

**PULASKI COUNTY SPECIAL SCHOOL DISTRICT**

**REGULATORY BASIS FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED JUNE 30, 2007**

**with**

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying financial statements of each major governmental fund, and the aggregate remaining fund information of the Pulaski County Special School District (the "District") as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the District 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described more fully in Note 1, the District has prepared the financial statements in conformity with accounting practices prescribed or permitted by Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determined, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2007, or the changes in the financial position, thereof for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major governmental fund and the aggregate remaining fund information of the District, as of June 30, 2007, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1.

To the Board of Education  
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's regulatory basis of accounting. The Schedule of Capital Assets, Schedule of Expenditures of Federal Awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Schedule of Findings and Questioned Costs and Summary of Prior Audit Findings are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements. The Schedule of Expenditures of Federal Awards, Schedule of Findings and Questioned Costs and Summary of Prior Audit Findings have been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, in our opinion, are fairly stated, in all material respects in relation to the regulatory basis financial statements taken as a whole. The Schedule of Capital Assets has not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on it.

*Hudson, Cisne & Co. LLP*

December 18, 2007  
Little Rock, Arkansas

**PULASKI COUNTY SPECIAL SCHOOL DISTRICT**

**BALANCE SHEET - REGULATORY BASIS**

**JUNE 30, 2007**

	<u>Major</u>			
	<u>General fund</u>	<u>Special revenue funds</u>	<u>Other governmental funds</u>	<u>Fiduciary fund types</u>
<b>ASSETS</b>				
Investments	\$ 26,631,620	\$ 3,310,865	\$ 40,886,261	\$ 1,641,338
Property taxes receivable	258,202	-	-	-
Due from other governments	39,065	87,022	-	-
Accounts receivable	131,112	-	-	-
Due from other funds	93,221	-	-	141,739
	<u>\$ 27,153,220</u>	<u>\$ 3,397,887</u>	<u>\$ 40,886,261</u>	<u>\$ 1,783,077</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 11,026,501	\$ 8,645	\$ 1,097,975	\$ -
Due to student/other groups	141,739	-	-	1,656,621
Deferred revenue	7,395,954	-	5,934,339	-
	<u>18,564,194</u>	<u>8,645</u>	<u>7,032,314</u>	<u>1,656,621</u>
<b>Fund Balances:</b>				
Reserved for:				
Capital projects	-	-	33,853,947	-
Scholarships	-	-	-	126,456
Unreserved:				
Designated	-	3,389,242	-	-
Undesignated, reported in general fund	8,589,026	-	-	-
	<u>8,589,026</u>	<u>3,389,242</u>	<u>33,853,947</u>	<u>126,456</u>
Total fund balances	<u>\$ 27,153,220</u>	<u>\$ 3,397,887</u>	<u>\$ 40,886,261</u>	<u>\$ 1,783,077</u>

See accompanying notes.

