



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

**ANNUAL FINANCIAL REPORT**

**June 30, 2013**

**Hudson  
Crisne & 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

### **Report on the Financial Statements**

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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the District, as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

*Change in Accounting Principle*

As described in Notes 1 and 12 to the financial statements, the District presented a retroactive restatement of the previously reported net position from adopting the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in 2013.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-14 and budgetary comparison information on page 43 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.

*Other information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Expenditures of Federal Awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Schedule of State Assistance are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards and Schedule of State Assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the regulatory basis financial statements. Such information has been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting

To the Board of Education  
Page Three

and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and Schedule of State Assistance are fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2014, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Hudson, Cisne & Co. LLP*

February 17, 2014  
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, 2013

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, 2013. 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 15 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, 2013, are as follows:

#### On the District-wide Financial Statements

- The assets and deferred outflows of the District exceeded its liabilities and deferred inflows at June 30, 2013 by \$79.2 million (net position). Of this amount, \$39.9 million represents unrestricted net position and may be used to meet the District's ongoing obligations. The District's net position increased \$4.3 million, or 5.7 %, during the 2013 fiscal year.
- In total, revenues increased from \$328.7 million in 2012 to \$334.5 million in 2013, an increase of approximately \$5.8 million, or 1.8%. This change is attributable to an increase in property tax revenue recognized during 2013 of \$12.3 million which offset the \$6.4 million decrease in grant revenue.
- General revenues totaling \$209.6 million for the year ended June 30, 2013, and \$197.2 million for the year ended June 30, 2012, represented approximately 62.7% and 60.0% of total revenues for the years ended June 30, 2013 and 2012, respectively. Program specific revenues, which include grants from federal and state agencies, comprise the remaining 37.3% and 40.0% of total revenues for the years ended June 30, 2013 and 2012, respectively.
- Total expenses increased from \$324.9 million in 2012 to \$330.2 million in 2013, an increase of approximately \$5.3 million, or 1.6%. Much of this increase is attributable to an increase in instructional services and instructional support services.

#### On the Fund Financial Statements

- The ending fund balance in the General Fund increased from \$36.2 million at June 30, 2012, to \$39.6 million at June 30, 2013. This represents an increase of approximately \$3.4 million or 9.3%. An increase in state revenues and decrease in debt service expenditures offset increases in most General Fund functional expenditures. Total governmental fund balances decreased from \$43.2 million at June 30, 2012, to \$39.5 million at June 30, 2013, a decrease of approximately \$3.7 million, or 8.7%, which is attributable to the fund balance decrease in Capital Projects and Special Programs as debt and grant funded projects are completed, offset by the increase in General Fund balance.

# The Little Rock School District of Pulaski County, Arkansas

## MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended June 30, 2013

### Financial Highlights *(Continued)*

#### On the Fund Financial Statements *(Continued)*

- At June 30, 2013, unrestricted fund balance (the total of the assigned and unassigned components of fund balance) for the General Fund was \$33.3 million, or approximately 13.4% of total General Fund expenditures.
- General Fund revenues totaled \$269 million for the year ended June 30, 2013, a decrease of approximately \$9.5 million over total 2012 revenues totaling \$278.5 million. Total resources available to all governmental funds of the District during the year ended June 30, 2013 were \$332.6 million as compared to \$349.6 million for the year ended June 30, 2012.
- General Fund expenditures have increased from \$246.6 million for the year ended June 30, 2012, to \$249 million for the year ended June 30, 2013, while total expenditures of the District increased from \$334.4 million to \$336.4 million. This increase of approximately \$2 million is primarily attributable to an increase in spending for instructional services and instructional support as well as operation and maintenance of plant and a decrease in debt service expenditures.

### 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. This report also contains certain required and other supplementary information consisting of budgetary comparison, expenditures of federal awards and state assistance in addition to the basic financial statements.

The adoption and implementation of new accounting pronouncements, as further discussed in Notes 1 and 12 to the financial statements, resulted in a restatement associated with amounts previously reported as bond issuance costs, and all references to net assets were changed to net position, which is the terminology now required under the new standards. In addition, the statement of net position and balance sheet – governmental funds now include two new classifications distinct from assets and liabilities – deferred outflows of resources and deferred inflows of resources, if applicable. Balances classified as deferred outflows of resources are required to be reported in a separate section following assets, and balances classified as deferred inflows of resources are reported in a separate section following liabilities. Deferred outflows of resources comprise the cumulative balance of deferred loss on bond refunding transactions. Deferred inflows of resources consist primarily of resources associated with nonexchange transactions reported as receivables before the period when use is first permitted. Net position is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in the District-wide statement of net position.

# The Little Rock School District of Pulaski County, Arkansas

## MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended June 30, 2013

### **Using the Basic Financial Statements (*Continued*)**

#### District-wide Financial Statements

The District-wide financial statements, which include the statement of net position and the statement of activities (see pages 16 and 17), render a 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, liabilities and deferred inflows/outflows of resources with the difference reported as net position 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 except for property tax revenue. Property tax revenue is recognized as collected for both the District-wide and fund financial statements.

These two statements report the District's net position at June 30, 2013, and changes in net position for the year then ended. The changes in net position 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.

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 services 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.

#### Fund Financial Statements

The fund financial statements presented on pages 18 through 22 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, Capital Projects, Magnet Schools, Special Programs and Food Service funds. The major differences between the June 30, 2013 balances and transactions reported in the District-wide financial statements and those reported in the fund financial statements are summarized on pages 19 and 21.

# The Little Rock School District of Pulaski County, Arkansas

## MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended June 30, 2013

### District-wide Financial Analysis

#### Statement of Net Position

Net position reflects the excess of the District's assets and deferred outflows of resources over its liabilities and deferred inflows of resources and is comprised of the following at June 30, 2013 and 2012:

	<b>2013</b>	<b>2012</b> <b>(as restated) <sup>(1)</sup></b>
<b>Assets</b>		
Cash and certificates of deposit	\$ 62,429,756	\$ 66,862,107
Receivables	131,415,126	132,093,951
Inventories and other assets	826,245	822,116
Restricted assets	820,733	689,654
Capital assets, net	234,260,678	230,023,743
<b>Total Assets</b>	<b>429,752,538</b>	<b>430,491,571</b>
<b>Deferred Outflows of Resources</b>		
Deferred loss on refunding of bonds payable	4,985,030	5,212,451
<b>Liabilities</b>		
Current liabilities	41,510,998	39,822,162
Long-term liabilities	197,466,929	203,644,365
<b>Total Liabilities</b>	<b>238,977,927</b>	<b>243,466,527</b>
<b>Deferred Inflows of Resources</b>		
Unavailable revenue	116,580,821	117,334,353
<b>Net position, as restated:</b>		
Net investment in capital assets	24,279,272	20,193,899
Restricted	15,038,917	14,222,099
Unrestricted	39,860,631	40,487,144
<b>Total Net Position</b>	<b>\$ 79,178,820</b>	<b>\$ 74,903,142</b>

<sup>(1)</sup> Restated due to implementation of GASB Statement No. 65.

Capital assets, net of accumulated depreciation, increased \$4.2 million over 2012 balances. This increase represents the net effect of capital asset additions of \$25.2 million and current year depreciation expense of \$21 million. In addition, during the year ended June 30, 2013, the District completed and placed into service projects that were included in construction in progress in the June 30, 2012 financial statements totaling approximately \$9.1 million.

At June 30, 2013 and 2012, respectively, restricted net position is comprised primarily of \$14.2 million and \$13.2 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, 2013

### District-wide Financial Analysis (Continued)

#### Statement of Activities

Net position at June 30, 2013, reflects an increase of \$4.3 million from the June 30, 2012 balance. Key elements of this increase consist of the following:

	<b>2013</b>	<b>2012 (as restated) <sup>(1)</sup></b>
<b>Revenues</b>		
Program revenues:		
Charges for services	\$ 4,170,472	\$ 4,403,955
Grants and contributions	120,733,034	127,116,135
General revenues:		
Property taxes	146,698,178	134,435,848
Unrestricted state aid	61,125,061	61,472,263
Interest and other	1,754,546	1,321,781
Total Revenues	334,481,291	328,749,982
 <b>Expenses</b>		
Instructional services	183,913,972	182,768,042
Instructional support services	50,318,093	46,693,969
Pupil transportation services	18,694,121	18,831,672
Operation and maintenance of plant	25,029,792	24,630,489
School administration	16,245,859	15,867,858
General administration	13,750,168	14,946,271
Food services	14,141,611	13,133,748
Community services	816,926	797,205
Interest on long-term debt	7,295,071	7,282,238
Total Expenses	330,205,613	324,951,492
 Change in net position	4,275,678	3,798,490
 Net position, beginning of year (as restated)	74,903,142	71,104,652
 Net position, end of year	\$ 79,178,820	\$ 74,903,142

<sup>(1)</sup> Restated due to implementation of GASB Statement No. 65.

