Little Rock School District of Pulaski County, Arkansas

ANNUAL FINANCIAL REPORT

June 30, 2007

Thomas & Thomas LLP
Certified Public Accountants

THE LITTLE ROCK SCHOOL DISTRICT
OF PULASKI COUNTY, ARKANSAS

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

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

We have audited the accompanying financial statements of 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, 2007, which collectively comprise the District's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of **THE LITTLE ROCK SCHOOL DISTRICT OF PULASKI COUNTY, ARKANSAS,** as of June 30, 2007, 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 May 29, 2008, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 considered in assessing the results of our audit.

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The Board of Directors
The Little Rock School District
of Pulaski County, Arkansas
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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.

Thomas & Thomas LLP
Certified Public Accountants

May 29, 2008
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, 2007

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, 2007. This management's discussion and analysis (MD&A) gives an objective and comprehensive analysis of the District's financial activities based on currently known facts, decisions, or conditions. It presents short and long-term analyses of the District's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. The intent of the MD&A is to look at the District's financial performance as a whole. Readers should also review the financial statements found in the Financial Section starting on page 13, and the related notes thereto, to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year ended June 30, 2007, are as follows:

<u>On the District-wide Financial Statements</u>

- Total net assets decreased from $59.9 million at June 30, 2006, to $56.8 million at June 30, 2007, a decrease of approximately $3.1 million, or 5.2%.
- In total, revenues increased from $282 million in 2006 to $289 million in 2007, an increase of approximately $7 million, or 2.5%. Much of this net change is attributable to increases in property taxes and interest income. 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 $112.8 million in 2006 to $119.1 million in 2007, an increase of 5.6%. General revenues totaling $193.7 million for the year ended June 30, 2007 and $184.3 million for the year ended June 30, 2006, represented approximately 67.3% and 65.4% of total revenues for the years ended June 30, 2007 and 2006, respectively. Program specific revenues, which include grants from federal and state agencies, comprise the remaining 32.7% and 34.6% of total revenues for the years ended June 30, 2007 and 2006, respectively.
- Total expenses increased from $277 million in 2006 to $291.9 million in 2007, an increase of approximately $14.9 million, or 5.4%. Much of this increase is attributable to employee raises, "step increases" in salaries for eligible employees, and related costs of employee benefits, such as retirement and health insurance. In addition, the District's continued focus on improving the quality of education necessitated increases in the purchase of instructional materials and supplies.

<u>On the Fund Financial Statements</u>

- The ending fund balance in the General Fund increased from $12.6 million at June 30, 2006, to $17.6 million at June 30, 2007. This represents an increase of approximately $5 million or 39.7%. Total governmental fund balances decreased from $52.3 million at June 30, 2006, to $51.1 million at June 30, 2007, a decrease of approximately $1.2 million, or 2.3%. This decrease is primarily attributable to fund balance decreases in the Capital Projects Fund of approximately $5.7 million in relation to capital outlays.
- General Fund revenues totaled $206.4 million for the year ended June 30, 2007, an increase of approximately $12.9 million over total 2006 revenues totaling of $193.5 million. Increased property tax revenues and state revenues comprise approximately $3.9 million and $8.5 million, respectively, of this increase. Total resources available to all governmental funds of the District during the year ended June 30, 2007, were $293.1 million as compared to $277 million for the year ended June 30, 2006.

Financial Highlights (*Continued*)

On the Fund Financial Statements (*Continued*)

- General Fund expenditures have increased from $201 million for the year ended June 30, 2006, to $211.1 million for the year ended June 30, 2007, while total expenditures of the District for the year ended June 30, 2007, increased to $295.3 million. This increase of approximately $11.7 million was attributable primarily to increases in employee compensation costs and expenditures for instructional supplies and materials.

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 and consolidated 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, 2007, 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 these governmental funds, the accounting focus of which is on near-term inflows and outflows of expendable resources, as well as balances of 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, as well as sources available for spending in the future periods. Financial information presented in this manner may be useful in evaluating the District's near term financing requirements.

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, 2007, balances and transactions reported in the District-wide Financial Statements and those reported in the Fund Financial Statements are reflected 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, and food services. Property taxes, replacement taxes, and state aid finance most of these activities. Additionally, all capital and debt financing activities and 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, 2007 and 2006:

	2007	2006
Current assets	**$ 191,740,045**	$ 181,214,233
Capital assets, net	**175,603,465**	175,423,666
Restricted assets	**2,830,922**	2,187,212
Total assets	**370,174,432**	358,825,111
Current liabilities	**133,246,768**	117,556,297
Long-term liabilities	**180,168,664**	181,320,598
Total liabilities	**313,415,432**	298,876,895
Net assets:		
Invested in capital assets, net of related debt	**18,357,962**	23,460,734
Restricted	**13,093,147**	11,840,126
Unrestricted	**25,307,891**	24,647,356
Total net assets	**$ 56,759,000**	$ 59,948,216

Capital assets, net of accumulated depreciation, increased approximately $180,000 over 2006 balances. This increase represents the net effect of capital asset additions of $15.4 million, current year depreciation expense of $14.1 million, and disposals of assets with a net book value of approximately $1.1 million. During the year ended June 30, 2007, the District completed and placed into service projects that were included in construction in progress in the June 30, 2006 financial statements totaling approximately $1.5 million.

District-wide Financial Analysis *(Continued)*

Statement of Net Assets *(Continued)*

The $1.2 million decrease in the District's long-term liabilities is attributable primarily to the net effect of principal payments and advance refunding of the District's long-term debt totaling approximately $46.2 million, and the issuance of refunding bonds totaling approximately $45.5 million.

At June 30, 2007 and 2006, respectively, restricted net assets consist primarily of $12.8 million and $11.6 million to be spent for capital projects.

