Balance Sheet – Governmental Funds, property taxes are presented as deferred revenues to the extent they have been received or accrued by the District prior to the fiscal year they are intended to finance. The Balance Sheet – Governmental Funds presents balances that have been accrued, but have not been collected within sixty days of year end as additional deferred property tax revenues, and thus do not meet the measurable and available criteria for revenue recognition. Deferred property tax revenues, as included in the Statement of Net Assets and in the Balance Sheet – Government Funds, were approximately \$102.2 million and \$126.6 million, respectively.

For financial reporting purposes, property tax revenue also includes proceeds from the Property Tax Relief Fund, established under State law to replace property tax revenues lost by school districts due to the passage of Amendment 79. The District accounts for Property Tax Relief Fund monies in the same manner as property taxes.

**The Little Rock School District
of Pulaski County, Arkansas**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 2: PROPERTY TAXES (Continued)

Property taxes receivable as of June 30, 2011, net of an allowance for uncollectible accounts, are as follows:

	General Fund	Debt Service Fund
Current	\$ 69,821,752	\$ 25,464,404
Delinquent	19,621,225	7,155,976
Allowance for uncollectible accounts	(3,577,719)	(1,304,820)
	\$ 85,865,258	\$ 31,315,560

Approximately \$19.4 million, representing the excess of property taxes revenue recognized over amounts necessary to meet debt service requirements applicable to the fiscal year ended June 30, 2011, has been transferred from the Debt Service Fund to the General Fund to be used for operations as provided for under State statutes. Collection of debt service property taxes received and transferred to the General Fund in advance of the period they are recognized as revenues for financial statement purposes are reflected as amounts due to and due from other funds in the accompanying Balance Sheet – Governmental Funds.

NOTE 3: CAPITAL ASSETS

Balances of the major components of capital assets as of June 30, 2011, and activity during the year then ended, are summarized as follows:

	June 30, 2010 Balance	Increases	Decreases	June 30, 2011 Balance
Capital Assets				
Buildings and improvements	\$ 246,489,746	\$ 39,887,228	\$ -	\$ 286,376,974
Furniture, equipment and other	54,039,266	15,251,401	6,692,512	62,598,155
Land	12,003,133	-	-	12,003,133
Construction in progress	29,190,421	6,455,489	28,691,181	6,954,729
Total Capital Assets	341,722,566	61,594,118	35,383,693	367,932,991
Less Accumulated Depreciation and Amortization				
Buildings and improvements	97,799,728	10,392,647	-	108,192,375
Furniture and equipment	34,126,320	7,113,452	6,496,452	34,743,320
Total Accumulated Depreciation and Amortization	131,926,048	17,506,099	6,496,452	142,935,695
	\$ 209,796,518	\$ 44,088,019	\$ 28,887,241	\$ 224,997,296

Expenditures for library books and certain other additions to capital assets as summarized above, are reflected in their respective functional expenditure classifications for Fund Financial Statement purposes.

**The Little Rock School District
of Pulaski County, Arkansas**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 3: CAPITAL ASSETS (Continued)

Depreciation and amortization expense for the year ended June 30, 2011, was charged to governmental functions as follows:

Instructional services	\$ 15,087,597
Instructional support services	1,133,828
Pupil transportation services	475,766
Operation and maintenance of plant	166,845
General administration	614,851
Food services	8,717
Community services	18,495
	<u>17,506,099</u>
	<u>\$ 17,506,099</u>

The District is party to various construction and related contracts, under which approximately \$4.1 million was unexpended at June 30, 2011.

NOTE 4: INTERFUND BALANCES

The composition of interfund balances at June 30, 2011, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Capital Projects	Other	\$ 146,295
	Special	4,078,082
		<u>4,224,377</u>
General	Magnet	2,137,219
	Food	1,407,985
		<u>3,545,204</u>
Other Governmental	Magnet	104,386
	Special	573,284
		<u>677,670</u>
Debt Service	General	15,516,547
Magnet	Food	33,828
	General	104,390
Food	Magnet	64,474
		<u>64,474</u>
		<u>\$ 24,166,490</u>

Interfund balances result primarily from short-term borrowings between funds to facilitate timely payments of expenditures throughout the year when cash balances within each fund are not sufficient to pay such expenditures. All interfund receivable and payable balances are expected to be satisfied within one year.

The Little Rock School District of Pulaski County, Arkansas

NOTES TO FINANCIAL STATEMENTS June 30, 2011

NOTE 5: LONG-TERM OBLIGATIONS, NET

The District may issue bonds and other forms of indebtedness for the purposes of acquiring capital assets; making additions, renovations, improvements, and repairs to existing capital assets; and refunding outstanding indebtedness. The principal types of indebtedness which the District is authorized to incur are school bonds, offered at public sale on competitive bids; revolving loans and certificates of indebtedness, representing loans from the ADE; postdated warrants, which are warrants drawn in one fiscal year for payment in a subsequent fiscal year; and installment contracts and lease-purchase obligations. Bonds and revolving loan indebtedness are payable from debt service tax revenues, while installment contracts, postdated warrants and lease-purchase obligations are payable from maintenance and operation tax revenues.

(a) School Bonds

On May 9, 2000, the voters in the District approved the issuance of bonds in the principal amount of up to \$190,000,000, the proceeds of which were used for the purpose of refunding outstanding indebtedness, constructing and equipping school facilities, renovations and improvements to existing facilities, and significant repairs to and maintenance of such facilities. These bonds are limited, general obligations of the District, secured by a pledge of a continuing debt service tax of 3.0 debt service mills voted at the 2000 election specifically for payment of these bonds. These bonds will be repaid in annual installments through February 2033 and bear interest at rates ranging from 3.25% to 5.5%.

