



The Little Rock School District of Pulaski County, Arkansas

ANNUAL FINANCIAL REPORT

June 30, 2010

Hudson
Cisne & co. LLP
CERTIFIED PUBLIC
ACCOUNTANTS

The Little Rock School District of Pulaski County, Arkansas

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

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of The Little Rock School District of Pulaski County, Arkansas (the "District") as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of The Little Rock School District of Pulaski County, Arkansas, as of June 30, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2011 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

To the Board of Education
Page Two

The Management's Discussion and Analysis on pages 4 through 12, and budgetary comparison information on page 38, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedule of State Assistance is presented as requested by the Arkansas Department of Human Services. These schedules are not required parts of the basic financial statements of the District. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Hudson, Cisne + Co. LLP

January 13, 2011
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, 2010

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, 2010. 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 14 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, 2010, are as follows:

On the District-wide Financial Statements

- Total net assets increased from \$53.5 million at June 30, 2009, to \$64.2 at June 30, 2010, an increase of approximately \$10.7 million or 20%.
- In total, revenues increased from \$307.6 million in 2009 to \$318.9 million in 2010, an increase of approximately \$11.3 million, or 3.7%. Much of this change is attributable to increases in property taxes and additional federal and state funding for specific programs. Increases in the assessed valuation of property located within the District's boundaries continue to have a positive impact on the District's revenues. In total, property tax revenues increased from \$135.3 million in 2009 to \$142.7 million in 2010, an increase of 5.5%.
- General revenues totaling \$207 million for the year ended June 30, 2010, and \$205.3 million for the year ended June 30, 2009, represented approximately 64.9% and 66.7% of total revenues for the years ended June 30, 2010 and 2009, respectively. Program specific revenues, which include grants from federal and state agencies, comprise the remaining 35.1% and 33.3% of total revenues for the years ended June 30, 2010 and 2009, respectively.
- Total expenses remained relatively stable and experienced a slight increase from \$305.3 million in 2009 to \$308.2 million in 2010, an increase of approximately \$2.9 million, less than 1%. Much of this increase is attributable to the District's expenditure of federal stimulus funds.

On the Fund Financial Statements

- The ending fund balance in the General Fund increased from \$15.3 million at June 30, 2009, to \$20.4 million at June 30, 2010. This represents an increase of approximately \$5.1 million or 33.3%. This increase is largely attributable to increases in property tax revenues and additional federal and state funding for specific programs. Total governmental fund balances increased from \$31.8 million at June 30, 2009, to \$36.7 million at June 30, 2010, an increase of approximately \$4.9 million, or 15.4%. This increase is primarily attributable to the fund balance increases in the General Fund and Magnet Schools of \$5.1 million and \$1.7 million, respectively which are offset by the decrease in the Capital Projects fund of \$2.5 million.
- General Fund revenues totaled \$215.1 million for the year ended June 30, 2010, a decrease of approximately \$1.2 million over total 2009 revenues totaling of \$216.3 million. Total resources available to all governmental funds of the District during the year ended June 30, 2010, were \$314.4 million as compared to \$304.6 million for the year ended June 30, 2009.

The Little Rock School District of Pulaski County, Arkansas

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended June 30, 2010

Financial Highlights (*Continued*)

On the Fund Financial Statements (*Continued*)

- General Fund expenditures have decreased from \$222.4 million for the year ended June 30, 2009, to \$221.6 million for the year ended June 30, 2010, while total expenditures of the District increased from \$315.2 million to \$331.9 million. This increase of approximately \$16.7 million is primarily attributable to the increase in capital outlay and expenditure of federal stimulus funds expenditures during the year.

Using the Basic Financial Statements

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

District-wide Financial Statements

The District-wide Financial Statements, which include the Statement of Net Assets and the Statement of Activities (see pages 14 and 15), provide highly condensed financial information and render a District-wide perspective of the District's financial condition in a manner similar to a private sector business. These statements include all of the District's assets and liabilities measured under the accrual basis of accounting. This basis of accounting also takes into account all of the District's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net assets at June 30, 2010, and changes in those net assets for the year then ended. The changes in net assets are important as they identify for the reader how the financial position of the District has changed over the year. Events or transactions which may result in changes in the District's financial position may be financial or non-financial in nature. Non-financial factors that may have an impact on the District's financial condition include increases in, or the erosion of, the property tax base within the District's boundaries; the condition of school facilities and equipment; changes in state or federal law regarding the calculation or availability of funding for certain programs, or other external factors.

Fund Financial Statements

The Fund Financial Statements presented on pages 16 through 20 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 Little Rock School District of Pulaski County, Arkansas

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended June 30, 2010

Using the Basic Financial Statements (*Continued*)

Fund Financial Statements (*Continued*)

The District's major funds include the General, Debt Service, Capital Projects, Magnet Schools, Special Programs and Food Service funds. The major differences between the June 30, 2010 balances and transactions reported in the District-wide Financial Statements and those reported in the Fund Financial Statements are summarized on pages 17 and 19.

District-wide Financial Analysis

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

Statement of Net Assets

Net assets reflect the excess of the District's assets over its liabilities and are comprised of the following at June 30, 2010 and 2009:

	2010	2009
Cash and certificates of deposit	\$ 66,708,169	\$ 69,420,202
Receivables	135,967,179	119,561,621
Capital assets, net	209,796,518	193,772,580
Restricted assets	4,953,895	4,218,102
Inventories and other assets	1,725,038	1,098,338
Total Assets	419,150,799	388,070,843
Current liabilities	155,803,577	148,828,472
Long-term liabilities	199,187,996	185,726,148
Total Liabilities	354,991,573	334,554,620
Net assets:		
Invested in capital assets, net of related debt	5,298,124	8,347,043
Restricted	17,310,034	16,461,315
Unrestricted	41,551,068	28,707,865
Total Net Assets	\$ 64,159,226	\$ 53,516,223

Cash and certificates of deposit decreased \$2.7 million from 2009 balances, primarily as a result of expenditures of bond proceeds and capital outlay. Receivables increased \$16.4 million, most of which is attributable to increases in uncollected property tax assessments.

Capital assets, net of accumulated depreciation, increased \$16 million over 2009 balances. This increase represents the net effect of capital asset additions of \$32.2 million, current year depreciation expense of \$15.4 million, and disposals of assets with a net book value of approximately \$795 thousand. In addition, during the year ended June 30, 2010, the District completed and placed into service projects that were included in construction in progress in the June 30, 2009 financial statements totaling approximately \$11 million.

The Little Rock School District of Pulaski County, Arkansas

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended June 30, 2010

District-wide Financial Analysis *(Continued)*

Statement of Net Assets *(Continued)*

The \$13.5 million increase in the District's long-term liabilities is attributable primarily to the issuance of refunding and construction bonds.

At June 30, 2010 and 2009, respectively, restricted net assets are comprised primarily of \$9.8 million and \$10.9 million to be spent for capital projects.

Statement of Activities

Net assets at June 30, 2010, reflect an increase of \$10.6 million from the June 30, 2009 balance. Key elements of this increase consist of the following:

	2010	2009
Revenues		
Program revenues:		
Charges for services	\$ 3,505,045	\$ 3,734,459
Grants and contributions	108,407,626	98,556,951
General revenues:		
Property taxes	142,693,638	135,294,427
Unrestricted state aid	63,348,415	68,001,061
Interest and other	918,322	1,983,420
Total Revenues	318,873,046	307,570,318
Expenses		
Instructional services	176,896,043	176,394,845
Instructional support services	37,435,920	35,539,159
Pupil transportation services	15,929,977	15,485,397
Operation and maintenance of plant	27,225,310	29,159,781
School administration	16,380,270	16,062,328
General administration	13,662,168	12,228,671
Food services	11,017,088	11,245,655
Community services	165,177	59,168
Interest on long-term debt	9,518,090	9,123,313
Total Expenses	308,230,043	305,298,317
Change in net assets	10,643,003	2,272,001
Net assets, beginning of year	53,516,223	51,244,222
Net assets, end of year	\$ 64,159,226	\$ 53,516,223

The Little Rock School District of Pulaski County, Arkansas

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended June 30, 2010

District-wide Financial Analysis *(Continued)*

Statement of Activities *(Continued)*

As reflected above, the costs associated with the District's activities are not all borne by the taxpayers. During the year ended June 30, 2010, approximately \$3.5 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 35%, or \$108.4 million, was covered by various federal and state resources. General revenues totaling \$207 million were available to offset the net cost of the District's programs of \$196.3 million for the year ended June 30, 2010. Total revenues from all sources were sufficient to cover total expenses, resulting in an overall increase in net assets of \$10.6 million. In comparison, during the year ended June 30, 2009, approximately \$3.7 million of the cost of the District's activities was covered by charges for services, while approximately 32%, or \$98.6 million, of the District's total expenses were paid through federal and state funding. The net cost of the District's programs for the year ended June 30, 2009, which were covered by general revenues, totaled approximately \$205.3 million. During 2009, the District's overall increase in net assets was \$2.3 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, 2010 and 2009. 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.