Statement of Activities

Net assets at June 30, 2007, reflect a decrease of approximately $3.2 million from the June 30, 2006 balance. Key elements of this decrease consist of the following:

	2007	2006
Revenues		
Program revenues:		
Charges for services	**$ 2,582,873**	$ 2,650,927
Grants and contributions	**92,415,829**	95,252,101
General revenues:		
Property taxes	**119,135,307**	112,822,220
Unrestricted state aid	**68,580,327**	67,407,608
Interest and other	**5,970,213**	4,024,821
Total revenues	**288,684,549**	282,157,677
Expenses		
Instructional services	**167,164,611**	160,360,716
Instructional support services	**32,684,693**	29,134,087
Pupil transportation services	**14,629,868**	14,675,741
Operation and maintenance of plant	**28,970,036**	23,243,713
School administration	**15,511,580**	14,959,673
General administration	**14,437,406**	15,282,967
Food services	**10,024,093**	9,619,505
Community services	**188,311**	451,862
Interest on long-term debt	**8,263,167**	9,272,283
Total expenses	**291,873,765**	277,000,547
Change in net assets	**(3,189,216)**	5,157,130
Net assets, beginning of year	**59,948,216**	54,791,086
Net assets, end of year	**$ 56,759,000**	$ 59,948,216

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, 2007, approximately $2.6 million 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 $92.4 million, was paid through various federal and state grants. General revenues totaling $193.7 million were available to offset the net cost of the District's programs of approximately $196.9 million for the year ended June 30, 2007. In comparison, during the year ended June 30, 2006, approximately $2.7 million, of the cost of the District's activities, was covered by charges for services, while approximately 34% or $95 million, of the District's total expenses were paid through grant funding. The net cost of the District's programs for the year ended June 30, 2006, which were covered by general revenues, totaled approximately $179 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, 2007 and 2006. 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.

	2007		2006	
	Total Cost of Programs	**Net Cost of Programs**	Total Cost of Programs	Net Cost of Programs
Instructional services	**$ 167,164,611**	**$ 104,610,037**	$ 160,360,716	95,068,438
Instructional support services	**32,684,693**	**23,560,050**	29,134,087	21,022,100
Pupil transportation services	**14,629,868**	**9,942,926**	14,675,741	10,316,206
Operation and maintenance	**28,970,036**	**25,878,701**	23,243,713	21,102,700
School administration	**15,511,580**	**13,096,160**	14,959,673	12,676,669
General administration	**14,437,406**	**11,258,918**	15,282,967	9,519,190
Food services	**10,024,093**	**225,973**	9,619,505	41,209
Community services	**188,311**	**39,131**	451,862	78,724
Interest on long-term debt	**8,263,167**	**8,263,167**	9,272,283	9,272,283
	$ 291,873,765	**$ 196,875,063**	$ 277,000,547	$ 179,097,519

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, 2007, with a combined fund balance for the District's governmental funds (as presented in the balance sheet on page 16) of $51.1 million as compared to a combined fund balance of $52.3 million as of June 30, 2006.

Funds Financial Analysis (*Continued*)

The fund balance of the General Fund at June 30, 2007, includes a reserve for prepaid expenses and inventories totaling approximately $480,000 and approximately $966,000 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 the District's bond debt service, respectively.

A major source of revenue for operations and debt service is local property taxes, which, for fund financial statement reporting purposes, totaled $119.5 million for the fiscal year ending June 30, 2007, and $114.1 million for the fiscal year ending June 30, 2006. 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, 2007, include $5.7 million from the Pulaski County Special School District and the North Little Rock School District in support of the original six magnet schools, and breakfast and lunch revenues of $2.4 million. Significant local revenues in 2006 also included comparable amounts of such support.

For the years ended June 30, 2007 and 2006, state funding totaled approximately $128.3 million and $116 million, respectively. This overall net increase in state revenues of $12.3 million is primarily attributable to the 2006 deferral of recognition of revenues related to teacher retirement and health insurance cost reimbursement, Magnet School funding and transportation aid due to the timing of receipt of these payments (as partially offset by increases in several other funding programs). See Note 1(c) for a discussion of the District's revenue recognition policies applicable to the Fund Financial Statements. State revenues reported in the Fund Financial Statements consisted of the following:

	2007	2006
Foundation aid funding	**$ 68,580,327**	$ 67,388,859
Teacher retirement and health insurance reimbursements	**12,532,653**	7,519,646
Professional development	**971,429**	953,144
Special education	**4,218,382**	4,441,101
Workforce education	**1,511,786**	1,339,073
Student special needs funding	**7,339,200**	6,846,720
State transportation aid	**5,826,744**	2,831,267
Majority to Minority transfers	**4,196,708**	4,482,380
Arkansas Better Chance	**4,453,460**	4,810,900
State contribution for Magnet Schools	**15,596,455**	11,886,693
Other	**3,122,056**	3,510,693
	$ 128,349,200	$ 116,010,476

The U.S. Department of Education provides the largest amount of federal funding to the District, totaling $19.5 and $22.3 million respectively for each of the years ended June 30, 2007 and 2006, and representing approximately 73% and 76%, respectively, of total federal dollars expended. Other significant sources of federal funding include the U.S. Department of Agriculture, which provided $7 million and $6.8 million during the years ended June 30, 2007 and 2006, respectively, under the School Breakfast Program, the National School Lunch Program, and the Summer Food Service Program.

Funds Financial Analysis (*Continued*)

Total governmental funds expenditures for Fund Financial Statement purposes were $295.3 million and $283.6 million for the years ended June 30, 2007 and 2006, respectively, as summarized below:

	2007		2006	
General	**$ 211,132,877**	**71.5%**	$ 200,986,067	70.9%
Debt service	**11,225,272**	**3.8%**	12,719,044	4.5%
Capital projects	**11,310,361**	**3.8%**	8,067,136	2.8%
Magnet schools	**29,700,624**	**10.1%**	29,244,830	10.3%
Special programs	**21,326,207**	**7.2%**	22,429,433	7.9%
Food service	**9,929,188**	**3.4%**	9,610,213	3.4%
Other governmental	**658,846**	**0.2%**	571,644	0.2%
	$ 295,283,375	**100.0%**	$ 283,628,367	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, which shall be filed with the Arkansas Department of Education (ADE) in an electronic format. Although no provision currently exits for revisions to be submitted to the ADE, management and the District's Board of Directors, over the course of the year, review the District's budget, taking into consideration unexpected changes in revenues and expenditures. If those changes are material in nature, internal budget revisions are submitted to the District's Board for approval. The District's Board approved the original budget in a legally held meeting on September 14, 2006. No formal revisions were made to the budget during the 2006-2007 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 2006-2007 fiscal year the General Fund's actual revenues (budgetary basis) were more than budgeted revenues by approximately $1.6 million. This favorable variance is primarily attributable to an increase in state revenues. Related General Fund actual expenditures were less than budgeted expenditures by a net amount approximating $2.4 million.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2007, the District had $175.6 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 approximately $15.4 million of current year expenditures were capitalized and approximately $1.1 million of net capital assets were retired or disposed. Depreciation expense for the year ended June 30, 2007, totaled approximately $14.1 million.