These bonds (the 2000 Election Bonds) were issued in four series as follows:

- \$46,378,560 Series A Construction Bonds, dated September 1, 2000
- \$44,975,874 Series B Refunding Bonds, dated October 15, 2000
- \$89,890,000 Series C Construction Bonds, dated June 1, 2001
- \$13,195,000 Series D, Construction bonds, dated September 1, 2008

In addition, in November 2003, the District issued \$6,375,000 in refunding bonds with interest rates ranging from 3% to 4.25% to advance refund the then outstanding balance of its \$6,369,891 Construction Bonds, dated May 1, 2000.

On December 1, 2006, the District issued \$45,505,000 in refunding bonds with interest rates ranging from 4% to 4.5% to advance refund the then outstanding balance (\$43,160,000) of its \$46,378,560 Series A Construction Bonds, dated September 1, 2000 (the Refunded Bonds). The net proceeds of \$45,030,874 were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of the Refunded Bonds. As a result, the Refunded Bonds are considered defeased and the liability of those bonds has been removed from the Statement of Net Assets.

This advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the Refunded Bonds of \$1,870,874. This difference is included in deferred bond costs and is being charged to operations through the year 2033 using the straight-line method.

On July 1, 2009, the District issued \$21,390,000 in construction bonds with interest rates ranging from 2% to 4.5% to be used for constructing and equipping of school facilities and roof repairs or replacements. These bonds are limited, general obligations of the District and will be repaid in annual installments through February 2033.

The Little Rock School District of Pulaski County, Arkansas

NOTES TO FINANCIAL STATEMENTS June 30, 2011

NOTE 5: LONG-TERM OBLIGATIONS, NET (Continued)

(a) School Bonds (Continued)

On March 1, 2010, the District issued \$36,565,000 in refunding bonds with interest rates ranging from 2% to 4.375% to advance refund the then outstanding balance (\$33,605,000) of its \$44,975,874 Series B Construction Bonds, dated October 15, 2000 (the Refunded Bonds). The net proceeds of \$35,927,916 were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the Refunded Bonds are considered defeased and the liability of those bonds has been removed from the Statement of Net Assets.

This advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the Refunded Bonds of \$322,916. This difference, which is considered deferred bond costs for District-wide financial statement purposes, is being charged to operations through the year 2033 using the straight-line method.

On November 11, 2010 the district issued \$82,795,000 in refunding bonds with interest rates ranging from 2.5% to 4% to advance refund the then outstanding balance (\$79,405,000) of its \$89,890,000 Series C Construction Bonds, Dated June 1, 2001 (the Refunded Bonds). The net proceeds of \$81,388,642 were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the Refunded Bonds are considered defeased and the liability of those bonds has been removed from the Statement of Net Assets.

This advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the Refunded Bonds of \$1,983,642. This difference, which is considered deferred bond costs for District-wide financial statement purposes, is being charged to operations through the year 2033 using the straight-line method. The District completed the advance refunding to reduce its total debt service payments over the next 22 years by approximately \$11,962,711 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$10,748,371.

(b) State of Arkansas Loans

As discussed in Note 6, the District obtained six loans from the State totaling \$20,000,000, the proceeds of which were used to partially finance the cost of implementing court-ordered desegregation requirements. The loans were to be repaid in twenty equal annual installments, beginning on the seventh anniversary of each loan. The loans were all interest free for the first seven years, however beginning on the seventh anniversary of each advance, the principal amount began to bear interest at 3%. As further described in Note 6, under these loan agreements, \$15 million under these loan agreements were subsequently forgiven. The remaining loans and related interest are being repaid as scheduled.

(c) Qualified Zone Academy Bonds

Qualified Zone Academy Bonds (QZABs), as created by the Taxpayer Relief Act of 1997, are a unique financing instrument available to public schools meeting certain eligibility requirements as specified in Section 1397E of the Internal Revenue Code. Although, the QZABs have a stated interest rate of 0%, the holder of a QZAB is generally allowed annual federal income tax credits while the debt is outstanding. These credits are intended to compensate the holder for lending money to the issuer and function as "interest" on the debt.

The Little Rock School District of Pulaski County, Arkansas

NOTES TO FINANCIAL STATEMENTS June 30, 2011

NOTE 5: LONG-TERM OBLIGATIONS, NET (Continued)

(c) Qualified Zone Academy Bonds (Continued)

The District has issued QZABs with face amounts totaling approximately \$4.3 million to financial institutions to finance a portion of the cost of certain improvements to lighting systems and heating and air conditioning systems. For purposes of presentation in the District-wide Financial Statement, the face amount of the liabilities have been discounted and reflected at the estimated net present value of future amounts to be repaid using discount rates ranging from 4.0%, which are considered rates commensurate with the level of risk associated with these debt instruments. The resulting discounts are amortized and reflected as interest expense over the life of the QZABs. The District has also recorded the related excess of proceeds over the discounted principal balance as a deferred gain which will be recognized as income over the lives of the QZABs. For the Fund Financial Statements, the excess of proceeds over the discounted principal balance will be recorded as interest expenditures at the maturity of the related QZAB.

The District is required under separate agreements issued concurrently with the QZABs to make mandatory sinking fund payments into restricted accounts maintained at the financial institutions which hold the QZABs. The District is to receive a guaranteed rate of interest on these accounts, which, when combined with the cumulative deposit amounts, is expected to be sufficient to repay the entire face amount of the QZABs at maturity. The balances in these accounts are reported as restricted assets in the District's financial statements.

(d) Capital Leases

These obligations are comprised of capital leases entered into by the District to finance the acquisition of school buses. These capital leases, which bear interest at rates ranging from 3.31% to 4.37%, are payable in annual installments through 2018.