	<u>2010</u>		<u>2009</u>	
	<u>Total Cost of Programs</u>	<u>Net Cost of Programs</u>	<u>Total Cost of Programs</u>	<u>Net Cost of Programs</u>
Instructional services	\$ 176,896,043	\$ 103,879,548	\$ 176,394,845	\$ 109,251,558
Instructional support services	37,435,920	25,222,645	35,539,159	25,285,490
Pupil transportation services	15,929,977	10,670,223	15,485,397	10,386,149
Operation and maintenance	27,225,310	23,558,531	29,159,781	25,786,295
School administration	16,380,270	14,377,834	16,062,328	14,265,293
General administration	13,662,168	9,843,258	12,228,671	8,818,805
Food services	11,017,088	(754,803)	11,245,655	65,667
Community services	165,177	2,046	59,168	24,337
Interest on long-term debt	9,518,090	9,518,090	9,123,313	9,123,313
	<u>\$ 308,230,043</u>	<u>\$ 196,317,372</u>	<u>\$ 305,298,317</u>	<u>\$ 203,006,907</u>

Funds Financial Analysis

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

The District completed the fiscal year ended June 30, 2010, with a combined fund balance for the District's governmental funds of \$36.7 million, compared to a combined fund balance of \$31.8 million as of June 30, 2009.

The Little Rock School District of Pulaski County, Arkansas

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended June 30, 2010

Funds Financial Analysis (*Continued*)

The fund balance of the General Fund at June 30, 2010, includes a reserve for prepaid expenses and inventories totaling approximately \$383 thousand and approximately \$840 thousand designated for the Desegregation Scholarship Program. The entire fund balances of the Capital Projects Fund and the Debt Service Fund remain reserved for capital projects and the payment of principal and interest due on the District's long-term debt, respectively.

A major source of revenue for operations and debt service is local property taxes, which, for fund financial statement reporting purposes, totaled \$138.7 million for the fiscal year ending June 30, 2010, and \$132.2 million for the fiscal year ending June 30, 2009. The amount of property taxes attributable to the District is derived from the District's operating levy of 34 mills and the debt service levy of 12.4 mills (for a total levy of 46.4 mills) applied to the assessed value of taxable property located within the District's boundaries. Other significant local revenues for the year ended June 30, 2010, include \$6.3 million from the Pulaski County Special School District and the North Little Rock School District in support of the original six magnet schools, and breakfast and lunch revenues of \$2.4 million. Significant local revenues in 2009 were comparable to 2010.

For the years ended June 30, 2010 and 2009, resources provided by the State totaled approximately \$125.6 million and \$129.2 million, respectively. This overall net decrease in state revenues of \$3.6 million is primarily attributable to the timing of receipt of certain recurring payments as well as declining enrollment, which directly impacts foundation aid funding. 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 2010 and 2009:

	2010	2009
Foundation aid, enhanced educational and declining enrollment funding	\$ 59,434,710	\$ 66,326,874
98% Uniform rate of actual tax collections adjustment	3,775,705	1,507,734
Teacher retirement and health insurance reimbursements	13,076,844	12,546,223
Professional development	940,052	979,485
Special education	6,763,170	6,626,910
Workforce education	1,407,063	1,634,161
Student special needs funding	7,911,696	8,139,360
State transportation aid	4,905,188	4,772,067
Majority to Minority transfers	4,054,730	4,236,160
Arkansas Better Chance program funding	5,321,700	5,456,309
State contribution for Magnet Schools	15,796,938	14,918,328
Other	2,245,212	2,058,731
	\$ 125,633,008	\$ 129,202,342

The U.S. Department of Education provides the largest amount of federal funding to the District, totaling \$ 27.2 million and \$21 million for the years ended June 30, 2010 and 2009, respectively, and representing approximately 75.1% and 71.7%, respectively, of total federal awards expended by the District. Other significant sources of federal funding include the U.S. Department of Agriculture, which provided \$8.8 million and \$8.2 million during the years ended June 30, 2010 and 2009, respectively, under the School Breakfast Program, the National School Lunch Program, the Summer Food Service Program and the Child and Adult Care Food Program.

The Little Rock School District of Pulaski County, Arkansas

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended June 30, 2010

Funds Financial Analysis (*Continued*)

Total governmental funds expenditures are summarized below:

	2010		2009	
General	\$ 221,599,970	66.8%	\$ 222,421,010	70.6%
Debt service	15,523,735	4.7%	13,008,766	4.1%
Capital projects	23,937,737	7.2%	15,563,878	4.9%
Magnet schools	30,564,724	9.2%	30,325,056	9.6%
Special programs	28,211,718	8.5%	21,848,297	6.9%
Food service	10,907,818	3.3%	10,972,153	3.5%
Other governmental	1,155,514	0.3%	1,095,955	0.4%
	\$ 331,901,216	100.0%	\$ 315,235,115	100.0%

General Fund Budgetary Highlights

Arkansas Code Annotated §6-17-914 states that each school district of the State shall prepare annually a budget of expenditures and receipts, to be filed with the Arkansas Department of Education (ADE) in an electronic format. Although no provision currently exists for revisions to be submitted to the ADE, management and the District's Board of Directors, over the course of the year, may revise the District's budget, taking into consideration unexpected changes in revenues and expenditures. If those revisions are material in nature, they are submitted to the District's Board of Directors for approval. The District's Board of Directors approved the original budget in an open meeting on September 24, 2009. No revisions were made to the budget during the 2009-2010 fiscal year.

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

For the 2009-2010 fiscal year the General Fund's actual revenues (budgetary basis) exceeded budgeted revenues by \$4.9 million. This favorable variance is primarily attributable to actual State revenues and Property taxes being in excess of budgeted amounts. Actual General Fund expenditures were less than budgeted expenditures by \$301 thousand.

Capital Assets and Debt Administration

Capital Assets

During 2010 and 2009, the District successfully completed several significant construction projects, including major renovations at several schools, installation of improved security systems throughout the District, improvements and upgrades to heating and air conditioning systems and roof replacements on several of the District's buildings. In addition, the District purchased land and began construction on a new school located in West Little Rock, in 2009. Construction continued in 2010.

The Little Rock School District of Pulaski County, Arkansas

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended June 30, 2010

Capital Assets and Debt Administration *(Continued)*

Capital Assets *(Continued)*

At June 30, 2010, the District had \$209.8 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 \$32.2 million; prior year construction in progress projects that were completed and placed into service totaled \$11 million; \$795 thousand of net capital assets were retired or disposed; and depreciation expense totaled approximately \$15.4 million.

Capital assets, net of accumulated depreciation and amortization, at June 30, 2010 and 2009 are comprised of the following:

	2010	2009
Capital Assets		
Buildings and improvements	\$ 246,489,746	\$ 231,441,376
Furniture, equipment and other	54,039,266	53,241,497
Land	12,003,133	12,003,133
Construction in progress	29,190,421	19,774,936
Total capital assets	341,722,566	316,460,942
Less accumulated depreciation and amortization	(131,926,048)	(122,688,362)
Capital Assets, Net	\$ 209,796,518	\$ 193,772,580

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 \$196.7 million and \$179.4 million and at June 30, 2010 and 2009, 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 \$802 million at June 30, 2010, is an increase of \$59 million over the June 30, 2009 debt limitation.

The District also has obligations outstanding for desegregation loans, Qualified Zone Academy Bonds, capital leases and compensated absences totaling approximately \$14.8 million at June 30, 2010 (as compared to \$14.5 million at June 30, 2009).