Capital Assets and Debt Administration *(Continued)*

Capital Assets *(Continued)*

During 2007 and 2006, 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.

Total net capital assets at June 30, 2007 and 2006, are comprised of the following:

	2007	2006
Capital assets		
Buildings and improvements	**$ 218,361,475**	$ 215,167,092
Furniture, equipment and other	**57,556,222**	61,179,927
Land	**5,835,655**	5,372,987
Construction in progress	**5,107,672**	1,858,523
Total capital assets	**286,861,024**	283,578,529
Less total accumulated depreciation	**(111,257,559)**	(108,154,863)
Total capital assets, net	**$ 175,603,465**	$ 175,423,666

Additional information concerning the District's capital assets and construction commitments can be found in Note 4 to the financial statements.

Long-Term Debt

The District had outstanding general obligation bonded indebtedness of $172.4 million at June 30, 2007 and 2006. State statutes limit the amount of general obligation debt a school district may issue to 27% of the assessed valuation. The debt limitation of approximately $698 million at June 30, 2007, is an increase of $35 million over the June 30, 2006 debt limitation.

The District also has long-term obligations for desegregation loans, Qualified Zone Academy Bonds, capital leases and compensated absences totaling approximately $14.3 million at June 30, 2007 (as compared to $14.1 million at June 30, 2006).

Additional information regarding the District's long-term debt can be found in Note 6 to the financial statements.

Economic Factors and Next Year's Budget

The 2007-2008 General Fund budget totals approximately $304.6 million (budgetary basis of accounting) in revenues and reflects an expected gain in student enrollment and an increase of $134 per student in State Foundation Aid. This budget, the largest in the history of the District, projects total expenses of approximately $292 million. This budget continues to provide a solid financial foundation for District initiatives that remain focused on classroom achievement. Highly qualified teachers are a necessity, and this budget ensures that the District maintains the highest teacher starting salaries in Pulaski County. In addition, the budget supports teachers' skills with the continued development of detailed curriculum guides and teaching specialists whose strategies and best practices enhances students' learning environments.

The 2007-2008 budget fully funds the negotiated agreement with the teachers' union and provides a total average compensation increase of 5.6% for eligible employees. Funding is also available to provide a uniform adjustment to the base salaries of all other eligible district employees to ensure that students are served by an able and qualified workforce.

On February 23, 2007, the District was declared unitary and released from all further supervision from the Court. An appeal to this order, which has argued to the Eighth Circuit Court of Appeals, has not been decided. The financial impact of this order on the District with respect to State desegregation funding and loans payable, as described in Note 7 to the financial statements, although not yet determined, 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 such details, please contact Jean Ring, Director of Finance and Accounting, at the Administration Building Business Office, 810 West Markham, Little Rock, Arkansas 72201 by calling (501) 447-1089 during regular office hours, Monday through Friday, 8:00 a.m. to 5:00 p.m., Central Time, or via e-mail at Jean.Ring@lrsd.org.

BASIC FINANCIAL STATEMENTS

THE LITTLE ROCK SCHOOL DISTRICT
OF PULASKI COUNTY, ARKANSAS

STATEMENT OF NET ASSETS
June 30, 2007

ASSETS	
Cash	$ 960,772
Investments	82,562,903
Receivables:	
Property tax, net	100,465,863
Intergovernmental	5,618,690
Other	1,186,193
Inventories and other assets	945,624
Restricted cash and investments	2,830,922
Capital assets, net	175,603,465
TOTAL ASSETS	$ 370,174,432
LIABILITIES AND NET ASSETS	
Liabilities	
Accounts payable and accrued liabilities	$ 17,902,229
Payroll taxes and withholdings	10,813,238
Accrued interest expense	3,932,426
Deferred revenues	96,304,916
Due to fiduciary funds	75,676
Long-term obligations, net:	
Due within one year	4,218,283
Due in more than one year	180,168,664
Total liabilities	313,415,432
Net Assets	
Invested in capital assets, net of related debt	18,357,962
Restricted:	
Capital projects	12,767,430
Other activities	325,717
Unrestricted	25,307,891
Total net assets (Page 17)	56,759,000
TOTAL LIABILITIES AND NET ASSETS	$ 370,174,432

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, 2007

		Less Program Revenues			
	Expenses	**Charges for Services**	**Grants and Contributions**	**Capital Grants and Contributions**	**Changes in Net Assets**
GOVERNMENTAL FUNCTIONS					
Instructional services	$ 167,164,611	$ 196,464	$ 62,358,110	$ -	$ (104,610,037)
Instructional support services	32,684,693	-	9,124,643	-	(23,560,050)
Pupil transportation services	14,629,868	-	4,626,942	60,000	(9,942,926)
Operation and maintenance of plant	28,970,036	-	3,072,635	18,700	(25,878,701)
School administration	15,511,580	-	2,415,420	-	(13,096,160)
General administration	14,437,406	-	3,178,488	-	(11,258,918)
Food services	10,024,093	2,386,409	7,411,711	-	(225,973)
Community services	188,311	-	149,180	-	(39,131)
Interest on long-term debt	8,263,167	-	-	-	(8,263,167)
Total governmental functions	$ 291,873,765	$ 2,582,873	$ 92,337,129	$ 78,700	(196,875,063)
GENERAL REVENUES					
Property taxes, levied for general purposes					87,904,440
Property taxes, levied for debt service					31,230,867
Unrestricted state aid					68,580,327
Interest					4,500,971
Other general					1,469,242
Total general revenues					193,685,847
CHANGE IN NET ASSETS (Page 19)					(3,189,216)
NET ASSETS, BEGINNING OF YEAR					59,948,216
NET ASSETS, END OF YEAR					$ 56,759,000