Long-term liability balances and the related activity for the year ended June 30, 2011, are summarized as follows:

	June 30, 2010			June 30, 2011	
	Balance	Additions	Reductions	Total Balance	Due Within One Year
Long-term Debt					
School bonds:					
\$89,890,000 Construction Bonds	79,405,000	\$ -	\$ 79,405,000	\$ -	\$ -
\$6,375,000 Refunding Bonds	4,145,000	-	350,000	3,795,000	360,000
\$45,505,000 Refunding Bonds	43,210,000	-	1,060,000	42,150,000	1,115,000
\$13,195,000 Construction Bonds	12,860,000	-	340,000	12,520,000	355,000
\$36,565,000 Refunding Bonds	36,565,000	-	-	36,565,000	-
\$21,390,000 Construction Bonds	20,490,000	-	610,000	19,880,000	620,000
\$82,795,000 Refunding Bonds	-	82,795,000	-	82,795,000	-
	<u>196,675,000</u>	<u>82,795,000</u>	<u>81,765,000</u>	<u>197,705,000</u>	<u>2,450,000</u>
Deferred bond costs	(2,209,173)	(1,809,866)	-	(4,019,039)	-
Original issue premium on refunding	-	172,184	-	172,184	-
Original issue discount	(520,195)	-	22,950	(497,245)	-
	<u>193,945,632</u>	<u>81,157,318</u>	<u>81,742,050</u>	<u>193,360,900</u>	<u>2,450,000</u>

(Continued)

The Little Rock School District of Pulaski County, Arkansas

NOTES TO FINANCIAL STATEMENTS June 30, 2011

NOTE 5: LONG-TERM OBLIGATIONS, NET (Continued)

	June 30, 2010			June 30, 2011	
	Balance	Additions	Reductions	Total Balance	Due Within One Year
State of Arkansas loans:					
\$2,000,000 dated March 1998	\$ 1,400,000	\$ -	\$ 100,000	\$ 1,300,000	\$ 100,000
\$3,000,000 dated September 1998	2,250,000	-	150,000	2,100,000	150,000
	<u>3,650,000</u>	<u>-</u>	<u>250,000</u>	<u>3,400,000</u>	<u>250,000</u>
Qualified Zone Academy Bonds:					
\$3,316,132 due May 2011	3,316,132	-	3,316,132	-	-
\$1,404,985 due September 2011	1,404,985	-	-	1,404,985	-
\$689,389 due March 2012	689,389	-	-	689,389	-
\$2,212,252 due July 2021	2,212,252	-	-	2,212,252	-
	<u>7,622,758</u>	<u>-</u>	<u>3,316,132</u>	<u>4,306,626</u>	<u>-</u>
Unamortized discount	<u>(601,590)</u>	<u>149,633</u>	<u>-</u>	<u>(451,957)</u>	<u>2,094,374</u>
	<u>7,021,168</u>	<u>149,633</u>	<u>3,316,132</u>	<u>3,854,669</u>	<u>2,094,374</u>
Capital leases	<u>1,539,211</u>	<u>703,040</u>	<u>368,885</u>	<u>1,873,366</u>	<u>417,284</u>
Total Long-term Debt	206,156,011	82,009,991	85,677,067	202,488,935	5,211,658
Other Long-term Liabilities					
Compensated absences	<u>2,547,000</u>	<u>1,679,000</u>	<u>1,332,000</u>	<u>2,894,000</u>	<u>1,380,000</u>
	<u>\$ 208,703,011</u>	<u>\$ 83,688,991</u>	<u>\$ 87,009,067</u>	<u>\$ 205,382,935</u>	<u>\$ 6,591,658</u>

The approximate annual debt service requirements of all outstanding long-term debt at June 30, 2011, are as follows:

	In Thousands	
	Principal	Interest
2012	\$ 5,212	\$ 7,973
2013	3,226	7,525
2014	6,355	7,414
2015	7,651	7,223
2016	7,843	6,995
2017-2021	41,452	30,888
2022-2026	50,617	23,715
2027-2031	58,010	13,112
2032-2033	26,920	1,750
	<u>207,286</u>	<u>106,595</u>
Unamortized deferred bond costs	(4,019)	4,019
Unamortized original issue discount	(497)	497
Unamortized original issue premium on refunding	172	(172)
Unamortized discounts on QZABs	(452)	452
	<u>\$ 202,490</u>	<u>\$ 111,391</u>

The Little Rock School District of Pulaski County, Arkansas

NOTES TO FINANCIAL STATEMENTS June 30, 2011

NOTE 6: DESEGREGATION AGREEMENTS AND FUNDING ISSUES

(a) General

During 1982, the District brought litigation in the United States District Court for the Eastern District of Arkansas (the Court) to consolidate the three school districts in Pulaski County, Arkansas, as a desegregation remedy. This was an interdistrict school desegregation case involving complex federal litigation in both trial and appellate courts. The parties to this action subsequently agreed upon appropriate desegregation plans for the three school districts, as well as an interdistrict desegregation plan, with the Court retaining jurisdiction in regard to these desegregation plans.

The litigation resulted in the courts ordering the District to initiate certain desegregation programs, with the ADE being liable for certain aspects of funding the programs. The parties to this action entered settlement agreements which resolved many of the major funding issues related to the desegregation programs. As directed by the Court, the Magnet Review Committee and the Office of Desegregation Monitoring also were established and were charged with oversight responsibilities in regard to the District's desegregation programs.

During the year ended June 30, 1998, the District submitted to the Court a Revised Desegregation and Education Plan dated January 16, 1998 (the Revised Plan). The Court approved the Revised Plan which replaced the District's previous plan, agreements, and orders of the Court with certain exceptions. The District's basic desegregation obligations under the original desegregation plan remained essentially the same; however, the emphasis moved from racial balance to quality education. The Revised Plan provided, among other things, for the conversion of certain schools to neighborhood schools and the construction of at least two new area elementary schools. Interdistrict schools continued to operate as they did under the original plan with the Court having continuing jurisdiction to address compliance issues for three years.

The Revised Plan provided that if the District met its obligations as required by the conclusion of the 2000-2001 school year, the District could achieve "unitary" status and be released from Court supervision. On March 15, 2001, the District filed a compliance report with the Court asserting substantial compliance with the Revised Plan and requested that the Court declare it unitary. After substantial deliberation and consideration of facts and evidence presented, the Court issued an order on September 13, 2002, granting the District partial unitary status and released the District from Court supervision over all areas except program assessment and evaluation. The District was given until March 15, 2004, to demonstrate compliance with the provisions of the Revised Plan pertaining to program assessment and evaluation. That order was appealed; however, the Eighth Circuit Court of Appeals affirmed the Court's decision.