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

Economic Factors and Next Year's Budget

2010-2011 budgeted revenues total \$348.6 million (budgetary basis of accounting), including an increase of \$153 per student in State Foundation and Enhanced Educational funding. Total budgeted expenses are \$352.4 million. Highly qualified teachers are a necessity, and this budget ensures that the District provides competitive starting salaries and benefits. In addition, the budget supports the continued development of detailed curriculum guides and teaching specialists whose strategies and best practices enhances students' learning environments.

The Little Rock School District of Pulaski County, Arkansas

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended June 30, 2010

Economic Factors and Next Year's Budget (*Continued*)

The 2010-2011 budget fully funds the negotiated agreement with the teachers' union and provides a total average compensation increase of 1.0% for eligible employees. Funding is also available to provide an experience step increase for all other eligible district employees to ensure that students are served by an able and qualified workforce.

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

Contacting the District's Financial Management

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

BASIC FINANCIAL STATEMENTS

The Little Rock School District of Pulaski County, Arkansas

STATEMENT OF NET ASSETS June 30, 2010

ASSETS	
Cash	\$ 52,734,244
Certificates of deposit	13,973,925
Receivables:	
Property tax, net	117,231,090
Intergovernmental	15,181,186
Other	3,554,903
Inventories and other assets	1,725,038
Restricted cash and investments	4,953,895
Capital assets, net	<u>209,796,518</u>
TOTAL ASSETS	<u><u>\$ 419,150,799</u></u>
 LIABILITIES AND NET ASSETS	
Liabilities	
Accounts payable and accrued liabilities	\$ 22,626,807
Payroll taxes and withholdings	11,288,844
Accrued interest expense	3,639,419
Deferred revenues	106,655,933
Due to fiduciary funds	2,077,559
Long-term obligations, net:	
Due within one year	9,515,015
Due in more than one year	<u>199,187,996</u>
Total Liabilities	<u><u>354,991,573</u></u>
 Net Assets	
Invested in capital assets, net of related debt	5,298,124
Restricted:	
Capital projects	9,787,524
Debt service	7,055,560
Other activities	462,840
Magnet schools	4,110
Unrestricted	<u>41,551,068</u>
Total Net Assets (Page 17)	<u><u>64,159,226</u></u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 419,150,799</u></u>

See accompanying notes to financial statements.

The Little Rock School District of Pulaski County, Arkansas

STATEMENT OF ACTIVITIES For the Year Ended June 30, 2010

	Expenses	Less Program Revenues		Changes in Net Assets
		Charges for Services	Grants and Contributions	
GOVERNMENTAL FUNCTIONS				
Instructional services	\$ 176,896,043	\$ 1,108,842	\$ 71,907,653	\$ (103,879,548)
Instructional support services	37,435,920	-	12,213,275	(25,222,645)
Pupil transportation services	15,929,977	-	5,259,754	(10,670,223)
Operation and maintenance of plant	27,225,310	-	3,666,779	(23,558,531)
School administration	16,380,270	-	2,002,436	(14,377,834)
General administration	13,662,168	-	3,818,910	(9,843,258)
Food services	11,017,088	2,396,203	9,375,688	754,803
Community services	165,177	-	163,131	(2,046)
Interest on long-term debt	9,518,090	-	-	(9,518,090)
Total Governmental Functions	308,230,043	3,505,045	\$ 108,407,626	(196,317,372)
GENERAL REVENUES				
Property taxes, levied for general purposes				\$ 104,611,941
Property taxes, levied for debt service				38,081,697
Unrestricted state aid				63,348,415
Interest				569,777
Other general				348,545
Total General Revenues				206,960,375
CHANGE IN NET ASSETS (Page 19)				10,643,003
NET ASSETS, BEGINNING OF YEAR				53,516,223
NET ASSETS, END OF YEAR				\$ 64,159,226

See accompanying notes to financial statements.

The Little Rock School District of Pulaski County, Arkansas

BALANCE SHEET – GOVERNMENTAL FUNDS June 30, 2010

	General	Debt Service	Capital Projects	Magnet Schools	Special Programs	Food Service	Other Governmental	Total Governmental Funds
ASSETS								
Cash	\$ 52,734,244	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 52,734,244
Certificates of deposit	6,063,401	-	7,910,524	-	-	-	-	13,973,925
Receivables:								
Property tax, net	85,902,092	31,328,998	-	-	-	-	-	117,231,090
Intergovernmental	6,337,623	-	-	3,345,345	5,220,251	271,917	6,050	15,181,186
Other	3,413,861	-	32,793	-	-	-	108,249	3,554,903
Inventories and other assets	383,079	-	-	-	-	117,038	-	500,117
Restricted cash and investments	-	4,953,895	-	-	-	-	-	4,953,895
Due from other funds	-	12,990,955	8,927,318	13,538	-	88,938	998,620	23,019,369
TOTAL ASSETS	\$ 154,834,300	\$ 49,273,848	\$ 16,870,635	\$ 3,358,883	\$ 5,220,251	\$ 477,893	\$ 1,112,919	\$ 231,148,729
LIABILITIES AND FUND BALANCES								
Liabilities								
Accounts payable and accrued liabilities	\$ 16,673,577	\$ 38,054	\$ 5,059,725	\$ 19,445	\$ 1,074,145	\$ 79,564	\$ 70,351	\$ 23,014,861
Payroll taxes and withholdings	11,288,844	-	-	-	-	-	-	11,288,844
Deferred revenues	86,685,371	44,841,427	-	549,316	2,343,509	63,751	579,728	135,063,102
Due to other funds	17,665,008	-	94,968	3,335,328	1,921,753	2,312	-	23,019,369
Due to fiduciary funds	2,077,559	-	-	-	-	-	-	2,077,559
Total Liabilities	134,390,359	44,879,481	5,154,693	3,904,089	5,339,407	145,627	650,079	194,463,735
Fund Balances								
Reserved for:								
Inventories and other assets	383,079	-	-	-	-	117,038	-	500,117
Debt service	-	4,394,367	-	-	-	-	-	4,394,367
Capital projects	-	-	11,715,942	-	-	-	-	11,715,942
Unreserved, designated for:								
Desegregation scholarship program	840,026	-	-	-	-	-	-	840,026
Unreserved, undesignated	19,220,836	-	-	(545,206)	(119,156)	215,228	462,840	19,234,542
Total Fund Balances (page 17)	20,443,941	4,394,367	11,715,942	(545,206)	(119,156)	332,266	462,840	36,684,994
TOTAL LIABILITIES AND FUND BALANCES	\$ 154,834,300	\$ 49,273,848	\$ 16,870,635	\$ 3,358,883	\$ 5,220,251	\$ 477,893	\$ 1,112,919	\$ 231,148,729

See accompanying notes to financial statements.

The Little Rock School District of Pulaski County, Arkansas

BALANCE SHEET – GOVERNMENTAL FUNDS Reconciliation to the Statement of Net Assets June 30, 2010

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS (Page 16)		\$ 36,684,994
Capital assets used in governmental activities are not current financial resources and therefore are not reported as assets in the governmental funds.	\$ 209,796,518	
Certain revenues recorded in the Statement of Activities will not be received soon enough after year end to pay current liabilities and are therefore presented as additional deferred revenues in the Balance Sheet - Governmental Funds.	28,407,169	
Long-term debt and certain obligations for compensated absences are not reported as liabilities in the governmental funds.	(208,353,011)	
Bond issuance costs are reported as an other asset in the Statement of Net Assets but were recorded as expenditures in the year they were paid in the governmental funds.	1,224,921	
Accrued interest expense is not reported as a liability in the governmental funds.	<u>(3,601,365)</u>	<u>27,474,232</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES (Page 14)		<u><u>\$ 64,159,226</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, 2010