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, 2007

	General	Debt Service	Capital Projects	Magnet Schools	Special Programs	Food Service	Other Governmental	Total Governmental Funds
ASSETS								
Cash	$ 960,772	$ -	$ -	$ -	$ -	$ -	$ -	$ 960,772
Investments	48,261,950	-	34,300,953	-	-	-	-	82,562,903
Receivables:								
Property tax, net	73,617,227	26,848,636	-	-	-	-	-	100,465,863
Intergovernmental	3,296,789	-	-	1,947,550	192,921	137,724	43,706	5,618,690
Other	94,583	-	1,012,376	-	-	-	79,234	1,186,193
Inventories and other assets	479,710	-	-	-	-	82,382	-	562,092
Restricted cash and investments	-	2,830,922	-	-	-	-	-	2,830,922
Due from other funds	687,268	11,413,946	2,129,589	-	4,018,158	26,251	517,589	18,792,801
TOTAL ASSETS	$127,398,299	$ 41,093,504	$ 37,442,918	$ 1,947,550	$ 4,211,079	$ 246,357	$ 640,529	$ 212,980,236
LIABILITIES AND FUND BALANCES								
Liabilities								
Accounts payable and accrued liabilities	$ 15,034,894	$ -	$ 1,584,382	$ 494,137	$ 1,073,811	$ -	$ 5	$ 18,187,229
Payroll taxes and withholdings	10,813,238	-	-	-	-	-	-	10,813,238
Deferred revenues	69,294,931	38,262,186	913,123	1,947,550	3,253,583	31,496	314,807	114,017,676
Due to other funds	14,624,844	1,958,352	721,556	1,453,413	-	34,636	-	18,792,801
Due to fiduciary funds	75,676	-	-	-	-	-	-	75,676
Total liabilities	109,843,583	40,220,538	3,219,061	3,895,100	4,327,394	66,132	314,812	161,886,620
Fund Balances								
Reserved for:								
Inventories and other assets	479,710	-	-	-	-	82,382	-	562,092
Debt service	-	872,966	-	-	-	-	-	872,966
Capital projects	-	-	34,223,857	-	-	-	-	34,223,857
Magnet schools	-	-	-	(1,947,550)	-	-	-	(1,947,550)
Unreserved, designated for:								
Food service programs	-	-	-	-	-	97,843	-	97,843
Desegregation scholarship program	965,524	-	-	-	-	-	-	965,524
Other	-	-	-	-	(116,315)	-	325,717	209,402
Unreserved, undesignated	16,109,482	-	-	-	-	-	-	16,109,482
Total fund balances (page 17)	17,554,716	872,966	34,223,857	(1,947,550)	(116,315)	180,225	325,717	51,093,616
TOTAL LIABILITIES AND FUND BALANCES	$127,398,299	$ 41,093,504	$ 37,442,918	$ 1,947,550	$ 4,211,079	$ 246,357	$ 640,529	$ 212,980,236

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, 2007

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS (Page 16)		$ 51,093,616
Capital assets used in governmental activities are not current financial resources and therefore are not reported as assets in the governmental funds.	$ 175,603,465	
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.	17,712,760	-
Long-term debt and certain obligations for compensated absences are not reported as liabilities in the governmental funds.	(184,101,947)	
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.	383,532	-
Accrued interest expense is not reported as a liability in the governmental funds.	(3,932,426)	-
		5,665,384
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES (Page 14)		$ 56,759,000

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, 2007

	General	Debt Service	Capital Projects	Magnet Schools	Special Programs	Food Service	Other Governmental	Total Governmental Funds
REVENUES								
Property taxes	$ 88,514,990	$ 31,012,165	$ -	$ -	$ -	$ -	$ -	$ 119,527,155
Federal revenues	-	-	-	-	20,426,893	6,952,484	-	27,379,377
State revenues	112,106,565	-	-	15,596,455	39,557	75,741	530,882	128,349,200
Tuition, fees and other	3,416,097	-	1,688,240	5,690,542	33,422	2,386,409	155,243	13,369,953
Interest	2,387,326	106,020	1,999,591	-	-	8,034	-	4,500,971
Total revenues	206,424,978	31,118,185	3,687,831	21,286,997	20,499,872	9,422,668	686,125	293,126,656
EXPENDITURES								
Instructional services	121,218,963	-	-	20,626,114	12,614,025	-	180,799	154,639,901
Instructional support services	23,299,372	-	-	2,459,249	6,158,241	-	461,208	32,378,070
Pupil transportation services	14,233,453	-	-	-	-	-	-	14,233,453
Operation and maintenance of plant	25,225,044	-	1,549,636	2,030,783	384,984	-	-	29,190,447
School administration	13,045,463	-	-	2,465,834	83	-	-	15,511,380
General administration	10,679,589	-	-	2,046,374	1,362,999	-	-	14,088,962
Food services	-	-	-	-	-	9,856,054	16,839	9,872,893
Community services	-	-	-	-	102,293	-	-	102,293
Capital outlay	3,430,993	-	9,760,725	72,270	703,582	73,134	-	14,040,704
Debt service:								
Principal paid	-	3,015,164	-	-	-	-	-	3,015,164
Interest	-	7,913,324	-	-	-	-	-	7,913,324
Fiscal agent fees	-	296,784	-	-	-	-	-	296,784
Total expenditures	211,132,877	11,225,272	11,310,361	29,700,624	21,326,207	9,929,188	658,846	295,283,375
Revenues over (under) expenditures	(4,707,899)	19,892,913	(7,622,530)	(8,413,627)	(826,335)	(506,520)	27,279	(2,156,719)
OTHER FINANCING SOURCES (USES)								
Operating Transfers In (Out)								
Property taxes	19,291,078	(19,291,078)	-	-	-	-	-	-
Magnet schools funding	(9,186,396)	-	-	9,186,396	-	-	-	-
Interest reduction transfer	-	(1,958,352)	1,958,352	-	-	-	-	-
Lease payments	(452,217)	469,029	-	-	-	-	(16,812)	-
QZAB deposits	(537,690)	537,690	-	-	-	-	-	-
Other	(116,640)	-	-	-	-	-	116,640	-
Payment to Bond Refunding Escrow Agent	-	(45,030,874)	-	-	-	-	-	(45,030,874)
Original issue discount	-	(177,342)	-	-	-	-	-	(177,342)
Proceeds of Long-Term Debt								
Capital lease obligations	625,535	-	-	-	-	-	-	625,535
Refunding bonds	-	45,505,000	-	-	-	-	-	45,505,000
Total other financing sources (uses)	9,623,670	(19,945,927)	1,958,352	9,186,396	-	-	99,828	922,319
NET CHANGE IN FUND BALANCE (Page 19)	4,915,771	(53,014)	(5,664,178)	772,769	(826,335)	(506,520)	127,107	(1,234,400)
FUND BALANCE, BEGINNING OF YEAR	12,638,945	925,980	39,888,035	(2,720,319)	710,020	686,745	198,610	52,328,016
FUND BALANCE, END OF YEAR	$ 17,554,716	$ 872,966	$ 34,223,857	$ (1,947,550)	$ (116,315)	$ 180,225	$ 325,717	$ 51,093,616