As reflected above, the costs associated with the District's activities are not all borne by the taxpayers. During the year ended June 30, 2013, approximately \$4.2 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 36.1%, or \$120.7 million, was covered by various federal and state resources. General revenues totaling \$209.6 million were available to offset the net cost of the District's programs of \$205.3 million for the year ended June 30, 2013. In comparison, during the year ended June 30, 2012, charges for services covered approximately \$4.4 million of the cost of the District's activities, while federal

# The Little Rock School District of Pulaski County, Arkansas

## MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended June 30, 2013

### District-wide Financial Analysis *(Continued)*

#### Statement of Activities *(Continued)*

and state funding covered approximately 38.7%, or \$127.1 million, of the District's total expenses. General revenues totaling \$197.2 million were available to offset the net cost of the District's programs of \$193.4 million for the year ended June 30, 2012. During 2012, the District's overall increase in net position was approximately \$3.8 million.

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, 2013 and 2012. 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.

	2013		2012 (as restated) <sup>(1)</sup>	
	Total Cost of Programs	Net Cost of Programs	Total Cost of Programs	Net Cost of Programs
Instructional services	\$ 183,913,972	\$ 105,852,373	\$ 182,768,042	\$ 104,043,400
Instructional support services	50,318,093	32,882,969	46,693,969	29,398,590
Pupil transportation services	18,694,121	14,462,112	18,831,672	14,500,633
Operation and maintenance	25,029,792	19,116,245	24,630,489	12,446,791
School administration	16,245,859	14,509,085	15,867,858	14,656,769
General administration	13,750,168	9,994,745	14,946,271	10,904,439
Food services	14,141,611	581,521	13,133,748	(335,741)
Community services	816,926	607,986	797,205	534,283
Interest on long-term debt	7,295,071	7,295,071	7,282,238	7,282,238
	<u>\$ 330,205,613</u>	<u>\$ 205,302,107</u>	<u>\$ 324,951,492</u>	<u>\$ 193,431,402</u>

<sup>(1)</sup> Restated due to implementation of GASB Statement No. 65.

### 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, 2013, with a combined fund balance for the District's governmental funds of \$39.5 million, compared to a combined fund balance of \$43.2 million as of June 30, 2012.

# The Little Rock School District of Pulaski County, Arkansas

## MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended June 30, 2013

### Funds Financial Analysis (*Continued*)

The fund balance of the General Fund at June 30, 2013, includes nonspendable fund balance for prepaid expenses and inventories totaling approximately \$483.4 thousand and restricted fund balance for the payment of principal and interest due on the District's long-term debt totaling approximately \$820.7 thousand. A portion of fund balance was committed at June 30, 2013 for the purchase of a tract of land for a new school totaling approximately \$4.4 million and committed for the Desegregation Scholarship Program totaling approximately \$618.7 thousand. The assigned portion of the General Fund's fund balance consists of a budget appropriation of approximately \$3.6 million to cover the anticipated excess of expenditures over revenues in the 2013-2014 fiscal year and a reserve for special projects totaling approximately \$33 thousand. The remaining balance of the General Fund's fund balance of approximately \$29.6 million is unassigned. Note 1(n) provides further information on the fund balance classifications reported by the District. The entire fund balance of the Capital Projects Fund remains restricted for capital projects.

A major source of revenue for operations and debt service is local property taxes, which, for fund financial statement reporting purposes, totaled \$146.7 million for the fiscal year ending June 30, 2013, and \$158.8 million for the fiscal year ending June 30, 2012. 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. A change in the Arkansas state statute provided a one time increase in property tax revenue recognized during 2012 with the elimination of pullback which had required the deferral of certain revenue prior to July 1, 2011. Other significant local revenues for the year ended June 30, 2013, include \$4.8 million from the Pulaski County Special School District and the North Little Rock School District in support of the original 6 magnet schools, and breakfast and lunch revenues of \$2.8 million.

For the years ended June 30, 2013 and 2012, resources provided by the State totaled approximately \$131.4 million and \$128.7 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 2013 and 2012:

	<b>2013</b>	<b>2012</b>
Foundation aid, enhanced educational and declining enrollment funding	\$ 61,094,874	\$ 61,423,398
Teacher retirement and health insurance reimbursements	13,587,174	15,160,248
Professional development	979,876	960,946
Special education	6,704,864	6,476,272
Workforce education	1,308,987	1,592,452
Student special needs funding	17,606,452	14,273,530
State transportation aid	3,637,091	3,727,704
Majority to Minority transfers	5,088,785	3,863,689
Arkansas Better Chance program funding	5,418,900	5,319,996
State contribution for Magnet schools	14,632,630	14,426,585
Other	1,387,972	1,480,496
	<b>\$ 131,447,605</b>	<b>\$ 128,705,316</b>

# The Little Rock School District of Pulaski County, Arkansas

## MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended June 30, 2013

### Funds Financial Analysis (*Continued*)

The U.S. Department of Education provides the largest amount of federal funding to the District, totaling \$31.7 million and \$36.8 million for the years ended June 30, 2013 and 2012, respectively, and representing approximately 76.3% and 78.8%, respectively, of total federal awards expended by the District. Timing of expenditures of Federal funds resulted in a decrease from 2012 spending levels. Other significant sources of federal funding include the U.S. Department of Agriculture, which provided \$10.5 million and \$9.8 million during the years ended June 30, 2013 and 2012, 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:

	<b>2013</b>		<b>2012</b>	
General	\$ 248,995,593	74.0%	\$ 246,641,304	73.8%
Capital projects	10,539,688	3.1%	7,964,159	2.4%
Magnet schools	30,345,608	9.0%	29,392,980	8.8%
Special programs	32,801,218	9.8%	37,350,002	11.2%
Food service	13,378,798	4.0%	12,551,022	3.8%
Other governmental	314,631	0.1%	503,206	0.2%
	<u>\$ 336,375,536</u>	<u>100.0%</u>	<u>\$ 334,402,673</u>	<u>100.0%</u>

### 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). 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 27, 2012. No revisions were made to the budget during the 2012-2013 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 43.

For the 2012-2013 fiscal year, the General Fund's actual revenues on a budgetary basis were less than budgeted revenues by \$6.3 million. Actual General Fund expenditures were less than budgeted expenditures by \$1.8 million.

# The Little Rock School District of Pulaski County, Arkansas

## MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended June 30, 2013

### Capital Assets and Debt Administration

#### Capital Assets

During 2013 and 2012, 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.

At June 30, 2013, the District had \$234.3 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 \$25.4 million; prior year construction in progress projects that were completed and placed into service totaled \$9 million; and depreciation expense totaled approximately \$21 million.

Capital assets, net of accumulated depreciation and amortization, at June 30, 2013 and 2012 are comprised of the following:

	2013	2012
<b>Capital Assets</b>		
Buildings and improvements	\$ 303,862,403	\$ 294,793,185
Furniture, equipment and other	81,989,349	75,742,036
Land	12,003,133	12,003,133
Construction in progress	12,682,317	9,544,532
Total capital assets	410,537,202	392,082,886
<b>Less accumulated depreciation and amortization</b>	<b>(176,276,524)</b>	<b>(162,059,143)</b>
<b>Capital Assets, Net</b>	<b>\$ 234,260,678</b>	<b>\$ 230,023,743</b>

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

#### Long-Term Debt

The principal balance outstanding of general obligation bonded indebtedness totaled \$196.8 million and \$198.3 million at June 30, 2013 and 2012, 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 \$816.1 million at June 30, 2013, is a decrease of \$5 million over the June 30, 2012 debt limitation.

The District also has obligations outstanding for desegregation loans, Qualified Zone Academy Bonds, capital leases and compensated absences totaling approximately \$8.3 million at June 30, 2013 (as compared to \$9 million at June 30, 2012).