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**PULASKI COUNTY SPECIAL SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS - REGULATORY BASIS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	Major		
	General funds	Special revenue funds	Other governmental funds
<b>REVENUES</b>			
Property taxes	\$ 61,003,521	\$ -	\$ 6,701,434
Interest	1,796,933	-	1,029,495
Tuition charges	363,445	-	-
State revenues	89,710,475	-	-
Federal revenue	376,887	15,628,002	-
Food services	-	2,343,909	-
Other	1,444,373	109,899	49,473
	<u>154,695,634</u>	<u>18,081,810</u>	<u>7,780,402</u>
<b>EXPENDITURES</b>			
<b>Current:</b>			
Instruction and instructional - related services	91,597,252	4,630,116	35,730
Support services - student based	23,481,091	3,046,779	1,494,103
Support services - nonstudent based	26,995,146	312,718	96,788
Community services	1,615	140,962	-
Food services	-	7,481,989	-
Other	59,482	51,561	-
<b>Debt service:</b>			
Principal	43,512	-	1,810,000
Interest	-	-	3,453,253
Paying agent's fees	-	-	7,042
Bond issuance costs	-	-	39,402
<b>Capital lease:</b>			
Principal	220,569	-	389,413
Interest	29,750	-	-
<b>Capital outlay</b>	<u>2,488,999</u>	<u>308,395</u>	<u>4,821,808</u>
	<u>144,917,416</u>	<u>15,972,520</u>	<u>12,147,539</u>
<b>Excess (deficiency) of revenues over expenditures</b>	9,778,218	2,109,290	(4,367,137)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers, net	(11,755,667)	586,760	11,168,907
Proceeds from sale of bonds	-	-	2,195,000
Installment/lease purchase proceeds	1,814,000	-	-
Total other financing sources (uses)	<u>(9,941,667)</u>	<u>586,760</u>	<u>13,363,907</u>
<b>Net change in fund balances</b>	(163,449)	2,696,050	8,996,770
Fund balance - beginning, as previously reported	9,198,798	1,136,933	24,857,177
Effect of change in accounting principles (Note 8)	(446,323)	(443,741)	-
<b>Fund balance - beginning, as restated</b>	<u>8,752,475</u>	<u>693,192</u>	<u>24,857,177</u>
<b>Fund balance - ending</b>	<u>\$ 8,589,026</u>	<u>\$ 3,389,242</u>	<u>\$ 33,853,947</u>

# PULASKI COUNTY SPECIAL SCHOOL DISTRICT

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET TO ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Budget</u>	<u>General Actual</u>	<u>Variance</u>
<b>REVENUES</b>			
Property taxes	\$ 59,357,691	\$ 61,003,521	\$ 1,645,830
Interest	250,000	1,796,933	1,546,933
Tuition charges	73,000	363,445	290,445
State revenues	90,547,014	89,710,475	(836,539)
Federal revenues	300,750	376,887	76,137
Food services	-	-	-
Other	723,200	1,444,373	721,173
	<u>151,251,655</u>	<u>154,695,634</u>	<u>3,443,979</u>
<b>EXPENDITURES</b>			
<b>Current:</b>			
Instruction and instructional - related services	95,536,777	91,597,252	3,939,525
Support services - student based	22,627,712	23,481,091	(853,379)
Support services - nonstudent based	26,543,693	26,995,146	(451,453)
Community services	9,000	1,615	7,385
Food services	-	-	-
Other	-	59,482	(59,482)
Debt service	49,500	43,512	5,988
Capital leases	-	250,319	(250,319)
Capital outlay	2,559,986	2,488,999	70,987
	<u>147,326,668</u>	<u>144,917,416</u>	<u>3,259,252</u>
<b>Excess (deficiency) of revenues over expenditures</b>	3,924,987	9,778,218	6,703,231
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers	(976,045)	(11,755,667)	(10,779,622)
Proceeds from sale of bonds	-	-	-
Installment/lease purchase proceeds	1,814,000	1,814,000	-
Premium on bonds	10,000	-	(10,000)
Total other financing sources (uses)	<u>847,955</u>	<u>(9,941,667)</u>	<u>(10,789,622)</u>
<b>Net change in fund balances</b>	<u>\$ 4,772,942</u>	<u>\$ (163,449)</u>	<u>\$ (4,086,391)</u>

<b>Special Revenue</b>		
<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
\$ -	\$ -	\$ -
-	-	-
-	-	-
-	-	-
13,148,512	15,628,002	2,479,490
3,330,142	2,343,909	(986,233)
-	109,899	109,899
<u>16,478,654</u>	<u>18,081,810</u>	<u>1,603,156</u>
6,701,529	4,630,116	2,071,413
3,040,310	3,046,779	(6,469)
390,669	312,718	77,951
159,175	140,962	18,213
7,299,302	7,481,989	(182,687)
-	51,561	(51,561)
-	-	-
-	-	-
-	308,395	(308,395)
<u>17,590,985</u>	<u>15,972,520</u>	<u>1,618,465</u>
(1,112,331)	2,109,290	3,221,621
-	586,760	586,760
-	-	-
-	-	-
-	-	-
<u>-</u>	<u>586,760</u>	<u>586,760</u>
<u>\$ (1,112,331)</u>	<u>\$ 2,696,050</u>	<u>\$ 3,808,381</u>