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, 2007

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS (Page 18)		$ (1,234,400)
Additions to capital assets are reported as expenditures in the Fund Financial Statements.	$ 15,364,069	
The costs of capital assets are depreciated over their estimated useful lives for District-wide Financial Statement reporting purposes.	(14,107,020)	
The net book value of capital assets that are disposed during the year are not reflected in the Fund Financial Statements.	(1,077,250)	
In the Statement of Activities, compensated absences are measured by the amounts earned during the year. In the Fund Financial Statements, expenditures for these items are measured by the amount of financial resources used.	(115,500)	
Repayment of long-term debt is recorded as an expenditure in the Fund Financial Statements, but it reduces long-term liabilities in the Statement of Net Assets.	3,015,164	
Payment to bond refunding escrow agent is recorded as an other financing use in the Fund Financial Statements but as a reduction of long-term debt in the Statement of Net Assets.	45,030,874	
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.	(45,953,193)	
Property tax revenues are recognized in the District-wide Financial Statements in the period for which they are levied, while being recognized in the Fund Financial Statements to the extent collected within sixty days after year end.	(391,848)	
Certain deferred revenues are recognized in different fiscal years for District-wide Financial Statements than for Fund Financial Statements purposes due to the timing of collection.	(3,652,940)	
Amortization of deferred bond costs and Qualified Zone Academy Bonds discounts are not reported in the Fund Financial Statements, but are recorded in the District-wide Financial Statements.	(226,605)	
Fiscal agent fees were recognized as expense in the Fund Financial Statements, but are recorded as an asset in the District-wide Financial Statements.	296,784	
Interest expense is recognized in the Fund Financial Statements when paid, but is accrued when due in the District-wide Financial Statements.	(137,351)	
		(1,954,816)
CHANGE IN NET ASSETS (Page 15)		$ (3,189,216)

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, 2007

ASSETS	
Restricted cash and investments	$ -
Investments	1,790,047
Due from governmental funds	75,676
TOTAL ASSETS	$ 1,865,723
LIABILITIES	
Due to student groups and other	$ 1,865,723
TOTAL LIABILITIES	$ 1,865,723

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

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). 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. As the balances and transactions related to operation of the Academy are not of such significance as to be considered a "major fund" of the District, they 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 12.

(b) Basis of Presentation

<u>District-wide Financial Statements</u>

The District-wide Financial Statements, which display financial information about the District as a whole, 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 and parent organizations. Eliminations of interfund transactions have been made to avoid "double-counting" of internal balances and activities.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of Presentation *(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."

<u>Fund Financial Statements</u>
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 in an agency fund, which is the only fund presented in the Statement of Net Assets - Fiduciary Funds.

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. General 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 Investments

The District's cash consists of cash on hand and demand deposits maintained at financial institutions. State statutes require that the District's funds be deposited in banks located in the State of Arkansas 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.

The District's investments consist of certificates of deposit, discount notes issued by the United States Government and its agencies, and repurchase agreements collateralized by obligations of the United States Government and its agencies, all of which generally mature within one year of the date of purchase. These investments are reported at historical cost, which approximates fair market value. 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 of Arkansas; 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 collateral for the District's repurchase agreements is held by an agent of the issuing financial institution and is not held in the District's name.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Cash and Investments *(Continued)*
The District also maintains restricted cash and investment balances consisting of three deposit accounts and a government agency security held by fiscal agents, which are restricted for repayment of the District's Qualified Zone Academy Bonds (Note 6). The carrying amount and related bank balance of these cash accounts of $2,513,069 as of June 30, 2007, is not covered by FDIC insurance, nor is it collateralized. The District's related investment, the balance of which was $317,853 at June 30, 2007, is not held in the District's name and is not insured.

(e) 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.

(f) 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 assets lives are not capitalized. Outlays for capital assets, and major renovations and improvements which extend the useful economic lives of the respective assets, are 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.

(g) 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) 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.

(i) 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 accordingly are not recorded as a liability in the District-wide or Fund Financial Statements.

(j) 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.

(k) 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.

(l) 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 15 (September 30 beginning in 2008) 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.

NOTE 2: INVESTMENTS

As of June 30, 2007, unrestricted investments, none of which have credit guaranty ratings, as presented in the District's financial statements include the following:

	Carrying Amount	Interest Rates	Maturity Dates	Percentage of Total Investments
Discount Notes				
Federal Home Loan				
Mortgage Corporation	$ 6,978,317	5.00% - 5.07%	7/16/07 - 9/4/07	8.45%
Federal National				
Mortgage Association	25,660,682	5.03% - 5.13%	7/16/07 - 8/1/07	31.08%
Repurchase Agreements	450,000	4.69%	7/18/07	0.55%
Certificates of Deposit	49,473,904	4.01% - 5.32%	7/2/07 - 1/29/08	59.92%
	$ 82,562,903			100.00%

NOTE 3: 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, 2007, 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.

NOTE 3: PROPERTY TAXES (Continued)

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 as additional deferred property tax revenue balances that have been accrued but have not been collected within sixty days after year end, and thus do not meet the "measurable and available" criteria. Deferred property tax revenues, as included in the Statement of Net Assets and in the Balance Sheet – Government Funds, were approximately $91.7 million and $106.9 million, respectively.

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

Property taxes receivable as of June 30, 2007, net of the applicable allowance for uncollectible accounts, are as follows:

	General Fund	**Debt Service Fund**
Current	$ 63,202,160	$ 23,050,200
Delinquent	13,482,451	4,917,129
Allowance for uncollectible accounts	(3,067,384)	(1,118,693)
	$ 73,617,227	$ 26,848,636

Approximately $19.3 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, 2007, has been transferred from the Debt Service Fund to the General Fund to be used for operations as provided for under the Arkansas 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 "due to" and "due from other funds" in the accompanying Balance Sheet – Governmental Funds.