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

# The Little Rock School District of Pulaski County, Arkansas

## MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended June 30, 2013

### **Economic Factors and Next Year's Budget**

Budgeted revenues for 2013-2014 total \$328 million (budgetary basis of accounting), including an increase of \$126 per student in State Foundation and Enhanced Educational funding. Total budgeted expenses are \$332 million. An assignment of the General Fund's fund balance is reported in the Balance Sheet – Governmental Fund in order to reflect budgeted appropriations of fund balance to cover the excess of budgeted expenditures over budgeted revenues for fiscal year 2013-2014. The budget adequately funds the educational priorities established by the Board of Directors and financially reinforces the strategies that will enable the District to continue making gains in student academic achievement while staying financial solvent. The Budget also supports the skills of the District's teachers with the continued development of strategies and best practices which enhance the learning environments of the students.

The 2013-2014 budget funds a mandated step increase of approximately 3.0% for all eligible employees, an increase in the health insurance contribution and provides a total average compensation increase of 1.75% for eligible certified staff and 2.0% for eligible non-certified staff to ensure that students are served by an able and qualified workforce.

After a 26 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 is described in Note 6 to the financial statements.

### **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](mailto:Kelsey.Bailey@lrsd.org).

## **Basic Financial Statements**

# The Little Rock School District of Pulaski County, Arkansas

## STATEMENT OF NET POSITION June 30, 2013

### ASSETS AND DEFERRED OUTFLOWS

#### Assets

Cash	\$ 60,427,945
Certificates of deposit	2,001,811
Receivables:	
Property tax, net	114,613,573
Intergovernmental	15,476,390
Other	1,325,163
Inventories and other assets	826,245
Restricted certificates of deposit	820,733
Capital assets, net	234,260,678
<b>Total Assets</b>	<u>429,752,538</u>

#### Deferred Outflows of Resources

Deferred loss on refunding of bonds payable	<u>4,985,030</u>
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### TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

\$ 434,737,568

### LIABILITIES, DEFERRED INFLOWS AND NET POSITION

#### Liabilities

Accounts payable and accrued liabilities	\$ 17,949,035
Payroll taxes and withholdings	10,735,907
Accrued interest expense	2,876,915
Due to fiduciary funds	2,398,543
Long-term obligations, net:	
Due within one year	7,550,598
Due in more than one year	197,466,929
<b>Total Liabilities</b>	<u>238,977,927</u>

#### Deferred Inflows of Resources

Unavailable Revenue	<u>116,580,821</u>
---------------------	--------------------

#### Net Position

Net investment in capital assets	24,279,272
Restricted:	
Capital projects	14,174,219
Debt service	820,733
Other activities	43,965
Unrestricted	39,860,631
<b>Total Net Position (Page 19)</b>	<u>79,178,820</u>

### TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION

\$ 434,737,568

See accompanying notes to financial statements.

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

**STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2013**

	<u>Less Program Revenues</u>			<u>Changes in Net Position</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Grants and Contributions</u>		<u>Capital Grants and Contributions</u>
<b>GOVERNMENTAL FUNCTIONS</b>					
Instructional services	\$ 183,913,972	\$ 1,414,388	\$ 75,565,910	\$ 1,081,301	\$ (105,852,373)
Instructional support services	50,318,093	-	16,320,521	1,114,603	(32,882,969)
Pupil transportation services	18,694,121	-	4,205,296	26,713	(14,462,112)
Operation and maintenance of plant	25,029,792	-	5,712,345	201,202	(19,116,245)
School administration	16,245,859	-	1,736,774	-	(14,509,085)
General administration	13,750,168	-	3,631,828	123,595	(9,994,745)
Food services	14,141,611	2,756,084	10,804,006	-	(581,521)
Community services	816,926	-	208,940	-	(607,986)
Interest on long-term debt	7,295,071	-	-	-	(7,295,071)
<b>Total Governmental Functions</b>	<u>\$ 330,205,613</u>	<u>\$ 4,170,472</u>	<u>\$ 118,185,620</u>	<u>\$ 2,547,414</u>	<u>(205,302,107)</u>
<b>GENERAL REVENUES</b>					
Property taxes, levied for general purposes					\$ 108,217,478
Property taxes, levied for debt service					38,480,700
Unrestricted state aid					61,125,061
Interest					152,547
Other general					1,601,999
<b>Total General Revenues</b>					<u>209,577,785</u>
<b>CHANGE IN NET POSITION (Page 21)</b>					4,275,678
<b>NET POSITION, BEGINNING OF YEAR, as restated</b>					<u>74,903,142</u>
<b>NET POSITION, END OF YEAR</b>					<u>\$ 79,178,820</u>

See accompanying notes to financial statements.

# The Little Rock School District of Pulaski County, Arkansas

## BALANCE SHEET – GOVERNMENTAL FUNDS June 30, 2013

	General	Capital Projects	Magnet Schools	Special Programs	Food Service	Other Governmental	Total Governmental Funds
<b>ASSETS</b>							
Cash	\$ 60,427,945	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 60,427,945
Certificates of deposit	-	2,001,811	-	-	-	-	2,001,811
Receivables:							
Property tax, net	114,613,573	-	-	-	-	-	114,613,573
Intergovernmental	3,028,874	-	2,951,625	7,645,937	1,849,954	-	15,476,390
Other	1,163,693	790	-	-	-	160,680	1,325,163
Inventories and other assets	483,381	-	-	-	342,864	-	826,245
Restricted certificates of deposit	820,733	-	-	-	-	-	820,733
Due from other funds	7,051,853	2,973,505	-	-	213,011	208,994	10,447,363
<b>TOTAL ASSETS</b>	<b>\$ 187,590,052</b>	<b>\$ 4,976,106</b>	<b>\$ 2,951,625</b>	<b>\$ 7,645,937</b>	<b>\$ 2,405,829</b>	<b>\$ 369,674</b>	<b>\$ 205,939,223</b>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>Liabilities</b>							
Accounts payable and accrued liabilities	\$ 15,559,173	\$ 1,421,443	\$ 108,139	\$ 1,157,549	\$ 73,294	\$ 22,926	\$ 18,342,524
Payroll taxes and withholdings	10,735,907	-	-	-	-	-	10,735,907
Due to other funds	-	-	2,835,764	5,770,544	1,841,055	-	10,447,363
Due to fiduciary funds	2,398,543	-	-	-	-	-	2,398,543
<b>Total Liabilities</b>	<b>28,693,623</b>	<b>1,421,443</b>	<b>2,943,903</b>	<b>6,928,093</b>	<b>1,914,349</b>	<b>22,926</b>	<b>41,924,337</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Unavailable revenue	119,343,580	-	938,050	2,540,181	1,392,938	302,783	124,517,532
<b>Fund Balances</b>							
Nonspendable - inventories and other assets	483,381	-	-	-	342,864	-	826,245
Restricted for:							
Debt service	820,733	-	-	-	-	-	820,733
Capital projects	-	3,554,663	-	-	-	-	3,554,663
Committed for:							
Land purchase	4,354,702	-	-	-	-	-	4,354,702
Desegregation scholarship program	618,685	-	-	-	-	-	618,685
Assigned for:							
Budget appropriation	3,648,087	-	-	-	-	-	3,648,087
Specific programs	33,461	-	-	-	-	43,965	77,426
Unassigned	29,593,800	-	(930,328)	(1,822,337)	(1,244,322)	-	25,596,813
<b>Total Fund Balances (page 19)</b>	<b>39,552,849</b>	<b>3,554,663</b>	<b>(930,328)</b>	<b>(1,822,337)</b>	<b>(901,458)</b>	<b>43,965</b>	<b>39,497,354</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE</b>	<b>\$ 187,590,052</b>	<b>\$ 4,976,106</b>	<b>\$ 2,951,625</b>	<b>\$ 7,645,937</b>	<b>\$ 2,405,829</b>	<b>\$ 369,674</b>	<b>\$ 205,939,223</b>

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 Position June 30, 2013

<b>TOTAL FUND BALANCES - GOVERNMENTAL FUNDS (Page 18)</b>		\$ 39,497,354
Capital assets used in governmental activities are not current financial resources and therefore are not reported as assets in the governmental funds.	\$ 234,260,678	
Deferred outflows of resources resulting from bond refundings are not reported in the governmental funds.	4,985,030	
Long-term debt and certain obligations for compensated absences are not due and payable in the current period and are not reported as liabilities in the governmental funds.	(204,624,038)	
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 unavailable revenues in the balance sheet - governmental funds.	7,936,711	
Accrued interest expense is not reported as a liability in the governmental funds.	<u>(2,876,915)</u>	
		<u>39,681,466</u>
<b>NET POSITION - GOVERNMENTAL ACTIVITIES (Page 16)</b>		<u><u>\$ 79,178,820</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, 2013

