



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

**ANNUAL FINANCIAL REPORT**

**June 30, 2009**

**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, 2009, 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, 2009, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2010 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  
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The Management's Discussion and Analysis on pages 4 through 12, and budgetary comparison information on page 39, 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*, and is also not a required part of the basic financial statements of the District. The information in this schedule 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*

February 13, 2010  
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, 2009

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, 2009. 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, 2009, are as follows:

#### On the District-wide Financial Statements

- Total net assets increased from \$51.2 million at June 30, 2008, to \$53.5 at June 30, 2009, an increase of approximately \$2.3 million or 4.5%.
- In total, revenues increased from \$300.4 million in 2008 to \$307.6 million in 2009, an increase of approximately \$7.2 million, or 2.4%. Much of this change is attributable to increases in property taxes and additional 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 \$126.7 million in 2008 to \$135.3 million in 2009, an increase of 6.8%.
- General revenues totaling \$205.3 million for the year ended June 30, 2009, and \$200.4 million for the year ended June 30, 2008, represented approximately 66.7% of total revenues for each of the years ended June 30, 2009 and 2008. Program specific revenues, which include grants from federal and state agencies, comprise the remaining 33.3% of total revenues for each of the years ended June 30, 2009 and 2008.
- Total expenses remained relatively stable and experienced a slight decrease from \$305.9 million in 2008 to \$305.3 million in 2009, a decrease of approximately \$600 thousand, less than 1%. Much of this decrease is attributable to the District's cost cutting efforts put in place during the year as a response to anticipated funding cuts and overall economic conditions.

#### On the Fund Financial Statements

- The ending fund balance in the General Fund increased from \$11.1 million at June 30, 2008, to \$15.3 million at June 30, 2009. This represents an increase of approximately \$4.2 million or 37.8%. This increase is largely attributable to increases in property tax revenues and additional state funding for specific programs. Total governmental fund balances increased from \$28.6 million at June 30, 2008, to \$31.8 million at June 30, 2009, an increase of approximately \$3.2 million, or 11.2%. This increase is primarily attributable to the fund balance increases in the General Fund and Debt Service of \$4.2 million and \$700 thousand, respectively which are offset by the decrease in the Capital Projects fund of \$1.8 million.

# The Little Rock School District of Pulaski County, Arkansas

## MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended June 30, 2009

### Financial Highlights (*Continued*)

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

- General Fund revenues totaled \$216.3 million for the year ended June 30, 2009, an increase of approximately \$6.2 million over total 2008 revenues totaling of \$210.1 million. Total resources available to all governmental funds of the District during the year ended June 30, 2009, were \$304.6 million as compared to \$298.5 million for the year ended June 30, 2008.
- General Fund expenditures have decreased from \$224 million for the year ended June 30, 2008, to \$222.4 million for the year ended June 30, 2009, while total expenditures of the District decreased from \$320.9 million to \$315.2 million. This decrease of approximately \$5.7 million is primarily attributable to the District's cost cutting efforts put in place 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, 2009, 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, 2009

### 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, 2009 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, 2009 and 2008:

	<b>2009</b>	<b>2008</b>
Cash and certificates of deposit	\$ 69,420,202	\$ 58,339,770
Receivables	119,561,621	115,785,512
Capital assets, net	193,772,580	187,547,724
Restricted assets	4,218,102	3,513,197
Inventories and other assets	1,098,338	940,934
Total assets	<b>388,070,843</b>	366,127,137
Current liabilities	148,828,472	138,543,707
Long-term liabilities	185,726,148	176,339,208
Total liabilities	<b>334,554,620</b>	314,882,915
Net assets:		
Invested in capital assets, net of related debt	8,347,043	13,987,054
Restricted	16,461,315	14,177,847
Unrestricted	28,707,865	23,079,321
Total net assets	<b>\$ 53,516,223</b>	\$ 51,244,222

Cash and certificates of deposit increased \$11.1 million from 2008 balances, primarily as a result of unspent bond proceeds and overall increases in net assets. Receivables increased \$3.8 million, most of which is attributable to increases in uncollected property tax assessments.

Capital assets, net of accumulated depreciation, increased \$6.2 million over 2008 balances. This increase represents the net effect of capital asset additions of \$21.4 million, current year depreciation expense of \$14.6 million, and disposals of assets with a net book value of approximately \$524 thousand. In addition, during the year ended June 30, 2009, the District completed and placed into service projects that were included in construction in progress in the June 30, 2008 financial statements totaling approximately \$8.9 million.

# The Little Rock School District of Pulaski County, Arkansas

## MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended June 30, 2009

### District-wide Financial Analysis (Continued)

#### Statement of Net Assets (Continued)

The \$9.4 million increase in the District's long-term liabilities is attributable primarily to the net effect of principal payments on the District's long-term debt, and the issuance of refunding bonds.

At June 30, 2009 and 2008, respectively, restricted net assets are comprised primarily of \$10.9 million and \$13.9 million to be spent for capital projects.

#### Statement of Activities

Net assets at June 30, 2009, reflect an increase of \$2.3 million from the June 30, 2008 balance. Key elements of this increase consist of the following:

	<b>2009</b>	<b>2008</b>
<b>Revenues</b>		
Program revenues:		
Charges for services	\$ 3,734,459	\$ 3,746,305
Grants and contributions	98,556,951	96,167,556
General revenues:		
Property taxes	135,294,427	126,658,773
Unrestricted state aid	68,001,061	69,843,089
Interest and other	1,983,420	3,937,786
Total revenues	307,570,318	300,353,509
<b>Expenses</b>		
Instructional services	176,394,845	172,220,247
Instructional support services	35,539,159	37,403,695
Pupil transportation services	15,485,397	16,383,930
Operation and maintenance of plant	29,159,781	29,005,079
School administration	16,062,328	15,910,615
General administration	12,228,671	15,067,979
Food services	11,245,655	10,990,305
Community services	59,168	70,665
Interest on long-term debt	9,123,313	8,815,772
Total expenses	305,298,317	305,868,287
Change in net assets	2,272,001	(5,514,778)
Net assets, beginning of year	51,244,222	56,759,000
Net assets, end of year	\$ 53,516,223	\$ 51,244,222

# The Little Rock School District of Pulaski County, Arkansas

## MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended June 30, 2009

### 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, 2009, approximately \$3.7 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 32%, or \$98.6 million, was covered by various federal and state resources. General revenues totaling \$205.3 million were available to offset the net cost of the District's programs of \$203 million for the year ended June 30, 2009. Total revenues from all sources were sufficient to cover total expenses, resulting in an overall increase in net assets of \$2.3 million. In comparison, during the year ended June 30, 2008, approximately \$3.7 million of the cost of the District's activities was covered by charges for services, while approximately 32%, or \$96.2 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, 2008, which were partially covered by general revenues, totaled approximately \$206 million. During 2008, the District's total expenses exceeded total revenues by \$5.5 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, 2009 and 2008. 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.