	General	Debt Service	Capital Projects	Magnet Schools	Special Programs	Food Service	Other Governmental	Total Governmental Funds
REVENUES								
Property taxes	\$ 102,246,400	\$ 36,406,833	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 138,653,233
Federal revenues	-	-	-	-	27,871,093	8,794,173	282,924	36,948,190
State revenues	109,026,082	-	-	15,796,938	7,202	76,366	726,420	125,633,008
Tuition, fees and other	3,586,611	-	-	6,271,719	139,937	2,396,203	158,798	12,553,268
Interest	206,015	198,102	162,779	-	-	2,881	-	569,777
Total Revenues	<u>215,065,108</u>	<u>36,604,935</u>	<u>162,779</u>	<u>22,068,657</u>	<u>28,018,232</u>	<u>11,269,623</u>	<u>1,168,142</u>	<u>314,357,476</u>
EXPENDITURES								
Instructional services	127,673,176	-	-	20,774,891	15,905,344	-	587,986	164,941,397
Instructional support services	25,656,288	-	-	3,401,098	7,617,734	-	454,408	37,129,528
Pupil transportation services	15,287,019	-	-	9,288	107,839	-	39,216	15,443,362
Operation and maintenance of plant	25,305,350	-	653,807	2,176,591	-	-	-	28,135,748
School administration	13,791,790	-	-	2,588,262	-	-	-	16,380,052
General administration	8,830,062	-	-	1,572,314	1,769,780	-	12,496	12,184,652
Food services	-	-	-	-	-	10,884,035	-	10,884,035
Community services	-	-	-	-	150,157	-	-	150,157
Capital outlay	5,056,285	-	23,003,252	42,280	2,660,864	23,783	61,408	30,847,872
Debt service:								
Principal paid	-	5,722,777	-	-	-	-	-	5,722,777
Interest	-	9,357,645	-	-	-	-	-	9,357,645
Fiscal agent fees	-	443,313	280,678	-	-	-	-	723,991
Total Expenditures	<u>221,599,970</u>	<u>15,523,735</u>	<u>23,937,737</u>	<u>30,564,724</u>	<u>28,211,718</u>	<u>10,907,818</u>	<u>1,155,514</u>	<u>331,901,216</u>
Revenues over (under) expenditures	<u>(6,534,862)</u>	<u>21,081,200</u>	<u>(23,774,958)</u>	<u>(8,496,067)</u>	<u>(193,486)</u>	<u>361,805</u>	<u>12,628</u>	<u>(17,543,740)</u>
OTHER FINANCING SOURCES (USES)								
Operating Transfers In (Out)								
Property taxes	21,763,596	(21,763,596)	-	-	-	-	-	-
Magnet schools funding	(10,235,557)	-	-	10,235,557	-	-	-	-
Interest reduction transfer	-	(17,796)	17,796	-	-	-	-	-
Lease payments	(431,269)	438,274	-	-	-	-	(7,005)	-
Other	(102,926)	-	6,004	11,476	-	-	85,446	-
Payments to Bond Refunding Escrow Agent	-	(35,927,916)	-	-	-	-	-	(35,927,916)
Original Issue Discount	-	(198,901)	(100,747)	-	-	-	-	(299,648)
Proceeds of Long-Term Debt								
Capital lease obligations	686,380	-	-	-	-	-	-	686,380
Construction bonds	-	-	21,390,000	-	-	-	-	21,390,000
Refunding bonds	-	36,565,000	-	-	-	-	-	36,565,000
Total Other Financing Sources (Uses)	<u>11,680,224</u>	<u>(20,904,935)</u>	<u>21,313,053</u>	<u>10,247,033</u>	<u>-</u>	<u>-</u>	<u>78,441</u>	<u>22,413,816</u>
NET CHANGE IN FUND BALANCE (Page 19)	5,145,362	176,265	(2,461,905)	1,750,966	(193,486)	361,805	91,069	4,870,076
FUND BALANCE, BEGINNING OF YEAR	15,298,579	4,218,102	14,177,847	(2,296,172)	74,330	(29,539)	371,771	31,814,918
FUND BALANCE, END OF YEAR	<u>\$ 20,443,941</u>	<u>\$ 4,394,367</u>	<u>\$ 11,715,942</u>	<u>\$ (545,206)</u>	<u>\$ (119,156)</u>	<u>\$ 332,266</u>	<u>\$ 462,840</u>	<u>\$ 36,684,994</u>

See accompanying notes to financial statements.

The Little Rock School District of Pulaski County, Arkansas

STATEMENT OF NET ASSETS – FIDUCIARY FUNDS June 30, 2010

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS (Page 18)		\$ 4,870,076
Additions to capital assets are reported as expenditures in the Fund Financial Statements.	\$ 32,238,825	
The costs of capital assets are depreciated over their estimated useful lives for District-wide Financial Statement reporting purposes.	(15,419,479)	
The net book value of capital assets that are disposed during the year are not reflected in the Fund Financial Statements.	(795,408)	
In the Statement of Activities, expense related to compensated absences is measured based on amounts earned during the year. In the Fund Financial Statements, expenditures for these items are measured by the amount of compensation paid.	19,500	
Repayment of long-term debt is recorded as an expenditure in the Fund Financial Statements, but it reduces long-term liabilities in the Statement of Net Assets.	5,722,777	
Payment to bond refunding escrow agent is recorded as an other financing use in the Fund Financial Statements but as a reduction of long term debt in the Statement of Net Assets.	35,927,916	
Proceeds from the issuance of long-term debt are recorded as other financing sources in Fund Financial Statements, but are recorded as increases in long-term liabilities in the District-wide Financial Statements.	(58,341,732)	
Property tax revenues are recognized in the District-wide Financial Statements in the period for which they are levied, while they are recognized in the Fund Financial Statements to the extent collected within sixty days after year end.	4,040,405	
Certain deferred revenues are recognized in different fiscal years for District-wide Financial Statements than for Fund Financial Statements purposes due to the timing of collection.	1,724,994	
Fiscal agent fees were recognized as expense in the Fund Financial Statements, but are recorded as an asset in the District-wide Financial Statements.	714,486	
Amortization of deferred bond costs and Qualified Zone Academy Bonds discounts is not reported in the Fund Financial Statements, but is reported in the District-wide Financial Statements.	(168,247)	
Interest expenditures are recognized in the Fund Financial Statements when paid, but interest expense accrued when due in the District-wide Financial Statements.	108,890	
		5,772,927
CHANGE IN NET ASSETS (Page 15)		\$ 10,643,003

See accompanying notes to financial statements.

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

**STATEMENT OF NET ASSETS – FIDUCIARY FUNDS
June 30, 2010**

ASSETS	
Due from governmental funds	<u>\$ 2,077,559</u>
TOTAL ASSETS	<u><u>\$ 2,077,559</u></u>
LIABILITIES	
Due to student groups and other	<u>\$ 2,077,559</u>
TOTAL LIABILITIES	<u><u>\$ 2,077,559</u></u>

See accompanying notes to financial statements.

The Little Rock School District of Pulaski County, Arkansas

NOTES TO FINANCIAL STATEMENTS June 30, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Reporting Entity

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

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

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

(b) Basis of Presentation

District-wide Financial Statements

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

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

The Little Rock School District of Pulaski County, Arkansas

NOTES TO FINANCIAL STATEMENTS June 30, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of Presentation (Continued)

Fund Financial Statements

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

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

- The General Fund is the primary operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to another fund are accounted for in this fund. General operating expenditures and capital improvement costs that are not paid through other funds are paid from this fund.
- The Debt Service Fund is used to account for the accumulation of resources for and the payment of principal and interest on long-term debt as well as any other related debt service costs.
- The Capital Projects Fund is used to account for all resources segregated for the acquisition, construction, and renovation of the District's capital assets.
- The Magnet Schools Fund is used to account for State and local resources restricted for funding the operations of the District's magnet schools.
- The Special Programs Fund is used primarily to account for 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 all financial transactions, including federal funding, related to operation of the District's food service program.

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

(c) Measurement Focus and Basis of Accounting

District-wide Financial Statements

The District-wide Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, entitlements, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements and donations are recognized in the fiscal year when all eligibility requirements, including restrictions on the availability or use of funds, have been satisfied.

The Little Rock School District of Pulaski County, Arkansas

NOTES TO FINANCIAL STATEMENTS June 30, 2010

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 property taxes to be available if the revenues are collected within sixty days after the end of the fiscal year; all other revenues are considered to be available if they are collected within ninety days after the end of the fiscal year. Property taxes, investment interest, grants, entitlements and contributions associated with the current fiscal period are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

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

(d) Cash and Certificates of Deposit

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

At June 30, 2010, certificates of deposit held by the District generally mature within one year of the date of purchase. State statutes generally permit the District to invest in general obligation bonds of the United States; in bonds, notes, debentures, or other obligations issued by an agency of the United States Government; in general obligation bonds of the State; or in bank certificates of deposit. The District does not have a formal investment policy that places any further restrictions on the nature of types of investments that may be purchased.