	General	Capital Projects	Magnet Schools	Special Programs	Food Service	Other Governmental	Total Governmental Funds
<b>REVENUES</b>							
Property taxes - general purposes	\$ 108,217,478	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 108,217,478
Property taxes - debt service	38,480,700	-	-	-	-	-	38,480,700
Federal revenues	135,379	-	-	30,538,444	9,969,251	105,038	40,748,112
State revenues	116,597,676	-	14,632,630	4,540	75,259	137,500	131,447,605
Tuition, fees and other	5,388,944	581,679	4,764,833	107,398	2,756,084	1,947	13,600,885
Interest	135,374	15,141	-	-	2,032	-	152,547
<b>Total Revenues</b>	<b>268,955,551</b>	<b>596,820</b>	<b>19,397,463</b>	<b>30,650,382</b>	<b>12,802,626</b>	<b>244,485</b>	<b>332,647,327</b>
<b>EXPENDITURES</b>							
Instructional services	135,020,659	-	20,820,887	13,803,269	-	122,281	169,767,096
Instructional support services	30,005,288	-	3,398,901	14,228,377	-	126,214	47,758,780
Pupil transportation services	17,713,971	-	22,659	341,000	-	12,125	18,089,755
Operation and maintenance of plant	29,913,687	7,956,060	2,351,498	-	-	-	40,221,245
School administration	13,723,058	-	2,406,275	116,279	-	-	16,245,612
General administration	9,896,097	-	1,306,372	1,585,748	-	6,830	12,795,047
Food services	-	-	-	-	13,288,014	-	13,288,014
Community services	318,566	-	-	166,118	-	-	484,684
Capital outlay	3,165,462	2,583,628	39,016	2,560,427	90,784	47,181	8,486,498
Debt service:							
Principal paid	2,231,948	-	-	-	-	-	2,231,948
Interest	7,000,484	-	-	-	-	-	7,000,484
Fiscal agent fees	6,373	-	-	-	-	-	6,373
<b>Total Expenditures</b>	<b>248,995,593</b>	<b>10,539,688</b>	<b>30,345,608</b>	<b>32,801,218</b>	<b>13,378,798</b>	<b>314,631</b>	<b>336,375,536</b>
<b>Revenues over (under) expenditures</b>	<b>19,959,958</b>	<b>(9,942,868)</b>	<b>(10,948,145)</b>	<b>(2,150,836)</b>	<b>(576,172)</b>	<b>(70,146)</b>	<b>(3,728,209)</b>
<b>OTHER FINANCING SOURCES (USES)</b>							
<b>Operating Transfers In (Out)</b>							
Magnet schools funding	(10,376,285)	-	10,376,285	-	-	-	-
Interest reduction transfer	(5,956,145)	5,956,145	-	-	-	-	-
Lease payments	-	-	-	-	-	(156,386)	(156,386)
Other	(253,572)	-	-	-	454,000	(44,042)	156,386
<b>Total Other Financing Sources (Uses)</b>	<b>(16,586,002)</b>	<b>5,956,145</b>	<b>10,376,285</b>	<b>-</b>	<b>454,000</b>	<b>(200,428)</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCE (Page 21)</b>	<b>3,373,956</b>	<b>(3,986,723)</b>	<b>(571,860)</b>	<b>(2,150,836)</b>	<b>(122,172)</b>	<b>(270,574)</b>	<b>(3,728,209)</b>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<b>36,178,893</b>	<b>7,541,386</b>	<b>(358,468)</b>	<b>328,499</b>	<b>(779,286)</b>	<b>314,539</b>	<b>43,225,563</b>
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 39,552,849</b>	<b>\$ 3,554,663</b>	<b>\$ (930,328)</b>	<b>\$ (1,822,337)</b>	<b>\$ (901,458)</b>	<b>\$ 43,965</b>	<b>\$ 39,497,354</b>

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 For the Year Ended June 30, 2013

<b>NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS (Page 20)</b>		\$ (3,728,209)
Additions to capital assets are reported as expenditures in the fund financial statements	\$ 25,230,313	
The costs of capital assets are depreciated over their estimated useful lives for District-wide financial statement reporting purposes.	(20,959,180)	
The net book value of capital assets that are disposed during the year are not reflected in the fund financial statements.	(34,198)	
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 compensation paid.	44,643	
Repayment of long-term debt is recorded as an expenditure in the fund financial statements, but as a reduction of long-term debt in the statement of net position.	2,231,948	
Revenues in the District-wide financial statements that do not provide current financial resources are not reported as revenue in the fund financial statements.	1,750,102	
Amortization of deferred bond costs and discounts on Qualified Zone Academy Bonds is not reported in the fund financial statements, but is reported in the District-wide financial statements.	34,846	
Interest expenditures are recognized in the fund financial statements when paid, but interest expense is accrued when due in the District-wide financial statements.	(294,587)	
		8,003,887
<b>CHANGE IN NET POSITION (Page 17)</b>		\$ 4,275,678

See accompanying notes to financial statements.

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

**STATEMENT OF NET POSITION – FIDUCIARY FUNDS  
June 30, 2013**

**ASSETS**

Due from governmental funds

\$ 2,398,541

**TOTAL ASSETS**

\$ 2,398,541

**LIABILITIES**

Due to student groups and other

\$ 2,398,541

**TOTAL LIABILITIES**

\$ 2,398,541

See accompanying notes to financial statements.

# The Little Rock School District of Pulaski County, Arkansas

## NOTES TO FINANCIAL STATEMENTS June 30, 2013

### **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 accordance with accounting principles generally accepted in the United States of America (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 significant accounting and reporting policies and practices used by the District 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 7 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.

#### **(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 position 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.

##### 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 position – fiduciary funds.

# The Little Rock School District of Pulaski County, Arkansas

## NOTES TO FINANCIAL STATEMENTS June 30, 2013

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

#### **(b) Basis of Presentation (Continued)**

##### Fund Financial Statements (Continued)

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. Financial resources that are restricted, committed or assigned to expenditure for principal and interest on the District's long-term obligations are accounted for and reported in this fund.
- The Capital Projects Fund is used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.
- The 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 position - 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. Pursuant to State of Arkansas (State) statute, revenue from property taxes is recognized in the fiscal year in which the taxes are collected. 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. Other 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 in exchange, include property taxes, entitlements, grants and donations.

# The Little Rock School District of Pulaski County, Arkansas

## NOTES TO FINANCIAL STATEMENTS June 30, 2013

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

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

##### 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 revenues other than property tax to be available if they are collected within 90 days after the end of the fiscal year. Investment interest, grants, entitlements and contributions associated with the current fiscal period are considered to be susceptible to accrual. All other revenue items, including property tax, 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 statutes require that the District's funds be deposited in banks located in the State and that all deposit balances in excess of Federal Deposit Insurance Corporation (FDIC) insurance limits be collateralized in accordance with State statutes. The District is party to a collateral management agreement with financial institutions whereby all unrestricted and restricted 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, 2013, 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 Certificates of Deposit**

The District maintains certificates of deposit at a local financial institution which are specifically restricted for the repayment of the District's Qualified Zone Academy Bonds (QZABs). Interest earned on the certificates of deposit, which totaled approximately \$29,000 during the year ended June 30, 2013, is automatically reinvested and is also considered restricted for the repayment of the District's QZABs.

# The Little Rock School District of Pulaski County, Arkansas

## NOTES TO FINANCIAL STATEMENTS June 30, 2013

### **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, Net**

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

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, 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 Outflows/Inflows of Resources**

In addition to assets, the statement of net position and/or balance sheet – governmental funds will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this category. It is the deferred loss on refunding of bonds payable reported in the statement of net position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

# The Little Rock School District of Pulaski County, Arkansas

## NOTES TO FINANCIAL STATEMENTS June 30, 2013

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

#### **(i) Deferred Outflows/Inflows of Resources (Continued)**

In addition to liabilities, the statement of position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenues) until that time. The District has only one type of item that qualifies for reporting in this category. It is unavailable revenue which is deferred and recognized as an inflow of resources in the period that the amounts become available in accordance with the basis of accounting used by the District-wide or fund financial statement.

#### **(j) Unavailable Revenue**

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

#### **(k) Compensated Absences**

It is the District's policy to permit employees to accumulate earned vacation benefits. Employees may receive compensation for unused vacation 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 and sick pay benefits are not paid upon termination and are not recorded as a liability in the District-wide financial statement or fund financial statements.

#### **(l) Long-term Liabilities**

In the statement of net position, long-term debt and other long-term obligations are reported as liabilities. Bond and other debt premiums and discounts are generally deferred and amortized over the life of the bonds using the effective interest method. Long-term debt is reported net of the applicable premiums and discounts.