On March 15, 2004, the District filed a compliance report with the Court seeking total unitary status on the ground that it had substantially complied with the program assessment and evaluation provisions of the Revised Plan. Following a hearing, the Court ruled that as of June 30, 2004, the District had again failed to meet the program assessment and evaluation requirements of the September 13, 2002 order and imposed an additional compliance remedy. The June 30, 2004 order specified that the District had until October 15, 2006, to file a compliance report documenting compliance with the program assessment and evaluation requirements of the Revised Plan and the additional compliance remedy. The District appealed the June 30, 2004 order; however on June 26, 2006, the Eighth Circuit Court of Appeals affirmed the Court's decision.

The Little Rock School District of Pulaski County, Arkansas

NOTES TO FINANCIAL STATEMENTS June 30, 2011

NOTE 6: DESEGREGATION AGREEMENTS AND FUNDING ISSUES (Continued)

(a) General (Continued)

The District subsequently filed its compliance report with the Court detailing all measures taken by the District to satisfy the program assessment and evaluation provisions of the Revised Plan and the additional compliance remedy stipulated in the Court's June 30, 2004 order. The District again requested that it be declared unitary and be released from all court supervision and monitoring. Another unitary status hearing was conducted in January 2007, and, on February 23, 2007, the District was declared unitary and released from all further supervision from the Court. The decision was upheld by the Eighth Circuit Court of Appeals on April 2, 2009. The financial impact of this order on the District with respect to State funding and desegregation loans payable, as described in the sections that follow, has not yet been determined but could be significant to the District.

As a result of a 1989 Settlement Agreement, the State of Arkansas annually provides the District approximately \$43 million for magnet schools and M-to-M transfers and other desegregation obligations. On May 19, 2011 the District Court ordered that the state discontinue certain desegregation funding which would have resulted in a loss to the District of approximately \$38 million a year. The Eighth Circuit Court of Appeals stayed that Order, and on December 28, 2011, reversed it. The previous level of desegregation funding has been restored.

(b) State of Arkansas Desegregation Loans

In relation to the desegregation settlement agreements, the State loaned the District \$20 million of desegregation funds between July 1989 and September 1998. The loans, evidenced by six promissory notes, were secured by liens in favor of the State on certain new and existing millages. Interest on each note was to begin on the seventh anniversary of the date of the note at the rate of 3% per annum and was to be repaid in twenty equal annual installments beginning seven years after the execution of each respective loan.

During March 2001, the State and the District entered into an agreement under which the State forgave the first \$15 million of desegregation loans and agreed to forgive the remaining balance if the District obtained unitary status before July 1, 2004. Thus, the District recorded a reduction of its liability to the State to reflect this debt forgiveness of the first \$15 million of loans. Although it is the District's position that the requirements for the forgiveness of the remaining \$5 million balance have been met, this balance continues to be included as a liability on the District's financial statements since the Court has not yet ruled definitively in this regard. Until a final determination is made regarding the disposition of these loans, the District will continue to make all related payments as required.

(c) Magnet School Funding

As a part of its desegregation programs, the Court approved a plan whereby the District participates in a "Magnet School" system with a Magnet Review Committee (MRC) having certain monitoring and oversight responsibilities with respect to such schools (the Magnets). Six schools from the District were organized as a separate reporting group under the direction of the MRC, with these schools being jointly funded by the State, the Pulaski County Special School District (PCSSD), the North Little Rock School District (NLRSD) and the District. During the year ended June 30, 2011, the funding level for the Magnets totaled \$8,404 per pupil with the State contributing approximately one-half of the cost and the three school districts sharing the balance based upon their respective average daily membership numbers.

The Little Rock School District of Pulaski County, Arkansas

NOTES TO FINANCIAL STATEMENTS June 30, 2011

NOTE 6: DESEGREGATION AGREEMENTS AND FUNDING ISSUES (Continued)

(c) Magnet School Funding (Continued)

The approximate average daily memberships of the Magnets for the year ended June 30, 2011, were 2,434 for the District, 756 for PCSSD, and 395 for NLRSD. Based upon these average daily memberships, local revenues received by the District from PCSSD and NLRSD for the year ended June 30, 2011, totaled approximately \$5.1 million. The District's portion of the cost, which totaled approximately \$10.2 million, is recorded as an operating transfer from the General Fund to the Magnet Schools Fund. Related State funding for the year totaled approximately \$15.1 million. Revenue presented in the fund financial statements includes approximately \$2.3 million in funding that was approved for the 2009-2010 fiscal year, but was not recognized as revenue during that year due to the timing of receipt. Approximately \$549,000 of funding approved for the 2010-2011 fiscal year is deferred at June 30, 2011, also due to the timing of the receipt of these funds.

(d) Pooling Agreement

The District and the PCSSD also receive Majority-To-Minority Incentives (M-to-M Payments) from the State in support of the education of all interdistrict school students. In relation to an agreement (the Pooling Agreement) between the District and PCSSD, the parties agreed to "pool" these M-to-M Payments in order to "equalize" the instructional budgets of the interdistrict schools. The District and PCSSD reached an agreement under which the annual liability to be paid by the "owing district" would be limited to \$400,000.

NOTE 7: RETIREMENT PLANS

The District contributes to the Arkansas Teacher Retirement System (ATRS) and the Arkansas Public Employees Retirement System (APERS). Most District employees are required by law to be covered by ATRS except for certain bus drivers, cafeteria workers, and janitors, who are covered by APERS. Both systems are cost-sharing, multiple employer, defined benefit pension plans. Benefits and contribution provisions for both systems are established by State law and can be amended only by the Arkansas General Assembly. Both ATRS and APERS issue a publicly available financial report that includes financial statements and required supplementary information. The reports may be obtained by contacting the respective systems.