# PULASKI COUNTY SPECIAL SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

### Note 1: Summary of significant accounting policies

#### Reporting entity

The Board of Education, a seven (7) member group, is the level of government which has responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Pulaski County Special School District ("District"). There are no component units.

#### Fund accounting

Major governmental funds (per the regulatory basis of accounting) are defined as General and Special Revenue.

**General Fund** - The General Fund is the general operating fund and is used to account for all financial resources, except those required to be reported in another fund.

**Special Revenue Fund** - The Special Revenue Fund is used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

Other governmental funds consist of the following:

**Capital Projects Fund** - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments).

**Debt Service Fund** - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Fiduciary Fund types include the following:

**Agency Funds** - Agency Funds are used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities).

#### Measurement focus and basis of accounting

The financial statements are prepared in accordance with a regulatory basis of accounting (RBA), which is an Other Comprehensive Basis of Accounting (OCBOA). This basis of accounting is prescribed by Ark. Code Ann. 10-4-413 (c), as provided in Act 2201 of 2005, and requires that financial statements be presented on a fund basis with, as a minimum, the general fund and special revenue fund presented separately and all other funds included in the audit presented in the aggregate. The law also stipulates that the financial statements consist of a balance sheet; a statement of revenues, expenditures, and changes in fund balances; a comparison of the final adopted budget to the actual expenditures for the general fund and special revenue funds of the entity; notes to financial statements; and a supplemental schedule of capital assets, including land, buildings, and equipment. The law further stipulates that the State Board of Education shall promulgate the rules necessary to administer the regulatory basis of presentation.

# PULASKI COUNTY SPECIAL SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

### Note 1: Summary of significant accounting policies (continued)

#### Measurement focus and basis of accounting (continued)

The RBA is not in accordance with generally accepted accounting principles (GAAP). GAAP require that basic financial statements present government-wide financial statements. Additionally, GAAP require the following major concepts: Management’s Discussion and Analysis, accrual basis of accounting for government-wide financial statements, including depreciation expense, modified accrual basis of accounting for fund financial statements, separate financial statements for fiduciary fund types, separate identification of special and extraordinary items, inclusion of capital assets and debt in the financial statements, specific procedures for the identification of major governmental funds and applicable note disclosures. The RBA does not require government-wide financial statements or the previously identified concepts.

The accompanying financial statements are presented on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for purposes of recording specific activities or attaining certain objectives. Revenues are reported by major sources and expenditures are reported by major function. Other transactions, which are not reported as revenues or expenditures, are reported as other financing sources and uses. Transactions related to the recording of installment contracts and capital leases are reported as other financing sources. Changes in private-purpose trust funds will be reflected in the notes to the financial statements.

#### Revenue recognition policies

Revenues are recognized when they become susceptible to accrual in accordance with the RBA, except for property taxes (see below).

#### Capital assets

Information on capital assets and related depreciation is reported at Schedule 1. Capital assets are capitalized at historical cost or estimated historical cost, if actual data is not available. Capital assets purchased are recorded as expenditures in the applicable fund at the time of purchase. Donated capital assets are reported at fair value when received. The District maintains a threshold level of \$1,000 for capitalizing equipment. Library holdings are not capitalized.

No salvage value is taken into consideration for depreciation purposes. All capital assets, other than land and construction in progress, are depreciated using the straightline method over the following useful lives:

<u>Asset Class</u>	<u>Estimated Used Life in Years</u>
Improvements/infrastructure	20
Building	50
Equipment	5-20

#### Property taxes

Property taxes are levied in November based on property assessment mad between January 1 and May 31 and are an enforceable lien on January 1 for real property and June 1 for personal property. The tax records are opened on the first business day of March of the year following the levy date and are considered delinquent after October 10 of the same calendar year.