	2009		2008	
	Total Cost of Programs	Net Cost of Programs	Total Cost of Programs	Net Cost of Programs
Instructional services	\$ 176,394,845	\$ 109,251,558	\$ 172,220,247	\$ 107,387,738
Instructional support services	35,539,159	25,285,490	37,403,695	26,945,483
Pupil transportation services	15,485,397	10,386,149	16,383,930	11,728,326
Operation and maintenance	29,159,781	25,786,295	29,005,079	25,699,042
School administration	16,062,328	14,265,293	15,910,615	13,693,971
General administration	12,228,671	8,818,805	15,067,979	11,171,778
Food services	11,245,655	65,667	10,990,305	493,754
Community services	59,168	24,337	70,665	18,562
Interest on long-term debt	9,123,313	9,123,313	8,815,772	8,815,772
	<u>\$ 305,298,317</u>	<u>\$ 203,006,907</u>	<u>\$ 305,868,287</u>	<u>\$ 205,954,426</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, 2009, with a combined fund balance for the District's governmental funds of \$31.8 million, compared to a combined fund balance of \$28.6 million as of June 30, 2008.

# The Little Rock School District of Pulaski County, Arkansas

## MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended June 30, 2009

### Funds Financial Analysis (*Continued*)

The fund balance of the General Fund at June 30, 2009, includes a reserve for prepaid expenses and inventories totaling approximately \$421 thousand and approximately \$924 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 \$132.2 million for the fiscal year ending June 30, 2009, and \$126.9 million for the fiscal year ending June 30, 2008. 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, 2009, include \$5.1 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 \$2.5 million. Significant local revenues in 2008 were comparable to 2009.

For the years ended June 30, 2009 and 2008, resources provided by the State totaled approximately \$129.2 million and \$126.6 million, respectively. This overall net increase in state revenues of \$2.6 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 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Foundation aid and enhanced educational funding	\$ 66,326,874	\$ 67,564,646
98% Uniform rate of actual tax collections adjustment	1,507,734	1,706,040
Student growth funding	-	572,403
Teacher retirement and health insurance reimbursements	12,546,223	8,688,838
Professional development	979,485	973,944
Special education	6,626,910	6,600,174
Workforce education	1,634,161	1,709,903
Student special needs funding	8,139,360	7,845,232
State transportation aid	4,772,067	4,362,899
Majority to Minority transfers	4,236,160	4,460,451
Arkansas Better Chance program funding	5,456,309	4,883,119
State contribution for Magnet Schools	14,918,328	15,060,590
Other	2,058,731	2,185,083
	<u>\$ 129,202,342</u>	<u>\$ 126,613,322</u>

The U.S. Department of Education provides the largest amount of federal funding to the District, totaling \$21 million and \$20.8 million for the years ended June 30, 2009 and 2008, respectively, and representing approximately 71.7% and 72.7%, respectively, of total federal awards expended by the District. Other significant sources of federal funding include the U.S. Department of Agriculture, which provided \$8.2 million and \$7.5 million during the years ended June 30, 2009 and 2008, respectively, under the School Breakfast Program, the National School Lunch Program, the Summer Food Service Program, the Fresh Fruits and Vegetables 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, 2009

### Funds Financial Analysis (*Continued*)

Total governmental funds expenditures are summarized below:

	2009		2008	
General	\$ 222,421,010	70.6%	\$ 223,977,319	69.8%
Debt service	13,008,766	4.1%	12,034,899	3.8%
Capital projects	15,563,878	4.9%	20,412,058	6.4%
Magnet schools	30,325,056	9.6%	30,636,180	9.5%
Special programs	21,848,297	6.9%	22,107,847	6.9%
Food service	10,972,153	3.5%	10,764,652	3.3%
Other governmental	1,095,955	0.4%	973,017	0.3%
	\$ 315,235,115	100.0%	\$ 320,905,972	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 23, 2008. No revisions were made to the budget during the 2008-2009 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 39.

For the 2008-2009 fiscal year the General Fund's actual revenues (budgetary basis) exceeded budgeted revenues by \$4.6 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 \$206 thousand.

### Capital Assets and Debt Administration

#### Capital Assets

During 2009 and 2008, 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.

# The Little Rock School District of Pulaski County, Arkansas

## MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended June 30, 2009

### Capital Assets and Debt Administration *(Continued)*

#### Capital Assets *(Continued)*

At June 30, 2009, the District had \$193.8 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 \$21.4 million; prior year construction in progress projects that were completed and placed into service totaled \$8.9 million; \$524 thousand of net capital assets were retired or disposed; and depreciation expense totaled approximately \$14.6 million.

Capital assets, net of accumulated depreciation and amortization, at June 30, 2009 and 2008 are comprised of the following:

	2009	2008
<b>Capital assets</b>		
Buildings and improvements	\$ 231,441,376	\$ 220,793,071
Furniture, equipment and other	53,241,497	55,988,381
Land	12,003,133	11,493,945
Construction in progress	19,774,936	15,714,239
Total capital assets	316,460,942	303,989,636
 <b>Less accumulated depreciation and amortization</b>	 (122,688,362)	 (116,441,912)
 <b>Capital assets, net</b>	 \$ 193,772,580	 \$ 187,547,724

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 \$179.4 million and \$169.9 million and at June 30, 2009 and 2008, 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, 2009, is an increase of \$59 million over the June 30, 2008 debt limitation.

The District also has obligations outstanding for desegregation loans, Qualified Zone Academy Bonds, capital leases and compensated absences totaling approximately \$14.5 million at June 30, 2009 (as compared to \$13.9 million at June 30, 2008).

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**

2009-2010 budgeted revenues total \$327.3 million (budgetary basis of accounting), including an increase of \$64 per student in State Foundation and Enhanced Educational funding. Total budgeted expenses are \$327.3 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, 2009**

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

The 2009-2010 budget fully funds the negotiated agreement with the teachers' union and provides a total average compensation increase of 3.0% 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](mailto:Kelsey.Bailey@lrsd.org).

## **BASIC FINANCIAL STATEMENTS**

# The Little Rock School District of Pulaski County, Arkansas

## STATEMENT OF NET ASSETS June 30, 2009

<b>ASSETS</b>	
Cash	\$ 48,725,502
Certificates of deposit	20,694,700
Receivables:	
Property tax, net	110,673,750
Intergovernmental	7,424,717
Other	1,463,154
Inventories and other assets	1,098,338
Restricted cash and investments	4,218,102
Capital assets, net	<u>193,772,580</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 388,070,843</u></u>
 <b>LIABILITIES AND NET ASSETS</b>	
<b>Liabilities</b>	
Accounts payable and accrued liabilities	\$ 18,452,951
Payroll taxes and withholdings	11,233,297
Accrued interest expense	3,710,255
Deferred revenues	107,398,620
Due to fiduciary funds	1,597,061
Advance bond proceeds	427,800
Long-term obligations, net:	
Due within one year	6,008,488
Due in more than one year	<u>185,726,148</u>
<b>Total liabilities</b>	<u><u>334,554,620</u></u>
 <b>Net Assets</b>	
Invested in capital assets, net of related debt	8,347,043
Restricted:	
Capital projects	10,924,216
Debt service	5,133,595
Other activities	403,504
Unrestricted	<u>28,707,865</u>
<b>Total net assets (Page 17)</b>	<u><u>53,516,223</u></u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 388,070,843</u></u>

The accompanying notes are an integral part of this financial statement.