Employees covered by the systems have the option to contribute a portion of their salary. Those that choose to contribute to the ATRS plan must contribute 6% of their salary while those who choose to contribute to the APERS plan must contribute 5% of their salary. The District must contribute 14% of eligible payroll for employees covered by ATRS and 4% of eligible payroll for employees covered by APERS. Contributions by or on behalf of the District to the ATRS for the years ended June 30, 2011, 2010, and 2009 were approximately \$25,900,000, \$24,300,000 and \$23,200,000, respectively, and are equal to the required contributions for each year. Contributions by the District to the APERS for the years ended June 30, 2011, 2010, and 2009 were approximately \$64,000, \$68,000, and \$76,000, respectively, and are equal to the required contributions for each year.

NOTE 8: ON BEHALF PAYMENTS

During the year ending June 30, 2011, health insurance premiums of \$4,758,108 were paid by the Arkansas Department of Education to the Arkansas Employee Benefits Division on behalf of District Employees.

The Little Rock School District of Pulaski County, Arkansas

NOTES TO FINANCIAL STATEMENTS June 30, 2011

NOTE 9: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and students; and natural disasters. The District maintains a self-insurance, risk management account within the General Fund to account for and finance its uninsured risks of loss. Under this self-insurance program, the District is responsible for individual losses up to maximum limits, which range from \$5,000 to \$300,000 based on the nature of the loss. The District purchases commercial insurance for claims in excess of amounts paid from the risk management account, and for other risks of loss.

Liabilities for related losses, which are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated, include an amount for claims that have been incurred but not yet reported at year end. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends, and other economic factors. The estimate of claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether they are allocated to specific claims.

The District maintains a balance of \$72,000 on deposit with the third-party administrator of the self-insurance program from which claims are paid. The gross estimated claims liability at June 30, 2011, totaled approximately \$154,000, while the district recovered approximately \$95,700 for the year ended June 30, 2011, net of claims expense.

NOTE 10: LITIGATION AND CONTINGENCIES

At June 30, 2011, the District is a defendant in various legal actions. Several actions involve claims by former employees asserting discriminatory employment practices. The District intends to vigorously contest those cases that cannot be settled on terms acceptable to the District. Management and legal counsel are of the opinion that the likelihood of a financially material unfavorable outcome is small and, thus, no provision has been made in the financial statements for any potential liabilities.

In addition, the District receives various other federal and state assistance designated for specific purposes that are subject to subsequent review and audit by federal and state agencies. Such audits could result in a request for reimbursement by the federal and state agencies for expenditures disallowed under the terms and conditions of the related grant agreements. In the opinion of the District's management, such disallowances, if any, will not be significant to the District's financial statements.

NOTE 11: LITTLE ROCK PUBLIC EDUCATION FOUNDATION, INC.

The Little Rock Public Education Foundation, Inc. (the Foundation) was established as a non-profit organization under the laws of the State on March 21, 2002, to conduct fundraising activities exclusively for the educational benefit of the District's students and staff. As management believes that the activities and balances of the Foundation are not material to the District's financial statements taken as a whole, such amounts are not reflected therein.

**The Little Rock School District
of Pulaski County, Arkansas**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 12: SUBSEQUENT EVENTS

In March 2011, the General Assembly of the State of Arkansas passed Act 871 to amend Arkansas Code §6-20-401 to clarify the definition of “revenue receipts of a school district”. Act 871 is effective for periods ending June 30, 2012 and thereafter. The Act eliminates the District’s requirement to defer property tax collections that exceed the 40% pullback (as defined in the “property taxes” section of Note 2). Accordingly, the District will recognize approximately \$13.9 million in revenue on July 1, 2011 that is deferred at June 30, 2011 related to the 40% pullback requirements under prior law, but will not defer any property tax collections during the year ending June 30, 2012 under the new law.

SUPPLEMENTARY INFORMATION

The Little Rock School District of Pulaski County, Arkansas

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND For the Year Ended June 30, 2011

	General Fund - Budgetary Basis		
	Budgeted	Actual	Variance
REVENUES			
Property taxes	\$ 103,993,000	\$ 102,902,541	\$ (1,090,459)
State revenues	111,087,111	112,233,366	1,146,255
Tuition fees and other	2,598,825	2,780,160	181,335
Interest	200,000	114,058	(85,942)
Total Revenues	217,878,936	218,030,125	151,189
EXPENDITURES			
Instructional services	130,510,190	129,697,034	813,156
Instructional support services	27,403,690	27,138,094	265,596
Pupil transportation services	16,266,253	16,652,020	(385,767)
Operation and maintenance of plant	31,746,964	28,620,009	3,126,955
School administration	13,462,612	14,039,790	(577,178)
General administration	11,861,937	11,884,012	(22,075)
Community services	100,000	-	100,000
Capital outlay	1,486,560	3,570,794	(2,084,234)
Total Expenditures	232,838,206	231,601,753	1,236,453
Excess of Expenditures over Revenues	(14,959,270)	(13,571,628)	1,387,642
OTHER FINANCING SOURCES (USES)			
Operating Transfers In (Out)			
Magnet schools funding	(10,378,798)	(10,227,420)	151,378
Indirect cost transfer	3,505,371	777,113	(2,728,258)
Property tax	18,273,978	19,394,315	1,120,337
Total Other Financing Sources (Uses)	11,400,551	9,944,008	(1,456,543)
NET CHANGE IN FUND BALANCE	\$ (3,558,719)	\$ (3,627,620)	\$ (68,901)
RECONCILIATION OF BUDGETARY BASIS TO GAAP			
Decrease in Fund Balance - Budgetary Basis		\$ (3,627,620)	
Differences between Budgetary and GAAP Basis:			
Property taxes	\$ 436,991		
State revenues	(1,297,125)		
Federal revenues	130,036		
Other revenues	1,368,242		
Interest	(1,608)		
Expenditures	(699,904)		
Proceeds from long-term debt	703,040		
Other transfers	(1,199,471)		
		(559,799)	
Decrease in Fund Balance - GAAP Basis		\$ (4,187,419)	