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.

#### **(m) Net Position Classifications**

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

- Net investment in capital assets consists of 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 and adjusted for the deferred loss on refunding of bonds payable.

# The Little Rock School District of Pulaski County, Arkansas

## NOTES TO FINANCIAL STATEMENTS June 30, 2013

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

#### **(m) Net Position Classifications**

- Restricted net position consists of net position 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 position consists of all other components of net position that do not meet the definition of net investment in capital assets or restricted.

#### **(n) Fund Balance Classifications**

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. The not in spendable form criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts.
- 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 Special Programs balance reflects 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 balances reflect amounts that are restricted to retire outstanding QZABs and for construction or other capital outlay projects, respectively.
- 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 purchase of a tract of land for expansion and for the Desegregation Scholarship Program.
- Assigned Fund Balance consists of amounts constrained for a specific purpose by the Board of Education or by a District official that has been delegated authority to assign amounts and reflects amounts assigned as a budget appropriation to cover the anticipated excess of expenditures over revenues in the 2013-2014 fiscal year and for specified programs. In distinction to restricted and committed balances, the authority for making an assignment is not required to be the District's highest level of decision-making authority (the Board of Education), and the action to assign fund balance can occur after the end of the year. Furthermore, the nature of the actions necessary to remove or modify an assignment is not as prescriptive as it is with committed fund balances—constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.
- Unassigned Fund Balance consists of any residual fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the general fund.

# The Little Rock School District of Pulaski County, Arkansas

## NOTES TO FINANCIAL STATEMENTS June 30, 2013

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

#### **(n) Fund Balance Classifications (Continued)**

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 lastly, unassigned fund balance.

#### **(o) Use of Estimates**

The preparation of financial statements in conformity with GAAP 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 assigned to capital assets and used to determine depreciation expense related to the District's capital assets.

#### **(p) 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 the ADE. The District's budget, although legally required, is not an appropriated budget and thus not legally restrictive.

#### **(q) Recently Adopted Accounting Standards**

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB No. 63) became effective for the District on July 1, 2012. This statement provides financial reporting guidance for deferred outflows and deferred inflows of resources, which are financial statement elements distinct from assets and liabilities. This statement also amends the net assets reporting requirements of GASB No. 34 by incorporating deferred outflows and deferred inflows of resources into the definitions of the required components of net assets and changing the term net assets to net position.

The District elected to early implement the requirements of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB No. 65) effective July 1, 2012. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Previously issued financial statements have been restated as necessary to conform to the presentation required by GASB No. 65, as further described in Note 12.

# The Little Rock School District of Pulaski County, Arkansas

## NOTES TO FINANCIAL STATEMENTS June 30, 2013

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

#### **(q) Recently Adopted Accounting Standards (Continued)**

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, issued June 2012, will be effective for the District on July 1, 2014. This primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions, as well as to improve information provided by state and local governmental employers about financial support for pensions that is provided by other entities. As an employer participating in Arkansas Teacher Retirement System (ATRS), which is a cost-sharing multiple employer defined benefit pension plan, the District will be required to recognize in the district-wide financial statements a liability for its proportionate share of the net pension liability of all employers who participate in ATRS. The governmental fund financial statements will report the portion of the net pension liability that is expected to be liquidated with expendable available financial resources. Management of the District has not yet determined the impact that adoption of this statement will have on the District's financial statements, however it is expected that the impact may be material.

### **NOTE 2: PROPERTY TAXES**

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. Property taxes are levied each November based on the assessed value of taxable property as of January 1 of that 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 equal to the assessment. The millage rates attributable to the District for the levy which occurred during the fiscal year ending June 30, 2013 were 34 mills for general operations and maintenance and 12.4 mills for debt service. 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.

The State passed Act 871 to amend Arkansas Code §6-20-401 and clarify the definition of revenue receipts of a school district. Act 871 eliminated the District's requirement to defer property tax collections that exceed the 40% pullback. Pursuant to State statute, effective July 1, 2011, the District recognizes property taxes as revenue in the statement of activities and in the statement of revenues, expenditures, and changes in fund balances – governmental funds in the period the taxes are levied, but only to the extent

# The Little Rock School District of Pulaski County, Arkansas

## NOTES TO FINANCIAL STATEMENTS June 30, 2013

**NOTE 2: PROPERTY TAXES (Continued)**

that such taxes are collected. Thus, property tax revenue which has been accrued, but not collected by year end, is reported in the statement of net position and the balance sheet – governmental funds as unavailable revenue. Property taxes receivable as of June 30, 2013, net of an allowance for uncollectible accounts, are as follows:

Current	\$ 92,745,865
Delinquent	26,643,274
Allowance for uncollectible accounts	<u>(4,775,566)</u>
	<u><u>\$ 114,613,573</u></u>

Property taxes received through the debt service millage exceeded the amounts necessary to meet debt service requirement applicable to the fiscal year ended June 30, 2013 and approximately \$36.7 million have been used for general operations of the District as provided for under State statutes. 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.

**NOTE 3: CAPITAL ASSETS, NET**

Balances of the major components of capital assets as of June 30, 2013, and activity during the year then ended, are summarized as follows:

	June 30, 2012 Balance	Increases	Decreases	June 30, 2013 Balance
<b>Capital Assets</b>				
Buildings and improvements	\$ 294,793,185	\$ 9,069,218	\$ -	\$ 303,862,403
Furniture, equipment and other	75,742,036	13,023,310	6,775,997	81,989,349
Land	12,003,133	-	-	12,003,133
Construction in progress	9,544,532	12,207,003	9,069,218	12,682,317
<b>Total Capital Assets</b>	<u>392,082,886</u>	<u>34,299,531</u>	<u>15,845,215</u>	<u>410,537,202</u>
<b>Less Accumulated Depreciation and Amortization</b>				
Buildings and improvements	119,517,537	11,715,777	-	131,233,314
Furniture and equipment	42,541,606	9,243,403	6,741,799	45,043,210
<b>Total Accumulated Depreciation and Amortization</b>	<u>162,059,143</u>	<u>20,959,180</u>	<u>6,741,799</u>	<u>176,276,524</u>
	<u><u>\$ 230,023,743</u></u>	<u><u>\$ 13,340,351</u></u>	<u><u>\$ 9,103,416</u></u>	<u><u>\$ 234,260,678</u></u>

Expenditures for library books and certain other additions to capital assets 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, 2013**

**NOTE 3: CAPITAL ASSETS, NET (Continued)**

Depreciation and amortization expense for the year ended June 30, 2013 was charged to governmental functions as follows:

Instructional services	\$ 16,455,076
Instructional support services	2,559,314
Pupil transportation services	604,366
Operation and maintenance of plant	162,924
General administration	838,582
Food services	6,677
Community services	332,241
	<u>\$ 20,959,180</u>

The District is party to various construction and related contracts, under which approximately \$4.7 million was unexpended at June 30, 2013.

**NOTE 4: INTERFUND BALANCES**

The composition of interfund balances at June 30, 2013, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Capital Projects	Special Programs	\$ 2,973,505
General Fund	Magnet Schools	2,835,764
	Special Programs	2,588,045
	Food Service	1,628,044
		<u>7,051,853</u>
Other Governmental	Special Programs	208,994
Food Service	Magnet Schools	213,011
		<u>\$ 10,447,363</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, 2013

### **NOTE 5: LONG-TERM OBLIGATIONS, NET**

The District issues 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.