(e) Restricted Cash and Investments

The District maintains restricted cash and investment balances consisting of three guaranteed interest deposit accounts and a U.S. government agency security held by fiscal agents, which are restricted for repayment of the District's Qualified Zone Academy Bonds (Note 5). The total carrying amount and related bank balances of these cash accounts of \$4,412,394 as of June 30, 2010, is not covered by FDIC insurance, nor is it collateralized. The investment, the fair value of which was \$541,501 at June 30, 2010, is not held in the District's name and is not insured.

(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.

The Little Rock School District of Pulaski County, Arkansas

NOTES TO FINANCIAL STATEMENTS June 30, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Capital Assets

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

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

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

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

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

(h) Interfund Balances and Transactions

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

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

(i) Deferred Revenue

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

(j) Compensated Absences

It is the District's policy to permit employees to accumulate earned vacation and sick pay benefits. Employees may receive compensation for unused vacation 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 sick pay or personal leave days are not paid upon termination and are not recorded as a liability in the District-wide or Fund Financial Statements.

The Little Rock School District of Pulaski County, Arkansas

NOTES TO FINANCIAL STATEMENTS June 30, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Long-term Liabilities

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

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

(l) Use of Estimates

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

(m) Annual Budget

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

(n) Recently Issued Accounting Standards

In February 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions. This statement also establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of resources reported in governmental funds. The District’s management has not yet determined the impact implementation of this standard, which is required July 1, 2010, will have on the District’s financial statements, if any.

NOTE 2: PROPERTY TAXES

Property taxes are levied each November based on the assessed value of taxable property as of January 1 of that year. Tangible personal property acquired after January 1 and before June 1 is required to be assessed in the year of acquisition. Otherwise, only property owned by a taxpayer on January 1 is assessed on that date for that calendar year. The millage rates in effect on the date of the levy are multiplied by the assessed value of taxable property to determine the total amount of tax. The tax records are opened and taxes are billed in March of the year following the levy. Taxes not received by October 10 of the year following the levy are considered delinquent and are subject to penalties.

The Little Rock School District of Pulaski County, Arkansas

NOTES TO FINANCIAL STATEMENTS June 30, 2010

NOTE 2: PROPERTY TAXES (Continued)

Although an enforceable lien attaches to the property on the date of assessment, the District does not record a receivable until the levy date, as that is the date when the amount of tax attributable to the District is known. A receivable is recorded in the General Fund and the Debt Service Fund equal to each fund's proportionate share of the assessment. The millage rates attributable to the District for the levy which occurred during the fiscal year ending June 30, 2010, were 34 mills for operations and maintenance and 12.4 mills for debt service.

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

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

In the Statement of Net Assets and in the Balance Sheet – Governmental Funds, property taxes are presented as deferred revenues to the extent they have been received or accrued by the District prior to the fiscal year they are intended to finance. The Balance Sheet – Governmental Funds presents balances that have been accrued, but have not been collected within sixty days of year end as additional deferred property tax revenues, and thus do not meet the measurable and available criteria for revenue recognition. Deferred property tax revenues, as included in the Statement of Net Assets and in the Balance Sheet – Government Funds, were approximately \$103.3 million and \$125.3 million, respectively.

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

Property taxes receivable as of June 30, 2010, net of an allowance for uncollectible accounts, are as follows:

	General Fund	Debt Service Fund
Current	\$ 71,915,365	\$ 26,227,957
Delinquent	17,565,981	6,406,416
Allowance for uncollectible accounts	(3,579,254)	(1,305,375)
	\$ 85,902,092	\$ 31,328,998

The Little Rock School District of Pulaski County, Arkansas

NOTES TO FINANCIAL STATEMENTS June 30, 2010

NOTE 2: PROPERTY TAXES (Continued)

Approximately \$21.8 million, representing the excess of property taxes revenue recognized over amounts necessary to meet debt service requirements applicable to the fiscal year ended June 30, 2010, has been transferred from the Debt Service Fund to the General Fund to be used for operations as provided for under State statutes. Collection of debt service property taxes received and transferred to the General Fund in advance of the period they are recognized as revenues for financial statement purposes are reflected as amounts due to and due from other funds in the accompanying Balance Sheet – Governmental Funds.

NOTE 3: CAPITAL ASSETS

Balances of the major components of capital assets as of June 30, 2010, and activity during the year then ended, are summarized as follows:

	June 30, 2009	Increases	Decreases	June 30, 2010
	Balance	Increases	Decreases	Balance
Capital Assets				
Buildings and improvements	\$ 231,441,376	\$ 15,911,700	\$ 863,330	\$ 246,489,746
Furniture, equipment and other	53,241,497	6,911,640	6,113,871	54,039,266
Land	12,003,133	-	-	12,003,133
Construction in progress	19,774,936	20,406,054	10,990,569	29,190,421
Total Capital Assets	316,460,942	43,229,394	17,967,770	341,722,566
Less Accumulated Depreciation and Amortization				
Buildings and improvements	89,083,460	9,067,685	351,417	97,799,728
Furniture and equipment	33,604,902	6,351,794	5,830,376	34,126,320
Total Accumulated Depreciation and Amortization	122,688,362	15,419,479	6,181,793	131,926,048
	\$ 193,772,580	\$ 27,809,915	\$ 11,785,977	\$ 209,796,518

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

Depreciation and amortization expense for the year ended June 30, 2010, was charged to governmental functions as follows:

Instructional services	\$ 13,927,706
Instructional support services	300,651
Pupil transportation services	477,557
Operation and maintenance of plant	158,864
General administration	523,177
Food services	16,504
Community services	15,020
	\$ 15,419,479

The Little Rock School District of Pulaski County, Arkansas

NOTES TO FINANCIAL STATEMENTS June 30, 2010

NOTE 3: CAPITAL ASSETS (Continued)

The District is party to various construction and related contracts, under which approximately \$8.3 million was unexpended at June 30, 2010.

NOTE 4: INTERFUND BALANCES

The composition of interfund balances at June 30, 2010, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Capital Projects	General	\$ 3,670,237
	Magnet	3,335,328
	Special	1,921,753
		<u>8,927,318</u>
Food Service	General	<u>88,938</u>
Other Governmental	General	919,869
	Capital	78,751
		<u>998,620</u>
Magnet	General	11,226
	Capital	2,312
		<u>13,538</u>
Debt Service	General	12,974,738
	Capital	16,217
		<u>12,990,955</u>
		<u><u>\$ 23,019,369</u></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.

NOTE 5: LONG-TERM OBLIGATIONS, NET

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

The Little Rock School District of Pulaski County, Arkansas

NOTES TO FINANCIAL STATEMENTS June 30, 2010

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. These bonds will be repaid in annual installments through February 2033 and bear interest at rates ranging from 3.25% to 5.5%.

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

\$46,378,560 Series A Construction Bonds, dated September 1, 2000

\$44,975,874 Series B Refunding Bonds, dated October 15, 2000

\$89,890,000 Series C Construction Bonds, dated June 1, 2001

\$13,195,000 Series D, Construction bonds, dated September 1, 2008

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

On December 1, 2006, the District issued \$45,505,000 in refunding bonds with interest rates ranging from 4% to 4.5% to advance refund the then outstanding balance (\$43,160,000) of its \$46,378,650 Series A Construction Bonds, dated September 1, 2000 (the Refunded Bonds). The net proceeds of \$45,030,874 were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of the Refunded Bonds. As a result, the Refunded Bonds are considered defeased and the liability of those bonds has been removed from the Statement of Net Assets.

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

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

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

The Little Rock School District of Pulaski County, Arkansas

NOTES TO FINANCIAL STATEMENTS June 30, 2010

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

(a) School Bonds (Continued)

This advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the Refunded Bonds of \$322,916. This difference, which is considered deferred bond costs for District-wide financial statement purposes, is being charged to operations through the year 2033 using the straight-line method. The District completed the advance refunding to reduce its total debt service payments over the next 23 years by approximately \$5,450,500 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$5,003,200.