**The Little Rock School District
of Pulaski County, Arkansas**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2011**

	Federal CFDA Number	Expenditures
SPECIAL EDUCATION CLUSTER		
U.S. DEPARTMENT OF EDUCATION		
Passed through Arkansas Department of Education:		
Title VI - Part B - Special Education - Grants to States	84.027	\$ 5,952,196
Title VI - Part B - Special Education - Grants to States - ARRA	84.391	1,631,092
Total Special Education Cluster		7,583,288
TITLE I CLUSTER		
U.S. DEPARTMENT OF EDUCATION		
Passed through Arkansas Department of Education:		
Title I, Part A - Grants to Local Educational Agencies	84.010	8,563,831
Title I, 1003(a) - Grants to Local Educational Agencies	84.010	573,113
Title I Grants to Local Educational Agencies - ARRA	84.389	3,456,960
Total Title I - Part A Cluster		12,593,904
EDUCATION FOR HOMELESS CHILDREN AND YOUTH CLUSTER		
U.S. DEPARTMENT OF EDUCATION		
Passed through Arkansas Department of Education:		
Education for Homeless Children and Youth	84.196	42,192
Education for Homeless Children and Youth - ARRA	84.387	33,108
Total Education for Homeless Children and Youth Cluster		75,300
SCHOOL IMPROVEMENT CLUSTER		
U.S. DEPARTMENT OF EDUCATION		
Passed through Arkansas Department of Education:		
School Improvement Program	84.377A	145,736
School Improvement Grants - ARRA	84.388	2,830,645
Total School Improvement Cluster		2,976,381
Total U.S. Department of Education		23,228,873
CHILDCARE CLUSTER		
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Passed through Arkansas Department of Human Services		
Child Care and Development Block Grant	93.575	31,661
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	18,285
Child Care and Development Block Grant - ARRA	93.713	2,144
Total Child Care Cluster		52,090

(Continued)

The Little Rock School District of Pulaski County, Arkansas

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS *(Continued)* Year Ended June 30, 2011

	Federal CFDA Number	Expenditures
FOSTER CARE CLUSTER		
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Passed through Arkansas Department of Human Services		
Foster Care-Title IV-E	93.658	\$ 164
ARRA - Foster Care-Title IV-E	93.658	2,836
Total Foster Care Cluster		3,000
Total U.S. Department of Health and Human Services		55,090
CHILD NUTRITION CLUSTER		
U.S. DEPARTMENT OF AGRICULTURE		
Passed through Arkansas Department of Education		
School Breakfast Program - Cash Assistance (1,099,584 units served)	10.553	1,764,684
National School Lunch Program - Cash Assistance (2,674,532 units served)	10.555	6,299,998
Total Arkansas Department of Education		8,064,682
Passed through Arkansas Department of Human Services		
National School Lunch Program – Non-Cash Assistance	10.555	521,504
Summer Food Service Program for Children - Cash Assistance	10.559	208,544
Total Arkansas Department of Human Services		730,048
Total Child Nutrition Cluster		8,794,730
Total U.S. Department of Agriculture		8,794,730
OTHER PROGRAMS		
U.S. DEPARTMENT OF EDUCATION		
Direct Awards		
Smaller Learning Communities	84.215L	282,809
Teaching American History	84.215X	354,892
Early Reading First	84.359B	987,823
Literacy through School Libraries	84.364	319,108
Total Direct Awards		1,944,632
Passed through Arkansas Department of Education		
Title IV-A Safe and Drug-Free Schools Grants	84.186A	97,805
Charter Schools	84.282	311,997
Title IV - 21st Century Community Learning Centers	84.287A	676,707
Title I, Reading First State Grants	84.357	153,279
Title III, English Language Acquisition	84.365	354,312
Mathematics and Science Partnerships	84.366	52,292
Title II, Part A - Improving Teacher Quality	84.367	1,653,212
State Fiscal Stabilization Fund - Education State Grants - ARRA	84.394	13,782,030
Education Jobs Fund - ARRA	84.410	3,419,108
Total Arkansas Department of Education		20,500,742

(Continued)

The Little Rock School District of Pulaski County, Arkansas

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS *(Continued)* Year Ended June 30, 2011

	Federal CFDA Number	Expenditures
U.S. DEPARTMENT OF EDUCATION <i>(Continued)</i>		
Passed through Arkansas Department of Workforce Education		
Adult Education - Basic Grants to States	84.002	\$ 339,994
Career and Technical Education - Basic Grants to States	84.048	533,159
Minority Science and Engineering Improvement	84.120	4,343
Total Arkansas Department of Workforce Education		877,496
Passed through Junior Achievement of Arkansas		
21st Century Community Learning Centers	84.287A	167,283
Total U.S. Department of Education		23,490,153
U.S. DEPARTMENT OF AGRICULTURE		
Passed through Arkansas Department of Human Services		
Child and Adult Care Food Program (78,306 units served)	10.558	130,036
U.S. DEPARTMENT OF JUSTICE		
Passed through Pulaski County, Arkansas		
Juvenile Accountability Block Grants	16.523	26,177
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Passed through Arkansas Department of Human Services		
Temporary Assistance for Needy Families	93.558	54,000
Social Services Block Grant	93.667	35,180
Comprehensive School Health - AIDS Education Act	93.938	2,000
Total Arkansas Department of Human Services		91,180
Passed through Arkansas Department of Workforce Education		
JAG Internship MOU 804 - TANF Funds	93.558	6,255
Total U.S. Department of Health and Human Services		97,435
Total Other Programs		23,743,801
Total Expenditures of Federal Awards		\$ 55,822,494

Note 1: This schedule includes the federal awards activity of the District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

Note 2: Medicaid reimbursements are defined as contracts for services and not federal awards; therefore, they are not covered by the reporting requirements of OMB Circular A-133. Total Medicaid funding for the year ended June 30, 2011 was \$897,488.