NOTE 4: CAPITAL ASSETS

Balances of the major components of capital assets as of June 30, 2007, and activity for the year then ended, are summarized as follows:

	June 30, 2006 Balance	Increases	Decreases	June 30, 2007 Balance
Capital assets				
Buildings and improvements	$ 215,167,092	$ 5,373,326	$ 2,178,943	$ 218,361,475
Furniture, equipment and other	61,179,927	6,261,926	9,885,631	57,556,222
Land	5,372,987	479,668	17,000	5,835,655
Construction in progress	1,858,523	4,721,773	1,472,624	5,107,672
Total capital assets	283,578,529	16,836,693	13,554,198	286,861,024
Less accumulated depreciation				
Buildings and improvements	68,878,812	7,798,825	1,659,914	75,017,723
Furniture and equipment	39,276,051	6,308,195	9,344,410	36,239,836
Total accumulated depreciation	108,154,863	14,107,020	11,004,324	111,257,559
	$ 175,423,666	$ 2,729,673	$ 2,549,874	$ 175,603,465

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

Depreciation expense for the year ended June 30, 2007, was charged to governmental functions as follows:

Instructional services	$ 12,631,827
Instructional support services	306,625
Pupil transportation services	396,416
Operation and maintenance of plant	177,940
General administration	544,832
Food services	32,730
Community services	16,650
	$ 14,107,020

The District is party to various construction and related contracts, under which approximately $28.1 million was unexpended at June 30, 2007.

NOTE 5: INTERFUND BALANCES

The composition of interfund balances (i.e., "due to" and "due from" other funds) at June 30, 2007, is as follows:

Receivable Fund	Payable Fund	Amount
General	Capital Projects	$ 652,632
	Food Service	34,636
		687,268
Capital Projects	Debt Service	1,958,352
	General	171,237
		2,129,589
Special Programs	General	2,564,745
	Magnet	1,453,413
		4,018,158
Other Governmental	Capital Projects	68,924
	General	448,665
		517,589
Debt Service	General	11,413,946
Food Service	General	26,251
		$ 18,792,801

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

NOTE 6: 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 Arkansas Department of Education; 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.

NOTE 6: LONG-TERM OBLIGATIONS, NET (Continued)

(a) School Bonds

On May 9, 2000, the voters in the District approved the issuance of bonds in the principal amount of up to $190,000,000, the proceeds of which were used for the purpose of refunding outstanding indebtedness, constructing and equipping school facilities, renovations and improvements to existing facilities, and significant repairs to and maintenance of such facilities. These bonds are limited, general obligations of the District, secured by a pledge of a continuing debt service tax of 3.0 debt service mills voted at the 2000 election specifically for payment of these bonds. These bonds will be repaid in annual installments through February 2033 and bear interest at rates ranging from 5% to 5.5%.

These bonds were issued in three 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

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

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

This advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the Refunded Bonds of $1,870,874. This difference, which is considered deferred bond costs for District-wide financial statement purposes, is being charged to operations through the year 2033 using the straight-line method. The District completed the advance refunding to reduce its total debt service payments over the next 26 years by approximately $2,950,000 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately $2,827,000.

(b) State of Arkansas Loans

As discussed in Note 7, the District obtained six loans from the State of Arkansas 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 7, $15 million under these loan agreements was subsequently forgiven by the State. The remaining loans and related interest are being repaid as scheduled.

NOTE 6: LONG-TERM OBLIGATIONS, NET (Continued)

(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 reflected as restricted assets in the District's financial statements.

(d) Capital Leases

These obligations are comprised of capital leases entered into by the District to finance the acquisition of school buses. These capital leases, which bear interest at rates ranging from 2.84% to 6.96%, are payable in annual installments through 2013.

Long-term liability balances and the related activity for the year ended June 30, 2007, are summarized as follows:

	June 30, 2006 Balance	Additions	Reductions	June 30, 2007 Total Balance	June 30, 2007 Due Within One Year
Long-term Debt					
School bonds:					
$46,378,560 Construction Bonds	$ 43,160,000	$ -	$ 43,160,000	$ -	$ -
$44,975,874 Refunding Bonds	38,065,000	-	555,000	37,510,000	585,000
$89,890,000 Construction Bonds	85,740,000	-	1,465,000	84,275,000	1,560,000
$6,375,000 Refunding Bonds	5,440,000	-	320,000	5,120,000	315,000
$45,505,000 Refunding Bonds	-	45,505,000	-	45,505,000	45,000
	172,405,000	45,505,000	45,500,000	172,410,000	2,505,000
Deferred bond costs	(392,458)	(1,870,874)	70,827	(2,192,505)	-
Original issue discount	-	(177,342)	3,941	(173,401)	-
	172,012,542	43,456,784	45,425,232	170,044,094	2,505,000

(Continued)

NOTE 6: LONG-TERM OBLIGATIONS, NET (Continued)

	June 30, 2006 Balance	Additions	Reductions	June 30, 2007 Total Balance	June 30, 2007 Due Within One Year
Long-term Debt ***(Continued)***					
State of Arkansas loans:					
$2,000,000 dated March 1998	$ 1,800,000	$ -	$ 100,000	$ 1,700,000	$ 100,000
$3,000,000 dated September 1998	2,850,000	-	150,000	2,700,000	150,000
	4,650,000	-	250,000	4,400,000	250,000
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	-
	7,622,758	-	-	7,622,758	-
Unamortized discount	(1,170,866)	137,725	-	(1,033,141)	-
	6,451,892	137,725	-	6,589,617	-
Capital leases	1,058,865	625,535	425,164	1,259,236	323,283
Total long-term debt	184,173,299	44,220,044	46,100,396	182,292,947	3,078,283
Other Long-term Liabilities					
Compensated absences	1,971,000	1,164,000	1,041,000	2,094,000	1,140,000
	$ 186,144,299	$ 45,384,044	$ 47,141,396	$ 184,386,947	$ 4,218,283

The approximate annual debt service requirements of all outstanding long-term debt at June 30, 2007, are as follows:

	In Thousands Principal	In Thousands Interest
2008	$ 3,078	$ 8,951
2009	4,205	8,485
2010	4,311	8,299
2011	7,798	8,826
2012	6,716	8,252
2013 - 2017	25,607	36,251
2018 - 2022	33,962	30,297
2023 - 2027	39,365	21,308
2028 - 2032	49,225	10,657
2033	11,425	583
	185,692	141,909
Unamortized deferred bond costs	(2,193)	2,193
Unamortized original issue discount	(173)	173
Unamortized discounts on QZABs	(1,033)	1,171
	$ 182,293	$ 145,446

NOTE 7: 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 Arkansas Department of Education (the ADE) being liable for certain aspects of funding the programs. The parties to this action entered settlement agreements which resolved many of the major funding issues related to the desegregation programs. As directed by the Court, the Magnet Review Committee and the Office of Desegregation Monitoring also were established and were charged with oversight responsibilities in regard to the District's desegregation programs.