Long-term liability balances and the related activity for the year ended June 30, 2013, are summarized as follows:

	June 30, 2012			June 30, 2013	
	Balance (as restated) <sup>(1)</sup>	Additions	Reductions	Total Balance	Due Within One Year
<b>Long-term Debt</b>					
School bonds:					
\$13,195,000 Construction Bonds	\$ 12,165,000	\$ -	\$ 365,000	\$ 11,800,000	\$ 375,000
\$21,390,000 Construction Bonds	19,260,000	-	635,000	18,625,000	645,000
\$36,565,000 Refunding Bonds	36,565,000	-	-	36,565,000	240,000
\$82,795,000 Refunding Bonds	82,795,000	-	70,000	82,725,000	2,960,000
\$3,940,000 Refunding Bonds	3,820,000	-	455,000	3,365,000	460,000
\$43,685,000 Refunding Bonds	43,685,000	-	-	43,685,000	940,000
	<u>198,290,000</u>	<u>-</u>	<u>1,525,000</u>	<u>196,765,000</u>	<u>5,620,000</u>
Original issue premium on refunding	259,498	-	(12,879)	246,619	-
Original issue discount	(334,673)	-	16,194	(318,479)	-
	<u>198,214,825</u>	<u>-</u>	<u>1,528,315</u>	<u>196,693,140</u>	<u>5,620,000</u>
State of Arkansas loans:					
\$2,000,000 dated March 1998	1,200,000	-	100,000	1,100,000	100,000
\$3,000,000 dated September 1998	1,950,000	-	150,000	1,800,000	150,000
	<u>3,150,000</u>	<u>-</u>	<u>250,000</u>	<u>2,900,000</u>	<u>250,000</u>
Qualified Zone Academy Bonds:					
\$2,212,252 due July 2021	2,212,252	-	-	2,212,252	-
Unamortized discount	(380,471)	-	34,846	(345,625)	-
	<u>1,831,781</u>	<u>-</u>	<u>34,846</u>	<u>1,866,627</u>	<u>-</u>
Capital leases	<u>1,637,707</u>	<u>-</u>	<u>456,948</u>	<u>1,180,759</u>	<u>370,598</u>
<b>Total Long-term Debt</b>	204,834,313	-	2,270,109	202,640,526	6,240,598
<b>Other Long-term Liabilities</b>					
Compensated absences	<u>2,412,000</u>	<u>1,035,018</u>	<u>1,070,017</u>	<u>2,377,001</u>	<u>1,310,000</u>
	<u>\$ 207,246,313</u>	<u>\$ 1,035,018</u>	<u>\$ 3,340,126</u>	<u>\$ 205,017,527</u>	<u>\$ 7,550,598</u>

<sup>(1)</sup> Restated due to implementation of GASB Statement No. 65 (see Note 12).

# The Little Rock School District of Pulaski County, Arkansas

## NOTES TO FINANCIAL STATEMENTS June 30, 2013

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

#### **(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. The \$13,195,000 Series D, Construction bonds, dated September 1, 2008, will be repaid in annual installments through February 2033 and bear interest at rates ranging from 3.25% to 4.75%. The Series A, B and C bonds have previously been paid in full.

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 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.

On March 1, 2010, the District issued \$36,565,000 in refunding bonds with interest rates ranging from 2% to 4.375%. The difference between the reacquisition price and the net carrying amount of the refunded bonds of \$322,916 is considered a deferred outflow of resources for District-wide financial statement purposes and 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%. The difference between the reacquisition price and the net carrying amount of the refunded bonds of \$1,983,642 is considered a deferred outflow of resources for District-wide financial statement purposes and is being charged to operations through the year 2033 using the straight-line method.

On December 15, 2011, the District issued \$3,940,000 in refunding bonds with interest rates ranging from 1.0% to 1.90%. The difference between the reacquisition price and the net carrying amount of the refunded bonds of \$368,535 is considered a deferred outflow of resources for District-wide financial statement purposes and is being charged to operations through the year 2020 using the straight-line method.

On January 15, 2012, the District issued \$43,685,000 in refunding bonds with interest rates ranging from 2.0% to 3.75%. The difference between the reacquisition price and the net carrying amount of the refunded bonds of \$2,868,307 is considered a deferred outflow of resources for District-wide financial statement purposes and is being charged to operations through the year 2033 using the straight-line method.

# The Little Rock School District of Pulaski County, Arkansas

## NOTES TO FINANCIAL STATEMENTS June 30, 2013

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

#### **(b) State of Arkansas Loans**

The District obtained 6 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 discussed in Note 6. The loans, evidenced by 6 promissory notes, were secured by liens in favor of the State on certain new and existing millages. The loans were to be repaid in 20 equal annual installments, beginning on the 7th anniversary of each loan. The loans were all interest free for the first 7 years, however beginning on the 7th anniversary of each advance, the principal amount began to bear interest at 3%. As further described in Note 6(b), \$15 million under these loan agreements were forgiven by the State in March 2001, with the balance due being repaid as scheduled. The remaining balance outstanding will be forgiven during 2014, as discussed in Note 6.

#### **(c) 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 zero percent stated interest rate, 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 District has an outstanding QZAB with an original face amount totaling approximately \$2.2 million to a financial institution to finance a portion of the cost of certain improvements to heating and air conditioning systems. For purposes of presentation in the District-wide financial statement, the face amount of the liability has been discounted and reflected at the estimated net present value of future amounts to be repaid using a discount rate of 3.85%, which is considered the rate commensurate with the level of risk associated with this debt instrument. The resulting discount is amortized and reflected as interest expense over the life of the QZAB. The District has also recorded the excess of proceeds over the discounted principal balance as a deferred gain which will be recognized as income over the lives of the QZAB. 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 QZAB.

The District is required under separate agreements issued concurrently with the QZAB to make mandatory sinking fund payments into a restricted account maintained at the financial institution which holds the QZAB. The District is to receive a guaranteed rate of interest on this account, which, when combined with the cumulative deposit amount, is expected to be sufficient to repay the entire face amount of the QZAB at maturity. The balance in this account is 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.

# The Little Rock School District of Pulaski County, Arkansas

## NOTES TO FINANCIAL STATEMENTS June 30, 2013

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

The approximate annual debt service requirements of all outstanding long-term debt at June 30, 2013, are as follows:

	In Thousands	
	Principal	Interest
2014	\$ 6,241	\$ 6,888
2015	8,131	6,737
2016	8,298	6,527
2017	8,297	6,297
2018	8,495	6,067
2019-2023	47,522	27,123
2024-2028	52,630	18,591
2029-2033	63,445	7,947
	203,059	86,177
Unamortized original issue discount, net	(418)	418
	\$ 202,641	\$ 86,595

**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 3 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 2 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 3 years.

# The Little Rock School District of Pulaski County, Arkansas

## NOTES TO FINANCIAL STATEMENTS June 30, 2013

### **NOTE 6: DESEGREGATION AGREEMENTS AND FUNDING ISSUES (Continued)**

#### **(a) General (Continued)**

The Revised Plan provided that if the District met its obligations 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. The Court issued an order on September 13, 2002, granting the District partial unitary status and releasing the District from Court supervision over all areas except program assessment and evaluation.

In 2006, 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.

As a result of a 1989 Settlement Agreement, the State of Arkansas annually provides the District approximately \$43 million for magnet schools and Majority-to-Minority (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, restoring the previous level of desegregation funding.

On March 26, 2012, the State filed a motion asking the Court to relieve the State of its obligations under the 1989 Settlement Agreement, including its obligation to provide funding for magnet schools, majority-to-minority transfers and related transportation. The District moved to dismiss the State’s motion, but on January 17, 2013, the Court decided that the State was entitled to a hearing on its motion. The Court later scheduled the hearing for two weeks beginning December 9, 2013. In the meantime, the parties were engaged in settlement discussions and submitted a proposed settlement agreement to the Court on November 21, 2013. Following a hearing, the Court preliminarily approved the settlement on November 22, 2013. The Court required the parties to publish notice of the proposed agreement and established a deadline for filing objections. Several objections were filed and were considered by the Court at a hearing in January 2014. Following that hearing, the Court gave final approval to the settlement.

The settlement requires the State to provide the District the current level of desegregation funding for 4 more school years beginning July 1, 2014. The parties will phase out the Magnet and M-to-M desegregation programs as they are currently constituted and transition to regular State funding for all students in the District.

# The Little Rock School District of Pulaski County, Arkansas

## NOTES TO FINANCIAL STATEMENTS June 30, 2013

### **NOTE 6: DESEGREGATION AGREEMENTS AND FUNDING ISSUES (Continued)**

#### **(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 terms of which are disclosed in Note 5(b). 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. The District has repaid approximately \$2.25 million of the remaining \$5 million balance. The remaining \$2.75 million will be forgiven by the State in accordance with the settlement agreement disclosed in Note 6 (a).

#### **(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, 2013, the funding level for the Magnets totaled \$8,980 per pupil with the State contributing approximately one-half of the cost and the participating school districts sharing the balance based upon their respective average daily membership numbers.

The approximate average daily memberships of the Magnets for the year ended June 30, 2013, were 2,311 for the District, 675 for PCSSD, and 386 for NLRSD. Based upon these average daily memberships, local revenues received by the District from PCSSD and NLRSD for the year ended June 30, 2013, totaled approximately \$4.8 million. The District's portion of the cost, which totaled approximately \$10.4 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 \$336,000 in funding that was approved for the 2011-2012 fiscal year, but was not recognized as revenue during that year due to the timing of receipt. Approximately \$938,000 of funding approved for the 2012-2013 fiscal year is deferred at June 30, 2013, also due to the timing of the receipt of these funds.