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

**STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2009**

	<b>Expenses</b>	<b>Less Program Revenues</b>		<b>Changes in Net Assets</b>
		<b>Charges for Services</b>	<b>Grants and Contributions</b>	
<b>GOVERNMENTAL FUNCTIONS</b>				
Instructional services	\$ 176,394,845	\$ 1,240,091	\$ 65,903,196	\$ (109,251,558)
Instructional support services	35,539,159	-	10,253,669	(25,285,490)
Pupil transportation services	15,485,397	-	5,099,248	(10,386,149)
Operation and maintenance of plant	29,159,781	-	3,373,486	(25,786,295)
School administration	16,062,328	-	1,797,035	(14,265,293)
General administration	12,228,671	-	3,409,866	(8,818,805)
Food services	11,245,655	2,494,368	8,685,620	(65,667)
Community services	59,168	-	34,831	(24,337)
Interest on long-term debt	9,123,313	-	-	(9,123,313)
	<b>305,298,317</b>	<b>3,734,459</b>	<b>\$ 98,556,951</b>	<b>(203,006,907)</b>
<b>GENERAL REVENUES</b>				
Property taxes, levied for general purposes				\$ 99,999,851
Property taxes, levied for debt service				35,294,576
Unrestricted state aid				68,001,061
Interest				1,215,793
Other general				767,627
<b>Total general revenues</b>				<b>205,278,908</b>
<b>CHANGE IN NET ASSETS (Page 19)</b>				2,272,001
<b>NET ASSETS, BEGINNING OF YEAR</b>				51,244,222
<b>NET ASSETS, END OF YEAR</b>				<b>\$ 53,516,223</b>

The accompanying notes are an integral part of this financial statement.

# The Little Rock School District of Pulaski County, Arkansas

## BALANCE SHEET – GOVERNMENTAL FUNDS June 30, 2009

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Magnet Schools</u>	<u>Special Programs</u>	<u>Food Service</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>								
Cash	\$ 48,725,502	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 48,725,502
Certificates of deposit	10,340,528	-	10,354,172	-	-	-	-	20,694,700
Receivables:								
Property tax, net	81,097,144	29,576,606	-	-	-	-	-	110,673,750
Intergovernmental	3,549,181	-	-	2,279,458	1,341,983	194,412	59,683	7,424,717
Other	1,081,594	-	21,304	-	-	-	360,256	1,463,154
Inventories and other assets	420,798	-	-	-	-	121,246	-	542,044
Restricted cash and investments	-	4,218,102	-	-	-	-	-	4,218,102
Due from other funds	291,507	14,298,844	7,646,104	19,584	2,001,350	57,569	635,797	24,950,755
<b>TOTAL ASSETS</b>	<u>\$ 145,506,254</u>	<u>\$ 48,093,552</u>	<u>\$ 18,021,580</u>	<u>\$ 2,299,042</u>	<u>\$ 3,343,333</u>	<u>\$ 373,227</u>	<u>\$ 1,055,736</u>	<u>\$ 218,692,724</u>
<b>LIABILITIES AND FUND BALANCES</b>								
<b>Liabilities</b>								
Accounts payable and accrued liabilities	\$ 14,626,213	\$ -	\$ 3,415,933	\$ 6,191	\$ 658,103	\$ 29,539	\$ 39,472	\$ 18,775,451
Payroll taxes and withholdings	11,233,297	-	-	-	-	-	-	11,233,297
Deferred revenues	80,424,405	43,875,450	-	2,279,458	2,610,900	70,351	632,878	129,893,442
Advance bond proceeds	-	-	427,800	-	-	-	-	427,800
Due to other funds	22,326,699	-	-	2,309,565	-	302,876	11,615	24,950,755
Due to fiduciary funds	1,597,061	-	-	-	-	-	-	1,597,061
<b>Total liabilities</b>	<u>130,207,675</u>	<u>43,875,450</u>	<u>3,843,733</u>	<u>4,595,214</u>	<u>3,269,003</u>	<u>402,766</u>	<u>683,965</u>	<u>186,877,806</u>
<b>Fund Balances</b>								
Reserved for:								
Inventories and other assets	420,798	-	-	-	-	121,246	-	542,044
Debt service	-	4,218,102	-	-	-	-	-	4,218,102
Capital projects	-	-	14,177,847	-	-	-	-	14,177,847
Unreserved, designated for:								
Desegregation scholarship program	923,747	-	-	-	-	-	-	923,747
Unreserved, undesignated	13,954,034	-	-	(2,296,172)	74,330	(150,785)	371,771	11,953,178
<b>Total fund balances (page 17)</b>	<u>15,298,579</u>	<u>4,218,102</u>	<u>14,177,847</u>	<u>(2,296,172)</u>	<u>74,330</u>	<u>(29,539)</u>	<u>371,771</u>	<u>31,814,918</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 145,506,254</u>	<u>\$ 48,093,552</u>	<u>\$ 18,021,580</u>	<u>\$ 2,299,042</u>	<u>\$ 3,343,333</u>	<u>\$ 373,227</u>	<u>\$ 1,055,736</u>	<u>\$ 218,692,724</u>

The accompanying notes are an integral part of this financial statement.

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

**BALANCE SHEET – GOVERNMENTAL FUNDS  
Reconciliation to the Statement of Net Assets  
June 30, 2009**

<b>TOTAL FUND BALANCES - GOVERNMENTAL FUNDS (Page 16)</b>		\$ 31,814,918
Capital assets used in governmental activities are not current financial resources and therefore are not reported as assets in the governmental funds.	\$ 193,772,580	
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.	22,494,822	
Long-term debt and certain obligations for compensated absences are not reported as liabilities in the governmental funds.	(191,412,136)	
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.	556,294	
Accrued interest expense is not reported as a liability in the governmental funds.	<u>(3,710,255)</u>	<u>21,701,305</u>
<b>TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES (Page 14)</b>		<u><u>\$ 53,516,223</u></u>

The accompanying notes are an integral part of this financial statement.