(b) State of Arkansas Loans

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

(c) Qualified Zone Academy Bonds

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

The District has issued QZABs with face amounts totaling approximately \$7.6 million to financial institutions to finance a portion of the cost of certain improvements to lighting systems and heating and air conditioning systems. For purposes of presentation in the District-wide Financial Statement, the face amount of the liabilities have been discounted and reflected at the estimated net present value of future amounts to be repaid using discount rates ranging from 3.47% to 5.25%, which are considered rates commensurate with the level of risk associated with these debt instruments. The resulting discounts are amortized and reflected as interest expense over the life of the QZABs. The District has also recorded the related excess of proceeds over the discounted principal balance as a deferred gain which will be recognized as income over the lives of the QZABs. For the Fund Financial Statements, the excess of proceeds over the discounted principal balance will be recorded as interest expenditures at the maturity of the related QZAB.

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

The Little Rock School District of Pulaski County, Arkansas

NOTES TO FINANCIAL STATEMENTS June 30, 2010

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

(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 3.59% to 6.96%, are payable in annual installments through 2016.

Long-term liability balances and the related activity for the year ended June 30, 2010, are summarized as follows:

	June 30, 2009			June 30, 2010	
	Balance	Additions	Reductions	Total Balance	Due Within One Year
Long-term Debt					
School bonds:					
\$44,975,874 Refunding Bonds	\$ 36,280,000	\$ -	\$ 36,280,000	\$ -	\$ -
\$89,890,000 Construction Bonds	81,100,000	-	1,695,000	79,405,000	1,820,000
\$6,375,000 Refunding Bonds	4,480,000	-	335,000	4,145,000	350,000
\$45,505,000 Refunding Bonds	44,360,000	-	1,150,000	43,210,000	1,060,000
\$13,195,000 Construction Bonds	13,195,000	-	335,000	12,860,000	340,000
\$36,565,000 Refunding Bonds	-	36,565,000	-	36,565,000	610,000
\$21,390,000 Construction Bonds	-	21,390,000	900,000	20,490,000	-
	<u>179,415,000</u>	<u>57,955,000</u>	<u>40,695,000</u>	<u>196,675,000</u>	<u>4,180,000</u>
Deferred bond costs	(1,991,460)	(217,713)		(2,209,173)	-
Original issue discount	(237,732)	(299,648)	17,185	(520,195)	-
	<u>177,185,808</u>	<u>57,437,639</u>	<u>40,677,815</u>	<u>193,945,632</u>	<u>4,180,000</u>
State of Arkansas loans:					
\$2,000,000 dated March 1998	1,500,000	-	100,000	1,400,000	100,000
\$3,000,000 dated September 1998	2,400,000	-	150,000	2,250,000	150,000
	<u>3,900,000</u>	<u>-</u>	<u>250,000</u>	<u>3,650,000</u>	<u>250,000</u>
Qualified Zone Academy Bonds:					
\$3,316,132 due May 2011	3,316,132	-	-	3,316,132	-
\$1,404,985 due September 2011	1,404,985	-	-	1,404,985	-
\$689,389 due March 2012	689,389	-	-	689,389	-
\$2,212,252 due July 2021	2,212,252	-	-	2,212,252	-
	<u>7,622,758</u>	<u>-</u>	<u>-</u>	<u>7,622,758</u>	<u>-</u>
Unamortized discount	(748,538)	146,948	-	(601,590)	3,316,132
	<u>6,874,220</u>	<u>146,948</u>	<u>-</u>	<u>7,021,168</u>	<u>3,316,132</u>
Capital leases	<u>1,235,608</u>	<u>686,380</u>	<u>382,777</u>	<u>1,539,211</u>	<u>368,883</u>
Total Long-term Debt	<u>189,195,636</u>	<u>58,270,967</u>	<u>41,310,592</u>	<u>206,156,011</u>	<u>8,115,015</u>
Other Long-term Liabilities					
Compensated absences	<u>2,539,000</u>	<u>1,454,000</u>	<u>1,446,000</u>	<u>2,547,000</u>	<u>1,400,000</u>
	<u>\$191,734,636</u>	<u>\$ 59,724,967</u>	<u>\$ 42,756,592</u>	<u>\$208,703,011</u>	<u>\$ 9,515,015</u>

The Little Rock School District of Pulaski County, Arkansas

NOTES TO FINANCIAL STATEMENTS June 30, 2010

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

The approximate annual debt service requirements of all outstanding long-term debt at June 30, 2010, are as follows:

	In Thousands	
	Principal	Interest
2011	\$ 8,115	\$ 9,552
2012	7,019	9,102
2013	5,047	8,561
2014	5,373	8,355
2015	6,731	8,138
2016-2020	36,904	36,540
2021-2025	46,722	28,716
2026-2030	54,345	17,266
2031-2033	39,230	3,844
	209,486	130,074
Unamortized deferred bond costs	(2,209)	2,209
Unamortized original issue discount	(520)	520
Unamortized discounts on QZABs	(601)	601
	\$ 206,156	\$ 133,404

NOTE 6: DESEGREGATION AGREEMENTS AND FUNDING ISSUES

(a) General

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

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

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

The Little Rock School District of Pulaski County, Arkansas

NOTES TO FINANCIAL STATEMENTS June 30, 2010

NOTE 6: DESEGREGATION AGREEMENTS AND FUNDING ISSUES (Continued)

(a) General (Continued)

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

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

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

(b) State of Arkansas Desegregation Loans

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

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

The Little Rock School District of Pulaski County, Arkansas

NOTES TO FINANCIAL STATEMENTS June 30, 2010

NOTE 6: DESEGREGATION AGREEMENTS AND FUNDING ISSUES (Continued)

(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, 2010, the funding level for the Magnets totaled \$8,222 per pupil with the State contributing approximately one-half of the cost and the three school districts sharing the balance based upon their respective average daily membership numbers.

The approximate average daily memberships of the Magnets for the year ended June 30, 2010, were 2,490 for the District, 810 for PCSSD, and 419 for NLRSD. Based upon these average daily memberships, local revenues received by the District from PCSSD and NLRSD for the year ended June 30, 2010, totaled approximately \$5.1 million. The District's portion of the cost, which totaled approximately \$10.2 million, is recorded as an operating transfer from the General Fund to the Magnet Schools Fund. Related State funding for the year totaled approximately \$15.3 million. Revenue presented in the fund financial statements includes approximately \$2.3 million in funding that was approved for the 2008-2009 fiscal year, but was not recognized as revenue during that year due to the timing of receipt. Approximately \$549,000 of funding approved for the 2009-2010 fiscal year is deferred at June 30, 2010, also due to the timing of the receipt of these funds.

(d) Pooling Agreement

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

NOTE 7: RETIREMENT PLANS

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

Employees covered by the systems have the option to contribute a portion of their salary. Those that choose to contribute to the ATRS plan must contribute 6% of their salary while those who choose to contribute to the APERS plan must contribute 5% of their salary. The District must contribute 14% of eligible payroll for employees covered by ATRS and 4% of eligible payroll for employees covered by

The Little Rock School District of Pulaski County, Arkansas

NOTES TO FINANCIAL STATEMENTS June 30, 2010

NOTE 7: RETIREMENT PLANS (Continued)

APERS. Contributions by or on behalf of the District to the ATRS for the years ended June 30, 2010, 2009, and 2008 were approximately \$23,300,000, \$23,200,000 and \$22,900,000, respectively, and are equal to the required contributions for each year. Contributions by the District to the APERS for the years ended June 30, 2010, 2009, and 2008 were approximately \$68,000, \$76,000, and \$91,000, respectively, and are equal to the required contributions for each year.

NOTE 8: 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. During the year ended June 30, 2010 the District has recorded a receivable in the Statement of Net Assets totaling approximately \$2.3 million for damage caused by a roof collapse and resulting storm damage.

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

The District maintains a balance of \$72,000 on deposit with the third-party administrator of the self-insurance program from which claims are paid. The gross estimated claims liability at June 30, 2010, totaled approximately \$384,400, while the district recovered approximately \$293,100 for the year ended June 30, 2010, net of claims expense.

NOTE 9: LITIGATION AND CONTINGENCIES

At June 30, 2010, 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.

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

NOTE 10: LITTLE ROCK PUBLIC EDUCATION FOUNDATION, INC.

The Little Rock Public Education Foundation, Inc. (the Foundation) was established as a non-profit organization under the laws of the State on March 21, 2002, to conduct fundraising activities exclusively for the educational benefit of the District's students and staff. As management believes that the activities and balances of the Foundation are not material to the District's financial statements taken as a whole, such amounts are not reflected therein. During the year ended June 30, 2010, the District recognized approximately \$23,000 in revenue associated with grants awarded by the Foundation.