In accordance with the settlement approved by the Court in January 2014 (see Note 6(a)), no new magnet students will be accepted by the District for the 2014-15 school year and beyond. Students currently enrolled in a Magnet School will be allowed to remain in that school for the remaining grades available there. Transportation for current magnet students is guaranteed for 3 more years.

#### **(d) Pooling Agreement**

The District and the PCSSD also receive M-to-M 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. In accordance with the settlement agreement described above in Note 6 (a), the Pooling Agreement will terminate at the end of the 2013-14 school year.

# The Little Rock School District of Pulaski County, Arkansas

## NOTES TO FINANCIAL STATEMENTS June 30, 2013

### **NOTE 7: RETIREMENT PLANS**

The District contributes to the 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, 2013, 2012, and 2011 were approximately \$25,962,000, \$25,000,000 and \$25,900,000, respectively, and are equal to the required contributions for each year. Contributions by the District to the APERS for the years ended June 30, 2013, 2012, and 2011 were approximately \$75,000, \$67,000 and \$64,000, respectively, and are equal to the required contributions for each year.

### **NOTE 8: ON BEHALF PAYMENTS**

During the year ending June 30, 2013, health insurance premiums of \$4,580,860 were paid by the ADE to the Arkansas Employee Benefits Division on behalf of District employees.

### **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

# The Little Rock School District of Pulaski County, Arkansas

## NOTES TO FINANCIAL STATEMENTS June 30, 2013

### **NOTE 9: RISK MANAGEMENT (Continued)**

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 gross estimated claims liability at June 30, 2013, totaled approximately \$345,000.

### **NOTE 10: LITIGATION AND CONTINGENCIES**

At June 30, 2013, 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 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.

### **NOTE 12: RESTATEMENT**

As described in Note 1, the District elected to early implement the requirements of GASB No. 65. Adoption of these statements required that the District restate and/or reclassify certain financial statement items previously reported in the June 30, 2012 financial statements in order to comply with the provisions of this statement.

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

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2013**

**NOTE 12: RESTATEMENT (Continued)**

A summary of the adjustments follows:

	<u>As Previously Reported</u>	<u>Restatement</u>	<u>As Currently Reported</u>
<b><u>Statement of Net Position</u></b>			
<b>Assets</b>			
Inventories and other assets	\$ 3,803,091	\$ (2,980,975)	\$ 822,116
<b>Deferred Outflows of Resources</b>			
Deferred loss on refunding of bonds payable	\$ -	\$ 5,212,451	\$ 5,212,451
<b>Liabilities</b>			
Deferred Revenues	\$ (117,334,353)	\$ 117,334,353	\$ -
<b>Long-term Obligations, Due in more Than One Year</b>			
	\$ (198,431,914)	\$ (5,212,451)	\$ (203,644,365)
<b>Deferred Inflows of Resources</b>			
Unavailable Revenue	\$ -	\$ (117,334,353)	\$ (117,334,353)
<b>Net Position</b>	<b>\$ (77,884,117)</b>	<b>\$ 2,980,975</b>	<b>\$ (74,903,142)</b>
<b>Operating Expenses</b>			
Interest on long term debt	\$ 6,695,635	\$ 586,603	\$ 7,282,238
<b><u>Balance Sheet - Governmental Funds</u></b>			
Deferred Revenues	\$ (123,486,438)	\$ 123,486,438	\$ -
<b>Deferred Inflows of Resources</b>			
Unavailable Revenue	\$ -	\$ (123,486,438)	\$ (123,486,438)

## **Required Supplementary Information**

# The Little Rock School District of Pulaski County, Arkansas

## BUDGETARY COMPARISON SCHEDULE - GENERAL FUND For the Year Ended June 30, 2013

	General Fund - Budgetary Basis		
	Budgeted	Actual	Variance
<b>REVENUES</b>			
Property taxes - general purposes	\$ 102,020,000	\$ 108,217,478	\$ 6,197,478
Property taxes - debt service	50,670,000	38,480,700	(12,189,300)
State revenues	117,703,527	116,457,904	(1,245,623)
Tuition fees and other	2,972,000	3,888,464	916,464
Interest	150,000	130,255	(19,745)
<b>Total Revenues</b>	273,515,527	267,174,801	(6,340,726)
<b>EXPENDITURES</b>			
Instructional services	134,979,809	133,488,901	1,490,908
Instructional support services	28,755,212	30,003,016	(1,247,804)
Pupil transportation services	17,365,303	17,650,797	(285,494)
Operation and maintenance of plant	33,039,934	29,866,820	3,173,114
School administration	13,837,867	13,726,118	111,749
General administration	12,042,921	11,507,120	535,801
Community services	311,774	318,566	(6,792)
Capital outlay	1,678,439	3,677,482	(1,999,043)
Debt service expenditures	8,728,412	8,726,785	1,627
<b>Total Expenditures</b>	250,739,671	248,965,605	1,774,066
<b>Excess of Revenues over Expenditures</b>	22,775,856	18,209,196	(4,566,660)
<b>OTHER FINANCING SOURCES (USES)</b>			
<b>Operating Transfers In (Out)</b>			
Magnet schools funding	(10,339,739)	(10,376,285)	(36,546)
Interest reduction transfer	(5,956,145)	(5,956,145)	-
Indirect cost transfer	703,477	1,943,266	1,239,789
Other operating transfers	(500,000)	(454,000)	46,000
<b>Total Other Financing Sources (Uses)</b>	(16,092,407)	(14,843,164)	1,249,243
<b>NET CHANGE IN FUND BALANCE</b>	\$ 6,683,449	\$ 3,366,032	\$ (3,317,417)
<b>RECONCILIATION OF BUDGETARY BASIS TO GAAP</b>			
Increase in Fund Balance - Budgetary Basis		\$ 3,366,032	
Differences between Budgetary and GAAP Basis:			
State revenues	139,772		
Federal revenues	135,379		
Other revenues	1,500,480		
Interest	5,119		
Expenditures	(29,988)		
Other transfers	(1,742,838)		
	7,924		
Increase in Fund Balance - GAAP Basis		\$ 3,373,956	

**See independent auditors' report on financial statements and supplementary information.**

## **Other Supplementary Information**

# The Little Rock School District of Pulaski County, Arkansas

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended June 30, 2013

	Federal CFDA Number	Expenditures
<b>SPECIAL EDUCATION CLUSTER</b>		
<b>U.S. DEPARTMENT OF EDUCATION</b>		
<b>Passed through Arkansas Department of Education:</b>		
Special Education - IDEA Early Childhood	84.173	\$ 93,885
Title VI - Part B - Special Education - Grants to States	84.027	6,237,908
<b>Total Special Education Cluster</b>		6,331,793
 <b>TITLE I - PART A CLUSTER</b>		
<b>U.S. DEPARTMENT OF EDUCATION</b>		
<b>Passed through Arkansas Department of Education:</b>		
Title I, Part A - Grants to Local Educational Agencies	84.010	9,756,082
Title I, 1003(a) - Grants to Local Educational Agencies	84.010	958,239
<b>Total Title I - Part A Cluster</b>		10,714,321
 <b>TITLE I - SCHOOL IMPROVEMENT CLUSTER</b>		
<b>U.S. DEPARTMENT OF EDUCATION</b>		
<b>Passed through Arkansas Department of Education:</b>		
Title I, SIP - Grants to Local Educational Agencies	84.377A	798,094
School Improvement Grants - ARRA	84.388	7,961,486
<b>Total Title I - School Improvement Cluster</b>		8,759,580
 <b>CHILD CARE CLUSTER</b>		
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>		
<b>Passed through Arkansas Department of Human Services</b>		
Child Care and Development Block Grant	93.575	88,774
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	207,229
<b>Total Child Care Cluster</b>		296,003
 <b>CHILD NUTRITION CLUSTER</b>		
<b>U.S. DEPARTMENT OF AGRICULTURE</b>		
<b>Passed through Arkansas Department of Education</b>		
School Breakfast Program - Cash Assistance (1,629,473 units served)	10.553	2,743,091
National School Lunch Program - Cash Assistance (2,660,952 units served)	10.555	6,636,935
<b>Total Arkansas Department of Education</b>		9,380,026
<b>Passed through Arkansas Department of Human Services</b>		
National School Lunch Program – Non-Cash Assistance	10.555	653,769
Summer Food Service Program for Children - Cash Assistance	10.559	457,016
<b>Total Arkansas Department of Human Services</b>		1,110,785
<b>Total Child Nutrition Cluster</b>		10,490,811