# 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, 2009

	General	Debt Service	Capital Projects	Magnet Schools	Special Programs	Food Service	Other Governmental	Total Governmental Funds
<b>REVENUES</b>								
Property taxes	\$ 98,555,172	\$ 33,686,253	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 132,241,425
Federal revenues	-	-	-	-	21,874,628	8,165,846	256,332	30,296,806
State revenues	113,563,584	-	-	14,918,328	4,434	75,588	640,408	129,202,342
Tuition, fees and other	3,464,839	-	229,993	5,119,586	151,787	2,494,368	219,310	11,679,883
Interest	692,962	167,215	353,290	-	-	1,238	1,088	1,215,793
<b>Total revenues</b>	<b>216,276,557</b>	<b>33,853,468</b>	<b>583,283</b>	<b>20,037,914</b>	<b>22,030,849</b>	<b>10,737,040</b>	<b>1,117,138</b>	<b>304,636,249</b>
<b>EXPENDITURES</b>								
Instructional services	129,362,961	-	-	20,791,727	13,207,576	-	512,956	163,875,220
Instructional support services	24,789,012	-	-	3,346,992	6,649,647	-	473,885	35,259,536
Pupil transportation services	14,895,992	-	-	8,560	132,812	-	6,212	15,043,576
Operation and maintenance of plant	27,146,641	-	356,773	2,207,917	42,142	-	-	29,753,473
School administration	13,623,840	-	-	2,438,270	-	-	-	16,062,110
General administration	8,381,147	-	-	1,489,959	1,446,743	-	2,899	11,320,748
Food services	-	-	-	-	-	10,970,864	-	10,970,864
Community services	-	-	-	-	35,220	-	-	35,220
Capital outlay	4,221,417	-	14,989,289	41,631	334,157	1,289	100,003	19,687,786
Debt service:								
Principal paid	-	4,293,537	-	-	-	-	-	4,293,537
Interest	-	8,708,768	-	-	-	-	-	8,708,768
Fiscal agent fees	-	6,461	217,816	-	-	-	-	224,277
<b>Total expenditures</b>	<b>222,421,010</b>	<b>13,008,766</b>	<b>15,563,878</b>	<b>30,325,056</b>	<b>21,848,297</b>	<b>10,972,153</b>	<b>1,095,955</b>	<b>315,235,115</b>
<b>Revenues over (under) expenditures</b>	<b>(6,144,453)</b>	<b>20,844,702</b>	<b>(14,980,595)</b>	<b>(10,287,142)</b>	<b>182,552</b>	<b>(235,113)</b>	<b>21,183</b>	<b>(10,598,866)</b>
<b>OTHER FINANCING SOURCES (USES)</b>								
<b>Operating Transfers In (Out)</b>								
Property taxes	21,054,249	(21,054,249)	-	-	-	-	-	-
Magnet schools funding	(10,155,735)	-	-	10,155,735	-	-	-	-
Interest reduction transfer	-	(22,196)	22,196	-	-	-	-	-
Lease payments	(382,145)	398,958	-	-	-	-	(16,813)	-
QZAB deposits	(537,690)	537,690	-	-	-	-	-	-
Other	(340,417)	-	-	(13,069)	-	223,638	129,848	-
<b>Original Issue Discount</b>	-	-	(80,584)	-	-	-	-	(80,584)
<b>Proceeds of Long-Term Debt:</b>								
Capital lease obligations	658,192	-	-	-	-	-	-	658,192
Construction bonds	-	-	13,195,000	-	-	-	-	13,195,000
<b>Total other financing sources (uses)</b>	<b>10,296,454</b>	<b>(20,139,797)</b>	<b>13,136,612</b>	<b>10,142,666</b>	<b>-</b>	<b>223,638</b>	<b>113,035</b>	<b>13,772,608</b>
<b>NET CHANGE IN FUND BALANCE (Page 19)</b>	<b>4,152,001</b>	<b>704,905</b>	<b>(1,843,983)</b>	<b>(144,476)</b>	<b>182,552</b>	<b>(11,475)</b>	<b>134,218</b>	<b>3,173,742</b>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<b>11,146,578</b>	<b>3,513,197</b>	<b>16,021,830</b>	<b>(2,151,696)</b>	<b>(108,222)</b>	<b>(18,064)</b>	<b>237,553</b>	<b>28,641,176</b>
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 15,298,579</b>	<b>\$ 4,218,102</b>	<b>\$ 14,177,847</b>	<b>\$ (2,296,172)</b>	<b>\$ 74,330</b>	<b>\$ (29,539)</b>	<b>\$ 371,771</b>	<b>\$ 31,814,918</b>

The accompanying notes are an integral part of this financial statement.

# The Little Rock School District of Pulaski County, Arkansas

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS Reconciliation to the Statement of Activities For the Year Ended June 30, 2009

<b>NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS (Page 18)</b>		\$ 3,173,742
Additions to capital assets are reported as expenditures in the Fund Financial Statements.	\$ 21,372,040	
The costs of capital assets are depreciated over their estimated useful lives for District-wide Financial Statement reporting purposes.	(14,623,354)	
The net book value of capital assets that are disposed during the year are not reflected in the Fund Financial Statements.	(523,830)	
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.	(348,000)	
Repayment of long-term debt is recorded as an expenditure in the Fund Financial Statements, but it reduces long-term liabilities in the Statement of Net Assets.	4,293,537	
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.	(13,772,608)	
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.	3,053,002	
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.	(273,438)	
Fiscal agent fees were recognized as expense in the Fund Financial Statements, but are recorded as an asset in the District-wide Financial Statements.	217,816	
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.	(136,251)	
Interest expenditures are recognized in the Fund Financial Statements when paid, but interest expense accrued when due in the District-wide Financial Statements.	<u>(160,655)</u>	
		<u>(901,741)</u>
<b>CHANGE IN NET ASSETS (Page 15)</b>		<u>\$ 2,272,001</u>

**The accompanying notes are an integral part of this financial statement.**

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

**STATEMENT OF NET ASSETS – FIDUCIARY FUNDS  
June 30, 2009**

<b>ASSETS</b>	
Certificates of deposit	\$ 400,000
Due from governmental funds	<u>1,597,061</u>
<b>TOTAL ASSETS</b>	<b><u><u>\$ 1,997,061</u></u></b>
<b>LIABILITIES</b>	
Due to student groups and other	<u>\$ 1,997,061</u>
<b>TOTAL LIABILITIES</b>	<b><u><u>\$ 1,997,061</u></u></b>

**The accompanying notes are an integral part of this financial statement.**

# The Little Rock School District of Pulaski County, Arkansas

## NOTES TO FINANCIAL STATEMENTS June 30, 2009

### *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, by a partnership between the District, the North Little Rock School District, the Pulaski County Special School District, the juvenile court system in Pulaski County, and Pulaski County, Arkansas, 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 through contributions to the District from each of the participating school districts, the State, and a federal grant. During the year ended June 30, 2008, Pulaski County, Arkansas terminated their association with the Academy due to budget constraints. During the year ended June 30, 2009, the Pulaski County Special School District also terminated their association with the Academy due to budget constraints. The balances and transactions related to the Academy are reported in the District's General Fund, except those directly related to the federal grant, which are reported in the District's Special Programs Fund. Summarized financial data for the Academy is provided in Note 11.

#### **(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 Little Rock School District of Pulaski County, Arkansas

## NOTES TO FINANCIAL STATEMENTS June 30, 2009

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

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

##### District-wide Financial Statements (Continued)

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

##### Fund Financial Statements

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

# The Little Rock School District of Pulaski County, Arkansas

## NOTES TO FINANCIAL STATEMENTS June 30, 2009

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

#### **(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.

##### 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, 2009, 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.