The Little Rock School District of Pulaski County, Arkansas

SCHEDULE OF STATE ASSISTANCE Year Ended June 30, 2011

ARKANSAS DEPARTMENT OF EDUCATION

State Foundation Funding	\$ 58,441,252
98% Uniform Rate of Tax Actual Collection Adjustment	2,765,444
Student Growth Funding	89,426
General Facilities Funding	37,976
Professional Development Funding	941,957
Residential Centers/Juvenile Detention	3,162,163
Special Education Services	83,100
Special Education and Related Services	5,698
Youth Shelters	12,453
Special Education - Catastrophic Occurrences	223,668
Advanced Placement Initiative	4,620
Alternative Learning	2,634,287
English Language Learners	572,815
National School Lunch Student Funding	11,243,933
Better Chance Grants	5,260,561
Assessment/End of Level Testing	48,900
At Risk	278,880
National Board of Professional Teaching Standards	10,396
Teacher Licensure/Mentoring	187,226
Smart Start/Smart Step	6,050
Court Ordered Desegregation:	
Majority to Minority Incentives	4,458,463
Transportation Aid	2,708,737
Teacher Retirement and Health Insurance	15,742,155
Magnet Schools	15,001,049
School Food Services	75,215

ARKANSAS DEPARTMENT OF WORKFORCE EDUCATION

Adult Based Education - Base	437,415
General Adult Education - Base	466,879
General Adult Education - Special	72,000
Secondary Workforce Centers	1,517,230
Coordinated Comp Workforce Education - Special Needs	32,759
Workforce New Program Start-Up	21,250

ARKANSAS DEPARTMENT OF HUMAN SERVICES

ARRA - Foster Care-Title IV-E - State Match	800
Social Services Block Grant - State Match	8,545

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

58,834

ARKANSAS STATE FUNDING

Youth Diversity Councils	7,208
Arkansas Better Chance - Center Based	12,724
Technology Grants	3,550
Other	50,412

Total State Assistance

\$ 126,686,030



**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***

The Board of Education
The Little Rock School District
of Pulaski County, Arkansas
Little Rock, Arkansas

We have audited the financial statements of The Little Rock School District of Pulaski County, Arkansas (the District) as of and for the year ended June 30, 2011, and have issued our report thereon dated February 13, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal control over financial reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and other matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Board of Education
Page Two

We noted certain other matters that we reported to the District's management in a separate letter dated February 13, 2012.

This report is intended for the information and use of the Legislative Joint Auditing Committee, state executive and oversight management, district management, the federal awarding agencies and pass-through entities 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.

Hudson, Cisne & Co. LLP

Hudson, Cisne & Co. LLP
Little Rock, Arkansas
February 13, 2012

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

The Board of Education
The Little Rock School District
of Pulaski County, Arkansas
Little Rock, Arkansas

Compliance

We have audited the compliance of The Little Rock School District of Pulaski County, Arkansas (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The District's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that would have a direct and material effect on each of its major federal programs for the year ending June 30, 2011.

Internal control over compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. We did identify one instance of questioned costs that are required to be reported and which is described in the accompanying schedule of findings and questioned costs as item 2011-1.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on the response.

This report is intended for the information and use of the Legislative Joint Auditing Committee, state executive and oversight management, district management, and federal awarding agencies and pass-through entities 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.

Hudson, Cisne & Co. LLP

Hudson, Cisne & Co. LLP
Little Rock, Arkansas
February 13, 2012



**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH ARKANSAS STATE REQUIREMENTS**

To the Board of Education
The Little Rock School District of Pulaski County, Arkansas
Little Rock, Arkansas

We have examined management's assertions that The Little Rock School District of Pulaski County, Arkansas substantially complied with the requirements of Arkansas Code Annotated 6-1-101 and the applicable laws and regulations including those listed in the accompanying schedule of statutes required to be addressed by the Arkansas Department of Education during the year ended June 30, 2011. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on management's assertions about the District's compliance based on our examination.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, The Little Rock School District of Pulaski County, Arkansas complied with the aforementioned requirements for the year ended June 30, 2011.

This report is intended solely for the information and use of the School Board, management, and the Arkansas Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Hudson, Cisne & Co. LLP

Hudson Cisne & Co. LLP
Little Rock, Arkansas
February 13, 2012

The Little Rock School District of Pulaski County, Arkansas

SCHEDULE OF STATUTES REQUIRED BY ARKANSAS DEPARTMENT OF EDUCATION TO BE ADDRESSED IN INDEPENDENT AUDITORS' REPORT ON COMPLIANCE YEAR ENDED JUNE 30, 2011

<u>DESCRIPTION</u>	<u>STATUTES</u>
Bidding & Purchasing Commodities	6-21-301 – 6-21-305
Ethical Guidelines and Prohibitions	6-13-628; 6-24-101 et seq.
Collateralization & Investment of Funds	6-20-222; 19-1-504
Deposit of Funds	19-8-104; 19-8-106
District Finances	6-20-402
• Bonded & Non-bonded Debt, District School Bonds	6-20-1201 – 6-20-1208; 6-20-1210
• Petty Cash	6-20-409
Management of Schools	
• Board of Directors	6-13-604; 6-13-606; 6-13-608; 6-13-611 – 6-13-613; 6-13-617 – 6-13-620; 6-13-1406; 6-24-101; 6-24-104; 6-24-105
• District Treasurer	6-13-701
○ Warrants	6-17-918; 6-17-919; 6-20-403
Management Letter for Audit	14-75-101 – 14-75-104
Nonrecurring Salary Payments	6-20-412
Revolving Loan Fund	6-19-114; 6-20-801 et seq.
Salary Laws	6-17-2201 et seq.; 6-17-2301 et seq.
School Elections	6-13-622; 6-13-630; 6-13-631; 6-13-634; 6-14-106; 6-14-109; 6-14-118; 6-13-1412; 6-13-1413
Teachers and Employees	
• Personnel Policies	6-17-201 et seq., 6-17-2301
• Employment and Assignment	6-17-301 et seq.
• Teacher's License Requirement	6-17-401 et seq.
• Contracts	6-17-801 et seq.
• Certification Requirements	6-17-309; 6-17-401
• Fair Dismissal Act	6-17-1501 et seq.; 6-17-1701 et seq.
• Sick Leave Policies	6-17-1201 et seq.; 6-17-1301 et seq.
Teacher Salaries, the Minimum Foundation Program Aid Act	6-17-803; 6-17-907; 6-17-908; 6-17-911 – 6-17-913; 6-17-918; 6-17-919
Trust Funds (Education Excellence)	6-5-307
Use of Contractors, Improvement Contracts	22-9-201 – 22-9-205
Use of DM&O Millage	26-80-110
On Behalf Payments	The amounts of funds paid by the Arkansas Department of Education to the Employee Benefits Division, on-behalf of District employees