*(Continued)*

# The Little Rock School District of Pulaski County, Arkansas

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS *(Continued)* Year Ended June 30, 2013

	Federal CFDA Number	Expenditures
<b>OTHER PROGRAMS</b>		
<b>U.S. DEPARTMENT OF EDUCATION</b>		
<b>Direct Awards</b>		
Teaching American History	84.215X	\$ 172,459
<b>Passed through Arkansas Department of Education</b>		
Title IV - 21st Century Community Learning Centers	84.287A	1,088,662
Title III, English Language Acquisition	84.365	148,202
Education for Homeless Children and Youth	84.196	96,778
Title II, Part A - Improving Teacher Quality	84.367	1,502,822
Education Jobs Fund - ARRA	84.410	1,130,910
<b>Total Arkansas Department of Education</b>		3,967,374
<b>Passed through Arkansas Department of Career Education</b>		
Adult Education - Basic Grants to States	84.002	327,193
Career and Technical Education - Basic Grants to States	84.048	449,018
Minority Science and Engineering Improvement	84.120	27,125
<b>Total Arkansas Department of Career Education</b>		803,336
<b>Passed through Junior Achievement of Arkansas</b>		
21st Century Community Learning Centers	84.287A	105,038
<b>Total U.S. Department of Education</b>		5,048,207
<b>U.S. DEPARTMENT OF AGRICULTURE</b>		
<b>Passed through Arkansas Department of Human Services</b>		
Child and Adult Care Food Program (78,306 units served)	10.558	135,379
<b>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</b>		
AmeriCorps Learn and Serve	94.004	24,414
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>		
<b>Passed through Arkansas Department of Human Services</b>		
ARRA - Foster Care-Title IV-E	93.658	4,315
<b>Total Other Programs</b>		5,212,315
<b>Total Expenditures of Federal Awards</b>		\$ 41,804,823

Note 1: This Schedule of Expenditures of Federal Awards 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, 2013 was \$1,022,717.

Note 3: Non-cash assistance is reported at approximate values as provided by the Arkansas Department of Human Services.

# The Little Rock School District of Pulaski County, Arkansas

## SCHEDULE OF STATE ASSISTANCE Year Ended June 30, 2013

### ARKANSAS DEPARTMENT OF EDUCATION

State Foundation Funding	\$	60,808,096
General Facilities Funding		22,786
Professional Development Funding		979,876
Residential Centers/Juvenile Detention		3,211,382
Special Education Services		95,640
Special Education and Related Services		14,948
Early Childhood Special Education		773,672
Youth Shelters		11,379
Special Education - Catastrophic Occurrences		155,596
Advanced Placement Initiative		6,357
Alternative Learning		2,040,391
English Language Learners		696,315
National School Lunch Student Funding		17,606,452
Better Chance Grants		5,418,900
Declining Enrollment		286,778
National Board of Professional Teaching Standards		9,518
Court Ordered Desegregation:		
Majority to Minority Incentives		3,637,091
Transportation Aid		5,088,785
Teacher Retirement and Health Insurance		13,587,174
Magnet Schools		14,632,630
School Food Services		75,259

### ARKANSAS DEPARTMENT OF CAREER EDUCATION

Adult Based Education - Base		437,415
General Adult Education - Base		409,656
Secondary Workforce Centers		1,278,800
Coordinated Comp Workforce Education - Special Needs		30,187

### ARKANSAS DEPARTMENT OF HUMAN SERVICES

ARRA - Foster Care-Title IV-E - State Match		1,217
Social Services Block Grant - State Match		3,323

### ARKANSAS STATE FUNDING

Other		127,982
<b>Total State Assistance</b>	<b>\$</b>	<b>131,447,605</b>



**INDEPENDENT AUDITORS' 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***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major governmental 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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 17, 2014. An explanatory paragraph was included in the auditors' report to emphasize the early implementation of GASB Statement No. 65.

**Internal control over financial reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

To the Board of Education

Page Two

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**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*.

**Purpose of this report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hudson, Cisne & Co. LLP

Hudson, Cisne & Co. LLP

Little Rock, Arkansas

February 17, 2014



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

**Report on Compliance for Each Major Federal Program**

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 *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. 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, *Audit 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

**Report on Internal Control Over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Hudson, Cisne & Co. LLP*

Hudson, Cisne & Co. LLP  
Little Rock, Arkansas  
February 17, 2014



**INDEPENDENT AUDITORS' 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 (the "District")** 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, 2013. 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, 2013.

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 17, 2014

# 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, 2013

<u>DESCRIPTION</u>	<u>STATUTES</u>
<b>Bidding &amp; Purchasing Commodities</b>	6-21-301– 6-21-305
<b>Ethical Guidelines and Prohibitions</b>	6-13-628; 6-24-101 et seq.
<b>Collateralization &amp; Investment of Funds</b>	6-20-222; 19-1-504
<b>Deposit of Funds</b>	19-8-104; 19-8-106
<b>District Finances</b>	6-20-402
• Bonded & Non-bonded Debt, District School Bonds	6-20-1201 -6-20-1208; 6-20-1210
• Petty Cash	6-20-409
• Changes in Pullback (no deferrals – declining accrual percentages)	6-20-401
• Investment of Funds	19-1-504
<b>Management of Schools</b>	
• Board of Directors	6-13-604; 6-13-606; 6-13-608; 6-13-611 - 6-13-613; 6-13-617 - 6-13-620; 6-24-101 et seq.
• District Treasurer Warrants/checks	6-13-701 6-17-918; 6-17-919; 6-20-403
<b>Management Letter of Audit</b>	14-75-101 - 14-75-104
<b>Nonrecurring Salary Payments</b>	6-20-412
<b>Revolving Loan Fund</b>	6-19-114; 6-20-801 et seq.
<b>Salary Laws – Classified</b>	6-17-2201 et seq.; 6-17-2301 et seq.
<b>School Elections</b>	6-13-622; 6-13-630; 6-13-631 ; 6-13-634; 6-14-106; 6-14-109; 6-14-118
<b>Teachers and Employees</b>	
• Personal 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.
<b>Teacher Salaries and Foundation Funding Aid</b>	6-17-803; 6-17-907; 6-17-908; 6-17-911 - 6-17-913; 6-17-918; 6-17-919
<b>Trust Funds (Education Excellence)</b>	6-5-307
<b>Use of Contractors, Improvement Contracts</b>	22-9-201 – 22-9-205
<b>Use of DM&amp;O Millage</b>	26-80-110
<b>On Behalf Payments</b>	The amount of funds paid by the Arkansas Department of Education to the Employee Benefits Division, on-behalf of District's employees

# The Little Rock School District of Pulaski County, Arkansas

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS Year Ended June 30, 2013

### Section I - Summary of Auditors' Results

1. The opinion expressed in the independent auditors' report were:

Unmodified
  Qualified
  Adverse
  Disclaimed

2. The independent auditors' report on internal control over financial reporting described:

Significant deficiency(ies) identified?  Yes  No

Material weakness(es) identified?  Yes  No

3. Noncompliance considered material to the financial statements was disclosed by the audit?

Yes  No

4. The independent auditors' report on internal control over compliance with requirements applicable to major federal awards programs described:

Significant deficiency(ies) identified?  Yes  No

Material weakness(es) identified?  Yes  No

5. The opinion expressed in the independent auditors' report on compliance with requirements applicable to major federal awards was:

Unmodified
  Qualified
  Adverse
  Disclaimed

6. The audit disclosed findings required to be reported by OMB Circular A-133?

Yes  No

7. The Auditee's major programs were:

Cluster/Program	CFDA Number
• Title I School Improvement Grants Cluster	84.377A and 84.388
• Title II, Part A – Improving Teacher Quality	84.367
• Education Jobs Fund - ARRA	84.410

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$1,254,145.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Year Ended June 30, 2012**

**Section I - Summary of Auditors' Results (Continued)**

9. The Auditee qualified as a low-risk auditee as that term is defined in OMB Circular A-133?

Yes

No

**Section II - Financial Statement Findings**

No findings noted to communicate

**Section III - Federal Awards Findings and Questioned Costs**

No findings noted to communicate

**Section IV - Prior Year Financial Statement Findings**

No findings noted to communicate

**Section V – Prior Year Federal Award Findings and Questioned Costs**

No findings noted to communicate

# The Little Rock School District of Pulaski County, Arkansas

## SUPPLEMENTAL DATA SHEET Year Ended June 30, 2013

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. Dexter Suggs, Sr., Superintendent
6. Name of Contact Person: Mr. Kelsey Bailey, Chief Financial Officer