# The Little Rock School District of Pulaski County, Arkansas

## NOTES TO FINANCIAL STATEMENTS June 30, 2009

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

#### (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 \$3,754,989 as of June 30, 2009, is not covered by FDIC insurance, nor is it collateralized. The investment, the fair value of which was \$463,113 at June 30, 2009, 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.

#### (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.

# The Little Rock School District of Pulaski County, Arkansas

## NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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

#### **(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.

#### **(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.

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

## **NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

### ***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.

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, 2009, 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 \$103.4 million and \$121.3 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.

# The Little Rock School District of Pulaski County, Arkansas

## NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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

Property taxes receivable as of June 30, 2009, net of an allowance for uncollectible accounts, are as follows:

	<b>General Fund</b>	<b>Debt Service Fund</b>
Current	\$ 69,463,313	\$ 25,333,679
Delinquent	15,012,879	5,475,286
Allowance for uncollectible accounts	(3,379,048)	(1,232,359)
	\$ 81,097,144	\$ 29,576,606

Approximately \$21.1 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, 2009, 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, 2009, and activity during the year then ended, are summarized as follows:

	<b>June 30, 2008 Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>June 30, 2009 Balance</b>
<b>Capital assets</b>				
Buildings and improvements	\$ 220,793,071	\$ 11,659,691	\$ 1,011,386	\$ 231,441,376
Furniture, equipment and other	55,988,381	5,067,464	7,814,348	53,241,497
Land	11,493,945	584,188	75,000	12,003,133
Construction in progress	15,714,239	12,913,690	8,852,993	19,774,936
Total capital assets	303,989,636	30,225,033	17,753,727	316,460,942
<b>Less accumulated depreciation and amortization</b>				
Buildings and improvements	81,709,326	8,303,771	929,637	89,083,460
Furniture and equipment	34,732,586	6,319,583	7,447,267	33,604,902
Total accumulated depreciation and amortization	116,441,912	14,623,354	8,376,904	122,688,362
	\$ 187,547,724	\$ 15,601,679	\$ 9,376,823	\$ 193,772,580

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

# The Little Rock School District of Pulaski County, Arkansas

## NOTES TO FINANCIAL STATEMENTS June 30, 2009

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

Depreciation and amortization expense for the year ended June 30, 2009, was charged to governmental functions as follows:

Instructional services	\$ 13,196,442
Instructional support services	279,624
Pupil transportation services	442,621
Operation and maintenance of plant	154,379
General administration	499,367
Food services	26,973
Community services	23,948
	\$ 14,623,354

The District is party to various construction and related contracts, under which approximately \$17.4 million was unexpended at June 30, 2009.

**NOTE 4: INTERFUND BALANCES**

The composition of interfund balances at June 30, 2009, is as follows:

Receivable Fund	Payable Fund	Amount
General	Food Service	\$ 283,292
	Other Governmental	8,215
		291,507
Capital Projects	General	5,348,015
	Magnet	2,298,089
		7,646,104
Special Programs	General	1,997,950
	Other Governmental	3,400
		2,001,350
Food Service	General	57,569
		57,569
Other Governmental	General	624,321
	Magnet	11,476
		635,797
Magnet	Food Service	19,584
Debt Service	General	14,298,844
		\$ 24,950,755

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

# The Little Rock School District of Pulaski County, Arkansas

## NOTES TO FINANCIAL STATEMENTS June 30, 2009

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

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

#### **(a) School Bonds**

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

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

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

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

On December 1, 2006, the District issued \$45,505,000 in refunding bonds with interest rates ranging from 4% to 4.5% to advance refund the then outstanding balance (\$43,160,000) of its \$46,378,650 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.

# The Little Rock School District of Pulaski County, Arkansas

## NOTES TO FINANCIAL STATEMENTS June 30, 2009

### *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 \$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.

Subsequent to June 30, 2009, the District issued \$21,390,000 Construction Bonds, dated July 1, 2009. The District received \$427,800 from the underwriter in June 2009 as a “good faith” deposit. This is included as a liability in “Advance Bond Proceeds” on the accompanying Statements of Net Assets and Balance Sheet – Governmental Funds as the issuance of debt should be recorded in the period that the debt instruments are issued (the closing date).

#### **(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, 2009

**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 2.84% to 6.96%, are payable in annual installments through 2016.

Long-term liability balances and the related activity for the year ended June 30, 2009, are summarized as follows:

	<b>June 30, 2008 Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>June 30, 2009</b>	
				<b>Total Balance</b>	<b>Due Within One Year</b>
<b>Long-term Debt</b>					
School bonds:					
\$44,975,874 Refunding Bonds	\$ 36,925,000	\$ -	\$ 645,000	\$ 36,280,000	\$ 675,000
\$89,890,000 Construction Bonds	82,715,000	-	1,615,000	81,100,000	1,695,000
\$6,375,000 Refunding Bonds	4,805,000	-	325,000	4,480,000	335,000
\$45,505,000 Refunding Bonds	45,460,000	-	1,100,000	44,360,000	1,150,000
\$13,195,000 Construction Bonds	-	13,195,000	-	13,195,000	335,000
	<u>169,905,000</u>	<u>13,195,000</u>	<u>3,685,000</u>	<u>179,415,000</u>	<u>4,190,000</u>
Deferred bond costs	(2,091,982)	-	100,522	(1,991,460)	-
Original issue discount	(166,645)	(80,584)	9,497	(237,732)	-
	<u>167,646,373</u>	<u>13,114,416</u>	<u>3,574,981</u>	<u>177,185,808</u>	<u>4,190,000</u>
State of Arkansas loans:					
\$2,000,000 dated March 1998	1,600,000	-	100,000	1,500,000	100,000
\$3,000,000 dated September 1998	2,550,000	-	150,000	2,400,000	150,000
	<u>4,150,000</u>	<u>-</u>	<u>250,000</u>	<u>3,900,000</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	(892,409)	143,871	-	(748,538)	-
	<u>6,730,349</u>	<u>143,871</u>	<u>-</u>	<u>6,874,220</u>	<u>-</u>
Capital leases	<u>935,953</u>	<u>658,192</u>	<u>358,537</u>	<u>1,235,608</u>	<u>278,488</u>
<b>Total long-term debt</b>	179,462,675	13,916,479	4,183,518	189,195,636	4,718,488
<b>Other Long-term Liabilities</b>					
Compensated absences	<u>2,131,000</u>	<u>1,781,000</u>	<u>1,373,000</u>	<u>2,539,000</u>	<u>1,290,000</u>
	<u>\$ 181,593,675</u>	<u>\$ 15,697,479</u>	<u>\$ 5,556,518</u>	<u>\$ 191,734,636</u>	<u>\$ 6,008,488</u>

# The Little Rock School District of Pulaski County, Arkansas

## NOTES TO FINANCIAL STATEMENTS June 30, 2009

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

The approximate annual debt service requirements of all outstanding long-term debt at June 30, 2009, are as follows:

	In Thousands	
	Principal	Interest
2010	\$ 4,718	\$ 8,879
2011	8,213	9,393
2012	7,149	8,805
2013	5,208	8,238
2014	5,329	8,007
2015-2019	30,184	36,193
2020-2024	39,512	29,065
2025-2029	46,095	18,605
2030-2033	45,765	5,955
	192,173	133,140
Unamortized deferred bond costs	(1,991)	1,991
Unamortized original issue discount	(238)	238
Unamortized discounts on QZABs	(748)	748
	\$ 189,196	\$ 136,117

**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, 2009

### **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.

# The Little Rock School District of Pulaski County, Arkansas

## NOTES TO FINANCIAL STATEMENTS June 30, 2009

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

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

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

#### **(c) Magnet School Funding**

As a part of its desegregation programs, the Court approved a plan whereby the District participates in a "Magnet School" system with a Magnet Review Committee (MRC) having certain monitoring and oversight responsibilities with respect to such schools (the Magnets). Six schools from the District were organized as a separate reporting group under the direction of the MRC, with these schools being jointly funded by the State, the Pulaski County Special School District (PCSSD), the North Little Rock School District (NLRSD) and the District. During the year ended June 30, 2009, the funding level for the Magnets totaled \$8,212 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, 2009, were 2,474 for the District, 802 for PCSSD, and 417 for NLRSD. Based upon these average daily memberships, local revenues received by the District from PCSSD and NLRSD for the year ended June 30, 2009, totaled approximately \$5 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 \$15.2 million. Revenue presented in the fund financial statements includes approximately \$2.1 million in funding that was approved for the 2007-2008 fiscal year, but was not recognized as revenue during that year due to the timing of receipt. Approximately \$2.3 million of funding approved for the 2008-2009 fiscal year is deferred at June 30, 2009, 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.

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

## **NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

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

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

Employees covered by the systems have the option to contribute a portion of their salary. Those that choose to contribute to the ATRS plan must contribute 6% of their salary while those who choose to contribute to the APERS plan must contribute 5% of their salary. The District must contribute 14% of eligible payroll for employees covered by ATRS and 4% of eligible payroll for employees covered by APERS. Contributions by or on behalf of the District to the ATRS for the years ended June 30, 2009, 2008, and 2007 were approximately \$23,200,000, \$22,900,000 and \$21,400,000, respectively, and are equal to the required contributions for each year. Contributions by the District to the APERS for the years ended June 30, 2009, 2008, and 2007 were approximately \$76,000, \$91,000, and \$101,000, 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.

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, 2009, totaled approximately \$124,500, while the district recovered approximately \$293,900 for the year ended June 30, 2009, net of claims expense.

# The Little Rock School District of Pulaski County, Arkansas

## NOTES TO FINANCIAL STATEMENTS June 30, 2009

**NOTE 9: LITIGATION AND CONTINGENCIES**

At June 30, 2009, the District is a defendant in various legal actions. Several actions involve claims by former employees asserting discriminatory employment practices. The District intends to vigorously contest those cases that cannot be settled on terms acceptable to the District. Management and legal counsel are of the opinion that the likelihood of a financially material unfavorable outcome is small and, thus, no provision has been made in the financial statements for any potential liabilities.

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

**NOTE 10: FELDER ALTERNATIVE LEARNING ACADEMY**

As discussed in Note 1(a), the District's financial statements include the activities and balances related to the Felder Alternative Learning Academy (the Academy). The transactions and balances, as of and for the year ended June 30, 2009, attributable to the Academy are presented below.

<b>Balance Sheet</b>	
Assets	\$ 434,631
Fund Balance	<u>\$ 434,631</u>
 <b>Revenues and Transfers</b>	
North Little Rock School District	\$ 108,000
State revenues	1,039,022
Transfers from other District funds	270,000
	<u>1,417,022</u>
 <b>Expenditures</b>	
Basic programs	\$ 729,310
Exceptional child programs	68,885
Support services - pupils	49,230
Support services - instructional	1,217
School administration	235,417
General administrative	118,683
	<u>1,202,742</u>
<b>Increase in Fund Balance</b>	214,280
<b>Fund Balance, Beginning of Year</b>	<u>375,183</u>
<b>Fund Balance, End of Year</b>	<u>\$ 589,463</u>

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

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2009**

***NOTE 11: LITTLE ROCK PUBLIC EDUCATION FOUNDATION, INC.***

The Little Rock Public Education Foundation, Inc. (the Foundation) was established as a non-profit organization under the laws of the State on March 21, 2002, to conduct fundraising activities exclusively for the educational benefit of the District's students and staff. As management believes that the activities and balances of the Foundation are not material to the District's financial statements taken as a whole, such amounts are not reflected therein. During the year ended June 30, 2009, the District recognized approximately \$34,000 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, 2009**

	<b>General Fund - Budgetary Basis</b>		
	<b>Budgeted</b>	<b>Actual</b>	<b>Variance</b>
<b>REVENUES</b>			
Property taxes	\$ 95,942,940	\$ 98,276,162	\$ 2,333,222
State revenues	110,214,462	112,701,142	2,486,680
Tuition fees and other	1,210,000	2,327,391	1,117,391
Interest	1,975,000	662,746	(1,312,254)
<b>Total revenues</b>	<u>209,342,402</u>	<u>213,967,441</u>	<u>4,625,039</u>
<b>EXPENDITURES</b>			
Instructional services	123,301,708	127,774,130	(4,472,422)
Instructional support services	24,119,064	25,091,035	(971,971)
Pupil transportation services	16,133,134	15,068,543	1,064,591
Operation and maintenance of plant	29,470,072	30,421,847	(951,775)
School administration	13,220,315	13,633,477	(413,162)
General administration	16,693,949	11,006,485	5,687,464
Community services	25,000	-	25,000
Capital outlay	1,315,336	1,076,990	238,346
<b>Total expenditures</b>	<u>224,278,578</u>	<u>224,072,507</u>	<u>206,071</u>
<b>Excess of expenditures over revenues</b>	<u>(14,936,176)</u>	<u>(10,105,066)</u>	<u>4,831,110</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
<b>Operating Transfers In (Out)</b>			
Magnet schools funding	(9,820,777)	(10,155,735)	(334,958)
Transfer to food service fund	(300,000)	(251,138)	48,862
Transfer from capital projects fund	770,000	-	(770,000)
Indirect cost transfer	2,667,935	2,357,767	(310,168)
Property tax	20,936,560	21,054,249	117,689
<b>Total other financing sources (uses)</b>	<u>14,253,718</u>	<u>13,005,143</u>	<u>(1,248,575)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (682,458)</u>	<u>\$ 2,900,077</u>	<u>\$ 3,582,535</u>
<b>RECONCILIATION OF BUDGETARY BASIS TO GAAP</b>			
Increase in Fund Balance - Budgetary Basis		\$ 2,900,077	
Differences between Budgetary and GAAP Basis:			
Property taxes	\$ 279,010		
State revenues	862,442		
Other revenues	1,137,448		
Interest	30,216		
Expenditures	1,651,497		
Proceeds from long-term debt	658,192		
Other transfers	<u>(3,366,881)</u>		
		<u>1,251,924</u>	
Increase in Fund Balance - GAAP Basis		<u>\$ 4,152,001</u>	