SUPPLEMENTARY INFORMATION

The Little Rock School District of Pulaski County, Arkansas

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND For the Year Ended June 30, 2010

	General Fund - Budgetary Basis		
	Budgeted	Actual	Variance
REVENUES			
Property taxes	\$ 101,913,000	\$ 102,683,391	\$ 770,391
State revenues	104,803,949	108,979,337	4,175,388
Tuition fees and other	2,005,001	2,123,051	118,050
Interest	300,000	193,256	(106,744)
Total Revenues	209,021,950	213,979,035	4,957,085
EXPENDITURES			
Instructional services	124,404,878	126,055,498	(1,650,620)
Instructional support services	24,497,434	25,704,124	(1,206,690)
Pupil transportation services	15,375,809	15,246,015	129,794
Operation and maintenance of plant	30,356,524	26,880,861	3,475,663
School administration	13,130,444	13,770,767	(640,323)
General administration	13,094,504	11,227,363	1,867,141
Community services	108,750	-	108,750
Capital outlay	1,202,137	2,984,414	(1,782,277)
Total Expenditures	222,170,480	221,869,042	301,438
Excess of Expenditures over Revenues	(13,148,530)	(7,890,007)	5,258,523
OTHER FINANCING SOURCES (USES)			
Operating Transfers In (Out)			
Magnet schools funding	(10,166,868)	(10,235,557)	(68,689)
Transfer to food service fund	(200,000)	-	200,000
Indirect cost transfer	2,882,895	2,611,620	(271,275)
Property tax	20,315,839	21,763,596	1,447,757
Total Other Financing Sources (Uses)	12,831,866	14,139,659	1,307,793
NET CHANGE IN FUND BALANCE	\$ (316,664)	\$ 6,249,652	\$ 6,566,316
RECONCILIATION OF BUDGETARY BASIS TO GAAP			
Increase in Fund Balance - Budgetary Basis		\$ 6,249,652	
Differences between Budgetary and GAAP Basis:			
Property taxes	\$ (436,991)		
State revenues	46,745		
Other revenues	1,463,560		
Interest	12,759		
Expenditures	269,072		
Proceeds from long-term debt	686,380		
Other transfers	(3,145,815)		
		(1,104,290)	
Increase in Fund Balance - GAAP Basis		\$ 5,145,362	

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2010**

	Federal CFDA Number	Expenditures
U.S. DEPARTMENT OF EDUCATION		
Fund for the Improvement of Education	84.215X	\$ 401,355
Fund for the Improvement of Education	84.215C	365,962
Arts in Education	84.351B	300
Early Reading First	84.359	780,663
Literacy through School Libraries	84.364	303,101
 Passed through Arkansas Department of Education		
Title I, Grants to Local Educational Agencies:		
Part A	84.010	9,267,584
School Improvement Program	84.010	274,491
Special Education - Grants to States	84.027	5,186,703
Safe and Drug-Free Schools and Communities - State Grants	84.186A	115,449
Education for Homeless Children and Youth	84.196	14,503
Twenty-first Century Community Learning Centers	84.287A	278,453
Education Technology State Grants	84.318X	2,147
Comprehensive School Reform Demonstration	84.332A	35,494
Reading First State Grants	84.357	1,305,747
English Language Acquisition Grants	84.365	141,963
Mathematics and Science Partnerships	84.366	7,599
Improving Teacher Quality State Grants	84.367	1,048,955
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	101,893
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	2,321,663
ARRA - Special Education Grants to States, Recovery Act	84.391	721,336
ARRA - State Fiscal Stabilization Fund - Education State Grants, Recovery Act	84.394	3,465,125
 Passed through Arkansas Department of Workforce Education		
Adult Education - Basic Grants to States	84.002	289,994
Career and Technical Education - Basic Grants to States	84.048	519,650
Minority Science and Engineering Improvement	84.120	16,978
 Passed through Junior Achievement of Arkansas		
Twenty-First Century Community Learning Centers	84.287	203,818
 Total U.S. Department of Education		27,170,926

(Continued)

The Little Rock School District of Pulaski County, Arkansas

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS *(Continued)* Year Ended June 30, 2010

	Federal CFDA Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE		
Passed through Arkansas Department of Education		
School Breakfast Program (1,072,374 units served)	10.553	\$ 1,746,908
National School Lunch Program (2,683,734 units served)	10.555	6,168,381
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	7,580
 Passed through Arkansas Department of Human Services		
National School Lunch Program – Commodities	10.555	553,255
Fresh Fruits and Vegetables - Commodities	10.582	24,090
Child and Adult Care Food Program (72,975 units served)	10.558	146,241
Summer Food Service Program	10.559	147,718
Total U.S. Department of Agriculture		8,794,173
 U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Passed through Arkansas Department of Human Services		
Temporary Assistance for Needy Families	93.558	27,000
Child Care and Development Block Grant	93.575	72,759
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	15,305
Social Services Block Grant	93.667	24,583
Foster Care-Title IV-E	93.658	1,383
ARRA - Foster Care-Title IV-E	93.658	117
ARRA - Child Care and Development Block Grant	93.713	50,886
		192,033
 U.S. DEPARTMENT OF JUSTICE		
Passed through Pulaski County, Arkansas		
Juvenile Accountability Block Grants	16.523	44,506
 CORPORATION FOR NATIONAL AND COMMUNITY SERVICE		
Learn and Serve America School and Community Based Programs	94.004	19,908
Total Expenditures of Federal Awards		\$ 36,221,546

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

Note 2: Medicaid reimbursements are defined as contracts for services and not federal awards; therefore, they are not covered by the reporting requirements of OMB Circular A-133. Total Medicaid funding for the year ended June 30, 2010 was \$839,657.

The Little Rock School District of Pulaski County, Arkansas

SCHEDULE OF STATE ASSISTANCE Year Ended June 30, 2010

ARKANSAS DEPARTMENT OF EDUCATION

State Foundation Funding	\$ 56,633,939
98% Uniform Rate of Tax Actual Collection Adjustment	3,775,705
Declining Enrollment	2,800,771
General Facilities Funding	45,571
School Recognition Program	75,415
Professional Development Funding	940,052
Residential Centers/Juvenile Detention	3,234,174
Special Education Services	151,211
Youth Shelters	10,272
Special Education - Catastrophic Occurrences	390,015
Advanced Placement Initiative	2,000
International Baccalaureate Program	13,489
Alternative Learning	2,733,871
English Language Learners	511,578
National School Lunch Student Funding	7,911,696
Better Chance Grants	5,321,700
Assessment/End of Level Testing	47,200
At Risk	220,953
National Board of Professional Teaching Standards	22,623
Distance Learning	104,971
Teacher Licensure/Mentoring	234,286
Smart Start/Smart Step	8,784
Court Ordered Desegregation:	
Majority to Minority Incentives	4,905,188
Transportation Aid	4,054,730
Teacher Retirement and Health Insurance	13,076,844
Magnet Schools	15,796,938
School Food Services	76,366

ARKANSAS DEPARTMENT OF WORKFORCE EDUCATION

Adult Based Education - Base	437,415
General Adult Education - Base	479,286
General Adult Education - Special	67,350
Secondary Workforce Centers	1,373,797
Coordinated Comp Workforce Education - Special Needs	2,349
Workforce New Program Start-Up	30,917

ARKANSAS DEPARTMENT OF HUMAN SERVICES

ARRA - Foster Care-Title IV-E - State Match	390
Social Services Block Grant - State Match	6,812

ARKANSAS DEPARTMENT OF HEALTH

10,000

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

46,747

ARKANSAS STATE FUNDING

Youth Diversity Councils	15,920
Arkansas Better Chance - Center Based	93,041
Technology Grants	3,574
Other	12,268

Total State Assistance	\$ 125,680,208
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

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

We have audited the financial statements of The Little Rock School District of Pulaski County, Arkansas (the District) as of and for the year ended June 30, 2010, and have issued our report thereon dated January 13, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal control over financial reporting

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

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

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

Compliance and other matters

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

To the Board of Education

Page Two

This report is intended for the information and use of the Legislative Joint Auditing Committee, state executive and oversight management, district management, the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties. However, this report is a matter of public record and its distribution is not limited.

Hudson, Cisne & Co. LLP

Hudson, Cisne & Co. LLP
Little Rock, Arkansas
January 13, 2011



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

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

Compliance

We have audited the compliance of The Little Rock School District of Pulaski County, Arkansas (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. The District's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed an instance of non-compliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2010-1.