The Little Rock School District of Pulaski County, Arkansas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS Year Ended June 30, 2011

Section I - Summary of Auditors' Results

Financial Statements

- **Type of Report Issued**
The auditors' report expresses an unqualified opinion on the basic financial statements.
- **Internal Control over Financial Reporting**
There were no significant deficiencies identified during the audit of the basic financial statements.
- **Compliance**
There were no instances of noncompliance identified during the audit of the basic financial statements.

Federal Awards

- **Type of Report Issued**
The auditors' report on compliance with requirements applicable to each major program expresses an unqualified opinion.
- **Internal Control over Major Programs**
There were no significant deficiencies identified during the audit of the major federal award programs.
- **Audit Findings Under Section 510(a)**
There was one audit finding required to be reported in accordance with Section 510(a) of OMB Circular A-133 relative to the federal awards programs.
- **Major Programs**
U.S. Department of Education, Title I Part A Cluster, CFDA #84.010 and #84.389
U.S. Department of Education, Title I School Improvement Cluster, CFDA #84.377A and #84.388
U.S. Department of Education, Title VIB Special Education Cluster, CFDA #84.027 and #84.391
U.S. Department of Education, Education Jobs Funds - ARRA, CFDA #84.410
U.S. Department of Education, Improving Teacher Quality, CFDA # 84.367
U.S. Department of Education, State Fiscal Stabilization Funds – ARRA, CFDA # 84.394
- **Threshold between Type A and Type B Programs**
The threshold for distinguishing Types A and B programs was \$1,674,675.
- **Type of Auditee**
The Little Rock School District of Pulaski County, Arkansas was determined to be a high-risk auditee.

Section II – Financial Statement Findings

No findings noted to communicate

The Little Rock School District of Pulaski County, Arkansas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (*Continued*) Year Ended June 30, 2011

Section III – Federal Awards Findings and Questioned Costs

U.S. Department of Education Passed through Arkansas Department of Education Education for Homeless and Youth (CFDA # 84.196)

- **2011-1 Allowable Costs/Cost Principles**

Criteria: Office of Management and Budget (OMB) Circular A-87 requires that federal awards are to be expended only for allowable activities.

Condition: A District employee circumvented internal controls by signing the approval signature for her supervisor for personal purchases with a District purchasing card (Pro-Card).

Context: Inquiry of management and review of the internal audit report filed by District personnel.

Effect: During the year ended June 30, 2011, management discovered that a District employee misappropriated \$9,647 from this program.

Cause: The District employee circumvented internal controls and misappropriated federal funds.

Recommendation: The District discovered this misappropriation internally through its own internal audit monitoring procedures. The District should continue to emphasize the importance of reviewing the Pro-Card transactions and authorizations to adhere to the Pro-Card handbook and ensure that expenditures of federal funds are appropriate and allowable.

Views of responsible officials: The Chief Financial Officer along with the Internal Auditor will continue to monitor internal controls and financial oversight of the Pro-Card program. Additional training will also be conducted for cardholders and approvers to help ensure compliance of established guidelines and procedures. The Pro-Card committee will review the Pro-Card handbook for additional revisions that will assist in this process.

Section IV – Prior Year Financial Statement Findings

No findings noted to communicate

The Little Rock School District of Pulaski County, Arkansas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (*Continued*) Year Ended June 30, 2011

Section V – Prior Year Federal Award Findings and Questioned Costs

U.S. Department of Education Passed through Arkansas Department of Education
Title I - Grants to Local Educational Agencies (CFDA #84.010)
Title I - Grants to Local Educational Agencies - ARRA (CFDA #84.389)
Special Education - Grants to States (CFDA #84.027)

- **2010-1 Allowable Costs/Cost Principles**

Criteria: Office of Management and Budget (OMB) Circular A-87 requires periodic time certifications for employees who work solely on a single federal program.

Condition: Periodic time certifications were not prepared for all employees who worked solely with the three programs reflected above.

Context: Review of sample employees and related documents substantiating time worked by employees.

Effect: Semi-annual certifications were not completed and enhances the likelihood that an employee is paid from a federal program that is inconsistent with the work they are performing.

Cause: Requirement was not enforced or consistently monitored during the current fiscal year.

Previous recommendation: The District should monitor the completion of the periodic time certifications for all applicable employees.

Current status: The District continues to ensure that this process is monitored and completed. There were no findings for the year under audit.

The Little Rock School District of Pulaski County, Arkansas

SUPPLEMENTAL DATA SHEET Year Ended June 30, 2011

The following information is being provided to satisfy the requirements of Arkansas Department of Health and Human Services Audit Guidelines, Section IX. C - Special Requirements:

1. Entity's Full Name: The Little Rock School District
of Pulaski County, Arkansas
2. Entity's Address: 810 West Markham St.
Little Rock, AR 72201
3. Entity's FEIN: 71-6014717
4. Entity's Telephone Number: (501) 447-1000
5. Name of Director: Dr. Morris Holmes, Superintendent
6. Name of Contact Person: Mr. Kelsey Bailey, Chief Financial Officer