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

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

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

NOTE 7: DESEGREGATION AGREEMENTS AND FUNDING ISSUES (Continued)

(a) General *(Continued)*

The District subsequently filed its compliance report with the Court detailing all measures taken by the District to satisfy the program assessment and evaluation provisions of the Revised Plan and the additional compliance remedy stipulated in the Court's June 30, 2004 order. The District again requested that it be declared unitary and be released from all court supervision and monitoring. Another unitary status hearing was conducted in January 2007, and, on February 23, 2007, the District was declared unitary and released from all further supervision from the Court. The unitary status order from the Court has been appealed. The appeal, which was argued to the Eighth Circuit Court of Appeals on March 13, 2008, has not been decided. The financial impact of this order on the District with respect to State desegregation funding and 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 of Arkansas (the State) loaned the District $20 million of desegregation funds between July 1989 and September 1998. The loans, evidenced by six promissory notes, were secured by liens in favor of the State on certain new and existing millages. Interest on each note was to begin on the seventh anniversary of the date of the note at the rate of 3% per annum and was to be repaid in twenty equal annual installments beginning seven years after the execution of each respective loan.

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

(c) Magnet School Funding

As a part of its desegregation programs, the Court approved a plan whereby the District participates in a "Magnet School" system with a Magnet Review Committee (MRC) having certain monitoring and oversight responsibilities with respect to such schools (the Magnets). Six schools from the District were organized as a separate reporting group under the direction of the MRC, with these schools being jointly funded by the State of Arkansas (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, 2007, the funding level for the Magnets totaled $7,666 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, 2007, were 2,396 for the District, 998 for PCSSD, and 479 for NLRSD. Based upon these average daily memberships, local revenues received by the District from PCSSD and NLRSD for the year ended June 30, 2007, totaled approximately $5.7 million. The District's portion of the cost, which totaled approximately $9.2 million, is recorded as an operating transfer from the General Fund to the Magnet

NOTE 7: DESEGREGATION AGREEMENTS AND FUNDING ISSUES (Continued)

(c) Magnet School Funding *(Continued)*
Schools Fund. Related State funding for the year totaled approximately $14.8 million. Revenue of approximately $2.7 million recorded in the fund financial statements includes funding related to June 30, 2006, which was recognized as revenue during the year ended June 30, 2007, for fund financial statement purposes while approximately $1.9 million of funding related to June 30, 2007, was deferred for fund financial statement purposes.

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

NOTE 8: OPERATING LEASES

The District leases certain equipment and facilities under operating leases. Total lease expense for the year ended June 30, 2007, was approximately $469,000. The approximate annual future minimum lease payments under noncancellable operating leases are as follows:

2008	$ 371,000
2009	305,000
2010	231,000
2011	225,000
2012	166,000
Thereafter	100,000
	$ 1,398,000

NOTE 9: 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, 2007, 2006, and 2005 were approximately $21,400,000, $20,200,000 and $18,600,000, respectively, and are equal to the required contributions for each year. Contributions by the District to the APERS for the years ended June 30, 2007, 2006, and 2005 were approximately $101,000, $107,000, and $113,000, respectively, and are equal to the required contributions for each year.

NOTE 10: 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 $250,000, 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, 2007, totaled approximately $315,000, while net claims expense for the year ended June 30, 2007, totaled approximately $20,500.

NOTE 11: LITIGATION AND CONTINGENCIES

At June 30, 2007, 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 which 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 12: 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, 2007, attributable to the Academy are presented below. These amounts do not include rent for the building in which the Academy is located, which totaled approximately $282,000 and was paid directly by Pulaski County, Arkansas.

Revenues and Transfers	
Pulaski County Special School District	$ 162,000
North Little Rock School District	108,000
State revenues	609,581
Transfers from other District funds	270,000
	1,149,581
Expenditures	
Basic programs	674,548
Exceptional child programs	58,973
Support services - pupils	43,632
Support services - instructional	46,923
School administration	172,190
General administrative	70,889
	1,067,155
Increase in Fund Balance	82,426
Fund Balance, Beginning of Year	(21,281)
Fund Balance, End of Year	$ 61,145

NOTE 13: 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 of Arkansas 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. Condensed financial information for the Foundation as of, and for the year ended, June 30, 2007, is as follows:

Support and Revenues	$ 409,226
Expenses	
Grants to the District	71,050
Other expenses	585,460
	656,510
Decrease in Net Assets	(247,284)
Net Assets, Beginning of Year	478,303
Net Assets, End of Year	$ 231,019

SUPPLEMENTARY INFORMATION

THE LITTLE ROCK SCHOOL DISTRICT
OF PULASKI COUNTY, ARKANSAS

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended June 30, 2007

	General Fund - Budgetary Basis		
	Budgeted	**Actual**	**Variance**
REVENUES			
Property taxes	$ 89,467,921	$ 88,866,207	$ (601,714)
State revenues	108,361,739	109,766,045	1,404,306
Tuition fees and other	1,603,290	1,817,746	214,456
Interest	1,740,736	2,288,169	547,433
Total revenues	201,173,686	202,738,167	1,564,481
EXPENDITURES			
Instructional services	121,224,044	119,188,201	2,035,843
Instructional support services	23,002,997	23,585,516	(582,519)
Pupil transportation services	14,984,766	14,240,297	744,469
Operation and maintenance of plant	29,001,305	25,906,354	3,094,951
School administration	13,088,966	13,045,463	43,503
General administration	12,123,119	14,643,440	(2,520,321)
Community services	145,000	-	145,000
Capital outlay	2,015,552	2,607,085	(591,533)
Total expenditures	215,585,749	213,216,356	2,369,393
Excess of expenditures over revenues	(14,412,063)	(10,478,189)	3,933,874
OTHER FINANCING SOURCES (USES)			
Operating Transfers In (Out)			
Magnet schools funding	(9,614,975)	(9,186,396)	428,579
Transfer from capital projects fund	770,000	-	(770,000)
Indirect cost transfer	3,562,522	3,049,658	(512,864)
Property tax	18,890,495	19,291,078	400,583
Total other financing sources (uses)	13,608,042	13,154,340	(453,702)
NET CHANGE IN FUND BALANCE	$ (804,021)	$ 2,676,151	$ 3,480,172