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2009**

	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. DEPARTMENT OF EDUCATION</b>		
<b>Safe and Drug-Free Schools and Communities – National Programs</b>	84.184	\$ 95,658
<b>Fund for the Improvement of Education</b>	84.215	799,549
<b>Arts in Education</b>	84.351	195,728
<b>Early Reading First</b>	84.359	783,742
<b>Literacy through School Libraries</b>	84.364	50,166
 <b>Passed through Arkansas Department of Education</b>		
Title I, Grants to Local Educational Agencies:		
Part A	84.010	9,408,488
School Improvement Program	84.010	330,525
Special Education - Grants to States	84.027	4,771,076
Safe and Drug-Free Schools and Communities - State Grants	84.186	125,581
Education for Homeless Children and Youth	84.196	41,628
State Grants for Innovative Programs	84.298	2,074
Twenty-first Century Community Learning Centers	84.287	402,621
Education Technology State Grants	84.318	259
Comprehensive School Reform Demonstration	84.332	3,714
Reading First State Grants	84.357	1,728,256
English Language Acquisition Grants	84.365	54,246
Mathematics and Science Partnerships	84.366	98,386
Improving Teacher Quality State Grants	84.367	1,080,855
 <b>Passed through Arkansas Department of Workforce Education</b>		
Adult Education - Basic Grants to States	84.002	290,180
Career and Technical Education - Basic Grants to States	84.048	480,240
Minority Science and Engineering Improvement	84.120	12,046
 <b>Passed through Junior Achievement of Arkansas</b>		
Twenty-First Century Community Learning Centers	84.287	213,540
 <b>Total U.S. Department of Education</b>		<b>20,968,558</b>

*(Continued)*

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
Year Ended June 30, 2009**

	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>		
<b>Passed through Arkansas Department of Education</b>		
School Breakfast Program (1,117,385 units served)	10.553	\$ 1,702,504
National School Lunch Program ( 2,704,614 units served)	10.555	5,805,011
Fresh Fruits and Vegetables Program	10.582	66,500
 <b>Passed through Arkansas Department of Human Services</b>		
National School Lunch Program – Commodities	10.555	591,831
Child and Adult Care Food Program	10.558	53,563
<b>Total U.S. Department of Agriculture</b>		<b>8,219,409</b>
 <b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>		
<b>Passed through Arkansas Department of Human Services</b>		
Promoting Safe and Stable Families	93.556	51
Child Care and Development Block Grant	93.575	23,205
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	8,409
Social Services Block Grant	93.667	30,943
Foster Care-Title IV-E	93.658	4,156
 <b>Passed through Arkansas Department of Education</b>		
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	2,000
<b>Total U.S. Department of Health and Human Services</b>		<b>68,764</b>
 <b>U.S. DEPARTMENT OF JUSTICE</b>		
<b>Passed through Pulaski County, Arkansas</b>		
Juvenile Accountability Block Grants	16.523	42,792
<b>Total Expenditures of Federal Awards</b>		<b>\$ 29,299,523</b>

Note: Medicaid reimbursements are defined as contracts for services and not federal awards; therefore such reimbursements, which totaled \$997,283 for the year ended June 30, 2009, are not covered by the reporting requirements of OMB Circular A-133.



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

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, 2009, and have issued our report thereon dated February 13, 2010. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, records, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider deficiencies 2009-1, 2009-2, 2009-3 and 2009-4 described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material misstatement of the financial statements will not be prevented or detected by the District's internal control.

To the Board of Education  
Page Two

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2009-1 and 2009-2 to be material weaknesses.

**Compliance and Other Matters**

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

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

This report is intended solely for the information and use of the Legislative Joint Auditing Committee, state executive and oversight management, district management, federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified 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, AR  
February 13, 2010



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO 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, 2009. 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, 2009.

**Internal Control over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grant agreements 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 in order to determine our auditing

To the Board of Education  
Page Two

procedures for the purpose of expressing our opinion on compliance, 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 control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course or performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

This report is intended solely for the information and use of the Legislative Joint Auditing Committee, state executive and oversight management, district management, federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified 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, AR  
February 13, 2010



**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, 2009. 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, 2009.

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

*Hudson, Cisne & Co. LLP*

Hudson Cisne & Co. LLP  
Little Rock, Arkansas  
February 13, 2010

# 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, 2009

<u>DESCRIPTION</u>	<u>STATUTES</u>
Bidding & Purchasing Commodities School	
Officials Prohibited from Sales	6-21-301 – 6-21-305; 6-13-628
Collateralization & Investments	6-20-222; 19-1-504
Deposit of Funds	19-8-104; 19-8-106
District Finances	
• Bonded & Non-bonded Debt, District	6-20-401; 6-20-402; 6-20-1201 et seq.
School Bonds	
• Petty Cash	6-20-409
Investment of Funds	19-1-504
Management of Schools	
• Board of Directors	6-13-604; 6-13-606; 6-13-608; 6-13-611 – 6-13-613; 6-13-615 – 6-13-620; 6-13-1406; 6-24-101; 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 - 6-17-914; 6-17-918; 6-17-919
Teacher Salary Fund	6-17-908
Trust Funds	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, 2009

### 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**  
Significant deficiencies, some of which are considered material weaknesses, were 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**  
No significant deficiencies were identified during the audit of the major federal award programs.
- **Audit Findings Under Section 510(a)**  
There were no audit findings 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, Title 1- Grants to LEAs, CFDA #84.010  
U.S. Department of Education, Child Nutrition Cluster, CFDA #'s 10.553 and 10.555
- **Threshold between Type A and Type B Programs**  
The threshold for distinguishing Types A and B programs was \$878,986.
- **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, 2008

### Section II - 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.

**Criteria:** A proper segregation of duties is an integral part of any internal control system. Duties should be segregated to prevent one person from being in a position to initiate, execute and record transactions and reconcile related account balances. In addition, cross training on key internal control activities is critical to ensuring that the system of internal controls is not compromised if an employee resigns or is away from work for an extended period of time.

**Cause:** Primarily due to the resignation of the District's Chief Financial Officer combined with a lack of cross-training on key internal control activities performed by the Chief Financial Officer.

**Effect:** A lack of proper segregation of duties, combined with a lack of cross-training on key internal control activities, increases the risk that errors or fraud may occur and not be detected in a timely manner.

**Recommendation:** See recommendation for prior year finding #2008-1 in Prior Year Financial Statement Findings section.

**Response:** This finding was addressed during the current reporting year as a result of the June 30, 2008 audit. Due to the timing of the previous audit, the District was unable to implement changes until the middle of the current fiscal year. The current status is reflected in prior year finding 2008-1.

- **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.