Internal control over compliance

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

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

Our consideration of internal control over compliance was the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Questioned Costs as item 2010-1. A significant deficiency in internal control over compliance is a deficiency, or 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.

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Legislative Joint Auditing Committee, state executive and oversight management, district management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties. However, this report is a matter of public record and its distribution is not limited.

Hudson, Cisne & Co. LLP

Hudson, Cisne & Co. LLP
Little Rock, Arkansas
January 13, 2011



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

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

We have examined management's assertions that The Little Rock School District of Pulaski County, Arkansas substantially complied with the requirements of Arkansas Code Annotated 6-1-101 and the applicable laws and regulations including those listed in the accompanying schedule of statutes required to be addressed by the Arkansas Department of Education during the year ended June 30, 2010. 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, 2010.

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
January 13, 2011

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, 2010

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

The Little Rock School District of Pulaski County, Arkansas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS Year Ended June 30, 2010

Section I - Summary of Auditors' Results

Financial Statements

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

Federal Awards

- **Type of Report Issued**
The auditors' report on compliance with requirements applicable to each major program expresses an unqualified opinion.
- **Internal Control over Major Programs**
One significant deficiency was identified during the audit of the major federal award programs.
- **Audit Findings Under Section 510(a)**
There was one audit finding required to be reported in accordance with Section 510(a) of OMB Circular A-133 relative to the major federal awards programs.
- **Major Programs**
 - U.S. Department of Education, Early Reading First, CFDA #84.359B
 - U.S. Department of Education, Title I - Grants to LEAs, CFDA #84.010
 - U.S. Department of Education, Title 1 - ARRA, CFDA #84.389
 - U.S. Department of Education, Title VIB - Grants to States, CFDA #84.027
 - U.S. Department of Education, Title VIB - ARRA, CFDA # 84.391
 - U.S. Department of Education, Vocational Education - Basic Grants to States, CFDA # 84.048
 - U.S. Department of Education, Education for Homeless Children and Youth - ARRA, CFDA # 84.387
 - U.S. Department of Education, State Fiscal Stabilization Funds - ARRA, CFDA # 84.394
- **Threshold between Type A and Type B Programs**
The threshold for distinguishing Types A and B programs was \$1,086,646.
- **Type of Auditee**
The Little Rock School District of Pulaski County, Arkansas was determined to be a high-risk auditee.

The Little Rock School District of Pulaski County, Arkansas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (*Continued*) Year Ended June 30, 2010

Section II – Financial Statement Findings

No findings noted to communicate

Section III – Federal Awards Findings and Questioned Costs

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

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

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

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

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

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

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

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

Views of responsible officials: Grant managers have been informed of the requirement to conduct semiannual certifications and have been provided a new form to assist in this process.

Prior Year Financial Statement Findings

Material Weaknesses

- **2009-1 Segregation of Duties – Cash and Investments**

Condition: At times during the year ended June 30, 2009, one person was primarily responsible for reconciling the bank statements, initiating and approving investment transactions, maintaining the investment subsidiary ledger, recording investment transactions in the District's general ledger, and reconciling the investment subsidiary ledger to the general ledger. In addition, bank reconciliations and investment reconciliations were not reviewed by anyone.

The Little Rock School District of Pulaski County, Arkansas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS *(Continued)* Year Ended June 30, 2010

Prior Year Financial Statement Findings *(Continued)*

Material Weaknesses *(Continued)*

- **2009-1 Segregation of Duties – Cash and Investments *(Continued)***

Recommendation: The auditor recommended that management review key control activities related to cash and investments and reassign duties to ensure that no one person has sole responsibility for all aspects of any transaction. Bank account and investment reconciliations should be reviewed by someone independent of the individuals who maintain subsidiary ledgers and record these transactions, but with sufficient knowledge to identify any unusual transactions or errors. Additionally, management should ensure that cross training occurs on all key control activities.

Current Status: The District's Chief Financial Officer (CFO) approves the investment assignments and reviews the cash & investment reconciliations on a monthly basis provided by the Director of Finance and Accounting. The CFO has access to Bank of America Direct to pull financial transactions directly. Management is still exploring other duty separation options and/or compensating controls at this time.

- **2009-2 Misappropriation of District Funds**

Condition: During the year ended June 30, 2009, management discovered that a District employee misappropriated activity fund cash and District operating funds by circumventing established control procedures over the use of District credit cards (referred to as "Pro-Cards") and the receipt and use of activity fund cash. Although District Policy and the *Pro-Card Handbook* require the performance of review and approval procedures designed to deter and detect such instances of improper use of the Pro-Cards, these procedures were not implemented as designed. In addition, control activities prescribed in the District's *Activity Fund Handbook* were not followed, and adequate monitoring of these activities was not performed.

Recommendation: The auditor recommended that financial services management and/or the District's internal auditor provide additional training for principals, assistant principals and program directors involved in monitoring Pro-Card purchases and activity fund balances and transactions. The auditor also recommended that financial services personnel responsible for ensuring that appropriate documentation exists to support Pro-Card charges also attend annual training. The District should emphasize its existing policies regarding the cash transactions in the form of communication with students and parents. In addition the District should consider implementing software at each school to improve controls over the receipting and reconciliation of activity fund cash. Management of the District, with the help of the District's Internal Auditor, has launched an investigation to review controls over Pro-Card purchases and activity fund cash in order to identify areas where such controls can be improved.

Current Status: Additional training for site managers and bookkeepers has been conducted to reinforce our current Pro-Card and Activity Fund policies and procedures. The District is currently in the process of hiring new staff members that will be overseeing these processes and updating each policy/procedure manual. The District is also in the process of issuing a RFP for a new school based accounting software to improve reporting and oversight of these areas.

The Little Rock School District of Pulaski County, Arkansas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS *(Continued)* Year Ended June 30, 2010

Significant Deficiencies

- **2009-3 Cash Management – Food Services**

Condition: At times during the year ended June 30, 2009, effective controls over cash receipts for meal purchases and prepaid meal cards had not been properly designed or implemented.

Recommendation: The auditor recommended that management implement a process to count the balance in each cafeteria register under dual control and reconcile each register cash balance to point of sale reports summarizing cash transactions. The reconciliation should contain the signatures of those counting the cash and performing the reconciliation, and it should be reviewed by someone independent of the cash receipting and reconciliation process. The reviewer should be alert to unusual reconciling items or unusual patterns in out of balance amounts. The reconciliation should also contain the signature of the reviewer.

- **2009-3 Cash Management – Food Services *(Continued)***

Current Status: A dual count for the point of sale registers has been implemented. The District recently issued an RFP for new point of sale software that allows for greater accountability and transparency.

- **2009-4 Segregation of Duties - Payroll**

Condition: At times during the year ended June 30, 2009, there was a lack of segregation of duties related to payroll. Two individuals have access to and maintain the payroll master file, may make pay rate changes to the master file, and process payroll.

Recommendation: While it was understood that the Director of Finance and Accounting performs a detailed review of each payroll run, the auditor recommended that a payroll edit report should be printed on a monthly basis detailing any additions or changes made to the payroll master file to supplement this review. This report should be forwarded directly by the Information Services Department to a member of management who does not have access to the payroll master file, but who does have sufficient knowledge to identify any unusual additions or changes. Additions and changes should be compared to supporting documents. To mitigate the risk that fictitious employees may be created in the payroll system and the risk that terminated employees may continue to be paid, we recommend that the internal auditor or someone in the financial services department periodically perform surprise pay-outs at the individual schools or departments and distribute pay stubs or checks to each employee in order to verify the existence of individuals on the District's payroll. If an employee is sick or on vacation during the pay-out, that check should be held for the employee in a safe. When the employee returns, the check should be given directly to the employee by the individual doing the surprise pay-out procedure.

Current Status: The two payroll personnel identified above do not have access to create a new employee in the District's computer system. They have been given "lookup" rights only. The Chief Financial Officer is currently working with the District's information technology and human resources departments to run edit reports and make any necessary changes.

Compliance and Other Matters

None

The Little Rock School District of Pulaski County, Arkansas

SUPPLEMENTAL DATA SHEET Year Ended June 30, 2010

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. Linda Watson, Superintendent
6. Name of Contact Person: Mr. Kelsey Bailey, Chief Financial Officer