RECONCILIATION OF BUDGETARY BASIS TO GAAP		
Increase in Fund Balance - Budgetary Basis		$ 2,676,151
Differences between Budgetary and GAAP Basis:		
Property taxes	(351,217)	
State revenues	2,340,522	
Other revenues	1,598,351	
Interest	99,157	
Proceeds from long-term debt	625,535	
Expenditures	2,083,477	
Transfers and other	(4,156,205)	
		2,239,620
Increase in Fund Balance - GAAP Basis		$ 4,915,771

THE LITTLE ROCK SCHOOL DISTRICT
OF PULASKI COUNTY, ARKANSAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2007

	Federal CFDA Number	Expenditures
U.S. DEPARTMENT OF EDUCATION		
Safe and Drug-Free Schools and Communities – Mentoring Program	84.184B	$ 167,614
Fund for the Improvement of Education	84.215	642,813
Advanced Placement Program	84.330	314,073
Arts in Education	84.351	323,120
Passed through Arkansas Department of Education		
Title I, Grants to Local Educational Agencies:		
Part A	84.010	7,788,136
School Improvement Program	84.010	77,709
Special Education - Grants to States	84.027	5,090,506
Safe and Drug-Free Schools and Communities - State Grants	84.186	218,080
Education for Homeless Children and Youth	84.196	53,581
State Grants for Innovative Programs	84.298	162,012
Charter Schools	84.282	40,000
Twenty-first Century Community Learning Centers	84.287	330,081
Education Technology State Grants	84.318	188,612
Special Education - State Personnel Development	84.323	400
Comprehensive School Reform Demonstration	84.332	142,165
Reading First State Grants	84.357	1,649,058
English Language Acquisition Grants	84.365	106,521
Mathematics and Science Partnerships	84.366	69,388
Improving Teacher Quality State Grants	84.367	1,403,191
Hurricane Education Recovery Act Programs	84.938	20,791
Passed through Arkansas Department of Workforce Education		
Adult Education - State Grant Program	84.002	187,798
Vocational Education - Basic Grants to States	84.048	509,100
Total U.S. Department of Education		19,484,749

(Continued)

THE LITTLE ROCK SCHOOL DISTRICT
OF PULASKI COUNTY, ARKANSAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS *(Continued)*
Year Ended June 30, 2007

	Federal CFDA Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE		
Passed through Arkansas Department of Education		
School Breakfast Program (1,012,060 units served)	10.553	$ 1,427,256
National School Lunch Program (2,592,310 units served)	10.555	5,085,130
Passed through Arkansas Department of Human Services		
National School Lunch Program – Commodities	10.555	413,665
Summer Food Service Program for Children (14,922 units served)	10.559	26,433
Total U.S. Department of Agriculture		6,952,484
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Passed through Arkansas Department of Human Services		
Promoting Safe and Stable Families	93.556	25,616
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	120,785
Foster Care - Title IV-E	93.658	1,962
Social Services Block Grant	93.667	25,753
Total U.S. Department of Health and Human Services		174,116
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE		
Passed through Arkansas Department of Education		
Learn and Serve America - School and Community Based Programs	94.004	7,273
U.S. DEPARTMENT OF THE INTERIOR - NATIONAL PARK SERVICE		
Challenge Cost Share Grant	15.AAT	18,700
Total Expenditures of Federal Awards		$ 26,637,322

Note: Medicaid reimbursements are defined as contracts for services and not federal awards; therefore such reimbursements, which totaled $742,055 for the year ending June 30, 2007, 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 Directors
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, 2007, and have issued our report thereon dated May 29, 2008. 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 in order to determine our auditing procedures for the purpose of expressing our opinion 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.

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 organization'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.

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.

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 or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the District's 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 that are required to be reported under *Government Auditing Standards.*

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The Board of Directors
The Little Rock School District
of Pulaski County, Arkansas
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This report is intended solely for the information and use of the Board of Directors, management, and all applicable federal and state agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Thomas & Thomas LLP
Certified Public Accountants

May 29, 2008
Little Rock, Arkansas

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 Directors
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, 2007. 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, 2007.

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 procedures for the purpose of expressing our opinion on compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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Internal Control over Compliance *(Continued)*

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 Board of Directors, management, and all applicable federal and state agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Thomas & Thomas LLP
Certified Public Accountants

May 29, 2008
Little Rock, Arkansas

THE LITTLE ROCK SCHOOL DISTRICT
OF PULASKI COUNTY, ARKANSAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

Section I - Summary of Auditors' Results

- **Type of Report Issued, Financial Statements**
  The auditors' report expresses an unqualified opinion on the basic financial statements.
- **Significant Deficiencies, Financial Statements**
  No significant deficiencies were disclosed during the audit of the basic financial statements.
- **Material Noncompliance, Financial Statements**
  No instances of noncompliance material to the financial statements were disclosed during the audit.
- **Significant Deficiencies, Major Programs**
  No significant deficiencies were disclosed during the audit of the major federal award programs.
- **Type of Report Issued, Compliance**
  The auditors' report on compliance for the major federal award programs expresses an unqualified opinion.
- **Audit Findings Under Section 510(a)**
  As reported below, there were no audit findings relative to the major federal award programs.
- **Major Programs**
  U.S. Department of Education, Reading First State Grants, CFDA #84.357
  U.S. Department of Agriculture, School Breakfast Program, CFDA #10.553
  U.S. Department of Agriculture, National School Lunch Program, CFDA #10.555
  U.S. Department of Agriculture, Summer Food Service Program for Children, CFDA #10.559
- **Threshold between Type A and Type B Programs**
  The threshold for distinguishing Types A and B programs was $799,120.
- **Type of Auditee**
  The Little Rock School District of Pulaski County, Arkansas was determined to be a low-risk auditee.

Section II - Financial Statement Findings

- **Significant Deficiencies**
  None
- **Significant Deficiencies – Prior Year**
  None

Section III – Federal Award Findings and Questioned Costs

- **Significant Deficiencies**
  None
- **Significant Deficiencies – Prior Year**
  None