**Criteria:** District Policy DGD and the *Pro-Card Handbook* specify that each school principal or department director is responsible for reviewing and approving all cardholder purchases for their location, signing off on cardholder monthly statements and reporting any violations to the Procurement Department. The policy and handbook also specify that Financial Services personnel are responsible for

# The Little Rock School District of Pulaski County, Arkansas

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS *(Continued)* Year Ended June 30, 2009

### Section II - Financial Statement Findings *(Continued)*

#### Material Weaknesses *(Continued)*

- 2009-2 Misappropriation of District Funds *(Continued)*

ensuring that Pro-Card transactions are properly coded in the District's general ledger, payment of amounts owed to the issuing bank is submitted, and ensuring that appropriate documentation (e.g., original receipts and reconciled statements) has been provided by the school or department to support Pro-Card charges. The school principal or department director is the first and primary line of defense against unauthorized transactions as these individuals are in the best position to know if a transaction is a valid school expense or not. Financial Services personnel can not necessarily be expected to recognize unauthorized transactions, but are likely to notice unusual or lacking supporting documentation.

The District's *Activity Fund Handbook* requires, among other things, that the school bookkeeper ensure that all activity fund cash be deposited into the activity fund bank account and that written receipts be provided to school personnel who turn in activity fund cash for deposit. Each school bookkeeper and all school personnel involved in collecting and remitting activity fund cash to the bookkeeper are responsible for following procedures required by this handbook. Each school principal is responsible for approving all fundraisers and reviewing reconciliations of activity fund balances.

**Cause:** Failure to follow prescribed policies over activity funds and Pro-Cards coupled with the failure to monitor these activities.

**Effect:** An employee misappropriated operating, activity and federal funds during the year ended June 30, 2008.

**Recommendation:** See recommendation for prior year finding #2008-2 in Prior Year Financial Statement Findings section.

**Response:** This finding was addressed during the current reporting year as a result of the June 30, 2008 audit. Due to the timing of the previous audit, the District was unable to implement changes until the middle of the current fiscal year. The current status is reflected in prior year finding 2008-2.

#### 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.

**Criteria:** An effective internal control system for receipting cash is essential to detect errors and misappropriation of District cash.

**Cause:** Inadequate procedures were in place to record and safeguard cash receipts and meal card purchases.

# The Little Rock School District of Pulaski County, Arkansas

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS *(Continued)* Year Ended June 30, 2009

### Significant Deficiencies *(Continued)*

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

**Effect:** A lack of controls over cash receipts increases the risk that errors or misappropriation of District cash may occur and not be detected in a timely manner.

**Recommendation:** See recommendation for prior year finding #2008-3 in Prior Year Financial Statement Findings section.

**Response:** This finding was addressed during the current reporting year as a result of the June 30, 2008 audit. Due to the timing of the previous audit, the District was unable to implement changes until the middle of the current fiscal year. The current status is reflected in prior year finding 2008-3.

- **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.

**Criteria:** A proper segregation of duties is an integral part of any internal control system. Ideally, duties should be segregated to prevent one person from being in a position to edit payroll information and process payroll transactions.

**Cause:** Inadequate segregation of duties over payroll functions.

**Effect:** A lack of proper segregation of duties increases the risk that errors or fraud may occur and not be detected in a timely manner.

**Recommendation:** See recommendation for prior year finding #2008-4 in Prior Year Financial Statement Findings section.

**Response:** This finding was addressed during the current reporting year as a result of the June 30, 2008 audit. Due to the timing of the previous audit, the District was unable to implement changes until the middle of the current fiscal year. The current status is reflected in prior year finding 2008-4.

### **Prior Year Financial Statement Findings**

#### Material Weaknesses

- **2008-1 Segregation of Duties – Cash and Investments**

**Condition:** Inadequate segregation of duties over cash and investment activities within the District.

**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.

# The Little Rock School District of Pulaski County, Arkansas

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (*Continued*) Year Ended June 30, 2009

### Prior Year Financial Statement Findings (*Continued*)

#### Material Weaknesses (*Continued*)

- 2008-1 Segregation of Duties – Cash and Investments (*Continued*)

**Current Status:** The District's Chief Financial Officer (CFO) approves the investment assignments and reviews the cash and 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.

- 2008-2 Misappropriation of District Funds

**Condition:** During the year ended June 30, 2008, 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, 2009

### Prior Year Financial Statement Findings *(Continued)*

#### Material Weaknesses *(Continued)*

- **2008-3 Cash Management – Food Services**

**Condition:** During the year ended June 30, 2008, 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.

**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.

- **2008-4 Segregation of Duties - Payroll**

**Condition:** During the year ended June 30, 2008, 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

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS *(Continued)* Year Ended June 30, 2009

### Prior Year Compliance and Other Matters

- **2008-5 Accounting for Required Deposits to QZAB Sinking Funds**

**Condition:** The District has reported required deposits to QZAB sinking funds as an expenditure of the operating funds in the regulatory reports submitted to the State.

**Recommendation:** The auditor recommended that management implement procedures to ensure that deposits to QZAB sinking funds are reported as required.

**Current Status:** The District is now reporting the required deposits to QZAB sinking funds properly in its regulatory reports.

- **2008-6 E-Rate Reimbursements**

**Condition:** The District has recorded E-rate reimbursements as “other local revenue” in the capital project fund instead of an authorized account within the operating fund as designated by the Arkansas Department of Education.

**Recommendation:** The auditor recommended that management implement procedures to ensure that E-rate reimbursements are coded as indicated above.

**Current Status:** The District properly recorded its E-rate reimbursements during the year ended June 30, 2009.

### Section III – Federal Award Findings and Questioned Costs

#### **Noncompliance and Significant Deficiencies**

None

#### **Prior Year Federal Award Findings**

- **2008-7 U.S. Department of Education – Reading First State Grants CFDA #84-357**

**Condition:** The selection of all employees assigned to this grant disclosed that while documentation exists to support salaries and wages charged to this grant, such documentation does not meet the technical requirements of OMB Circular A-87 *Cost Principles for State, Local and Indian Tribal Governments*.

**Recommendation:** The auditor recommended that management implement procedures to ensure compliance with OMB Circular A-87 requirements to require employees who work on a federal cost objectives to provide semi-annual certifications regarding the work performed.

**Current Status:** Grant managers have been informed of the requirement to conduct biannual certifications and have been provided a new form to assist in this process.

# The Little Rock School District of Pulaski County, Arkansas

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS *(Continued)* Year Ended June 30, 2009

### Prior Year Federal Award Findings *(Continued)*

- **2008-8 U.S. Department of Education – Special Education Grants to States CFDA #84.027**

***Condition:*** The auditors' selection of forty employees disclosed that while documentation exists to support salaries and wages charged to this grant, such documentation does not meet the technical requirements of OMB Circular A-87 *Cost Principles for State, Local and Indian Tribal Governments*.

***Recommendation:*** The auditor recommended that the District implement procedures to ensure compliance with OMB Circular A-87's requirements to require employees who work on a federal cost objectives to provide semi-annual certifications regarding the work performed.

***Current Status:*** Grant managers have been informed of the requirement to conduct biannual certifications and have been provided a new form to assist in this process.

# The Little Rock School District of Pulaski County, Arkansas

## SUPPLEMENTAL DATA SHEET Year Ended June 30, 2009

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