# PULASKI COUNTY SPECIAL SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

### Note 1: Summary of significant accounting policies (continued)

#### Property taxes (continued)

Property taxes are accrued or deferred, as applicable, in accordance with guidelines issued by the Arkansas Department of Education (ADE), which were effective beginning with the fiscal year ended June 30, 2006. Arkansas law defines revenue receipts of a school district and includes forty percent (40%) of the proceeds of local taxes which are not pledged to secure bonded indebtedness or forty percent (40%) of the revenue from the uniform rate of tax whichever is greater collected in the succeeding calendar year, commonly known as 40% pullback, within that definition. The ADE has determined that school districts must utilize the 40% pullback amount, as calculated by the ADE and reflected on the respective county's abstract of assessments, in recording property tax revenue as follows:

- If the amount of 40% pullback collected by June 30<sup>th</sup> is less than the calculated 40% pullback amount, the difference must be accrued;
- If the amount of 40% pullback collected by June 30<sup>th</sup> is more than the calculated 40% pullback amount, the excess must be recorded as deferred taxes.

Amendment No. 74 to the Arkansas Constitution established a uniform minimum property tax millage rate of 25 mills for maintenance an operation of public schools. Ark. Code Ann. 26-80-101 provides the uniform rate of tax (URT) shall be assessed and collected in the same manner as other school property taxes, but the net revenues from the URT shall be remitted to the State Treasurer and distributed by the State to the county treasurer of each county for distribution to the school districts in that county. For reporting purposes, URT revenues are considered property taxes.

#### Fund balance designations

Reserved fund balance - represents that portion of the fund balance which is not appropriable for expenditure or is legally segregated for specific future use.

Undesignated fund balance - indicates that portion of the fund balance not reserved or designated.

#### Budget and budgetary accounting

The District is required by state law to prepare an annual budget. The annual budget is prepared on a fiscal year basis. The District does not prepare and submit amended budgets during the fiscal year. The State Department of Education's regulations allow for the cash basis or the modified accrual basis. However, the majority of the school districts employ the cash basis method.

The District budgets intra-fund transfers. Significant variances may result in the comparison of transfers at the Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General and Special Revenue Funds - Regulatory Basis because only interfund transfers are reported at the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds - Regulatory Basis.

Budgetary perspective differences are not considered to be significant, because the structure of the information utilized in preparing the budget and the applicable fund financial statements is essentially the same.

**PULASKI COUNTY SPECIAL SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2007**

**Note 2: Cash deposits with financial institutions**

Cash deposits are carried at cost (carrying value). A comparison of the bank balance and carrying value is as follows:

	<u>Carrying amount</u>	<u>Bank balance</u>
Insured (FDIC)	\$ 200,000	\$ 200,000
Collateralized - held by pledging bank or pledging bank's trust department in the District's name	<u>69,947,455</u>	<u>72,013,801</u>
Total deposits	<u>\$ 70,147,455</u>	<u>\$ 72,213,801</u>

The total deposits reflected above include certificates of deposits of \$56,400,000 reported as investments and classified as nonparticipating contracts.

**Note 3: Receivables**

The receivables of \$384,289 at June 30, 2007, are as follows:

<u>Class of receivable</u>	<u>General fund</u>	<u>Special revenue fund</u>	<u>Total</u>
Taxes:			
Local	\$ 258,202	\$ -	\$ 258,202
Other	<u>39,065</u>	<u>87,022</u>	<u>126,087</u>
Totals	<u>\$ 297,267</u>	<u>\$ 87,022</u>	<u>\$ 384,289</u>

**Note 4: Commitments**

The District was contractually obligated for the following at June 30, 2007:

**Construction contracts**

<u>Project Name</u>	<u>Estimated completion date</u>	<u>Contract balance</u>
Middle School Project	October 2007	\$ 406,338
Middle School Renovation	November 2007	\$ 874,522
Elementary Project	August 2007	\$ 580,210

**PULASKI COUNTY SPECIAL SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2007**

**Note 4: Commitments (continued)**

**Long-term debt issued and outstanding**

The District is presently paying on the following long-term debt:

<u>Date of issue</u>	<u>Date of final maturity</u>	<u>Rate of interest</u>	<u>Amount authorized and issued</u>	<u>Debt outstanding June 30, 2007</u>	<u>Maturities to June 30, 2007</u>
Bonds payable:					
1/1/2002	2/1/2019	3.75 - 4.5%	\$ 2,641,185	\$ 2,050,000	\$ 591,185
11/1/2002	11/26/2032	4.05 - 5.0%	18,653,700	16,590,000	2,063,700
12/1/2002	12/19/2032	4.0 - 4.875%	20,882,230	19,485,000	1,397,230
11/1/2004	6/30/2035	4.0 - 4.75%	23,770,000	22,455,000	1,315,000
11/1/2004	4/1/2021	3.0 - 4.75%	13,730,000	12,555,000	1,175,000
2/1/2006	2/1/2011	3.5%	2,195,000	1,750,000	445,000
			<u>81,872,115</u>	<u>74,885,000</u>	<u>6,987,115</u>
Notes payable:					
7/11/1989	11/30/2008	0%	305,632	25,469	280,163
5/16/1991	11/30/2007	0%	86,600	671	85,929
4/17/1992	5/30/2011	0%	96,500	21,445	75,055
4/16/1993	5/30/2013	0%	291,076	88,940	202,136
			<u>779,808</u>	<u>136,525</u>	<u>643,283</u>
Post dated warrants:					
12/15/1998	12/15/2008	4.65%	1,400,000	333,068	1,066,932
Capital leases:					
8/20/2004	8/27/2008	3.48%	264,883	136,970	127,913
1/19/2007	1/19/2011	3.67%	1,814,000	1,424,588	389,412
			<u>2,078,883</u>	<u>1,561,558</u>	<u>517,325</u>
Totals			<u>\$ 86,130,806</u>	<u>\$ 76,916,151</u>	<u>\$ 9,214,655</u>

Changes in long-term debt:

<u>Description</u>	<u>Balance July 1, 2006</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance June 30, 2007</u>
Notes payable	\$ 74,500,000	\$ 2,195,000	\$ 1,810,000	\$ 74,885,000
Bonds payable	180,036	-	43,511	136,525
Post-dated warrants	488,586	-	155,518	333,068
Capital leases	202,021	1,814,000	454,463	1,561,558
Totals	<u>\$ 75,370,643</u>	<u>\$ 4,009,000</u>	<u>\$ 2,463,492</u>	<u>\$ 76,916,151</u>

**PULASKI COUNTY SPECIAL SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2007**

**Note 4: Commitments (continued)**

Total long-term debt principal and interest payments are as follows:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 2,431,376	\$ 3,502,962	\$ 5,934,338
2009	2,509,499	3,412,347	5,921,846
2010	2,349,222	3,318,024	5,667,246
2011	2,426,798	3,230,842	5,657,640
2012	1,659,256	3,140,336	4,799,592
2013 - 2017	9,235,000	14,662,058	23,897,058
2018 - 2022	11,495,000	12,476,310	23,971,310
2023 - 2027	14,545,000	9,470,931	24,015,931
2028 - 2032	18,520,000	5,574,619	24,094,619
2033 - 2035	11,745,000	1,134,262	12,879,262
Totals	<u>\$ 76,916,151</u>	<u>\$ 59,922,691</u>	<u>\$ 136,838,842</u>

The District has executed the following capital leases:

<u>Class of property</u>	<u>Asset balance June 30, 2007</u>
Equipment	\$ 3,478,883
	<b>June 30, 2007</b>
Total minimum lease payments	\$ 1,701,810
Less: Amount representing interest	<u>140,252</u>
Total present value of net minimum lease payments	<u>\$ 1,561,558</u>

**Note 5: Accounts payable and accrued liabilities**

The accounts payable and accrued liabilities balance of \$11,283,121 at June 30, 2007, is broken down as follows:

	<u>General fund</u>	<u>Special revenue fund</u>	<u>Capital projects fund</u>	<u>Total</u>
Accounts payable	\$ 10,176,501	\$ 8,645	\$ 1,097,975	\$ 11,283,121

**Note 6: Interfund transfers**

The following details the transfers between governmental funds for operating purposes:

	<u>General fund</u>	<u>Special revenue fund</u>	<u>Debt service fund</u>	<u>Capital projects fund</u>	<u>Total</u>
Transfers in	\$ 95,318,196	\$ 871,071	\$ 197,723	\$ 13,631,453	\$ 110,018,443
Transfers out	<u>(107,073,863)</u>	<u>(284,311)</u>	<u>(2,326,822)</u>	<u>(333,447)</u>	<u>(110,018,443)</u>
	<u>\$ (11,755,667)</u>	<u>\$ 586,760</u>	<u>\$ (2,129,099)</u>	<u>\$ 13,298,006</u>	<u>\$ -</u>

**PULASKI COUNTY SPECIAL SCHOOL DISTRICT****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2007****Note 7: Retirement plans****Arkansas Teacher Retirement System**

Plan description: The District contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers all Arkansas public school employees, except certain nonteachers hired prior to July 1, 1989. ATRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit and contribution provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-666-2877.

Funding policy: ATRS has contributory and non-contributory plans. Contributory members are required by law to contribute 6% of their salary. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current employer rate is 14%.

The District's contributions to ATRS for the years ended June 30, 2007, 2006 and 2005 were \$12,864,194, \$11,191,498 and \$10,295,000, respectively.

**Arkansas Public Employees Retirement System**

Plan description: The District contributes to the Arkansas Public Employees Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan that covers certain nonteaching Arkansas public school employees hired before July 1, 1989. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit and contribution provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 W. Capitol, Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

Funding policy: PERS has contributory and non-contributory plans. Contributory members are required by law to contribute 6% of their salary. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current statutory employer rate is 4% of annual covered payroll. The District's contributions to PERS for the years ended June 30, 2007, 2006 and 2005 was \$75,270, \$69,623 and \$88,116, respectively, equal to the required contributions for each year.

**Note 8: Change in accounting principles**

During 2007, the District changed its method of accounting principles generally accepted in the United States of America to the regulatory basis of accounting permitted by *Arkansas Code* Section 10-4-413. The District believes that the new method simplifies its reporting requirements.

**PULASKI COUNTY SPECIAL SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2007**

**Note 8: Change in accounting principles (continued)**

The July 1, 2006 beginning fund balances have been retroactively restated for the change which results in decreases to fund balance at July 1, 2006, as follows:

	<u>General fund</u>	<u>Special revenue fund</u>
Beginning fund balances, as previously reported	\$ 9,198,798	\$ 1,136,933
Less: inventories as of July 1, 2006	<u>(446,323)</u>	<u>(443,741)</u>
Beginning fund balances, as restated	<u>\$ 8,752,475</u>	<u>\$ 693,192</u>

**Note 9: Risk management**

The District is exposed to various risk of loss from torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The District is a member of the Arkansas School Board Association self-insurance program, a public entity risk pool currently operating a common risk management and insurance program for its members. The fund was created by members to formulate, develop and administer a program of self-funding for the fund's membership, obtain lower costs for Workmen's Compensation Coverage and develop a comprehensive loss control program. The District pays an annual premium to the fund for its Workmen's Compensation Coverage. The Pool's governing agreement specifies that the Pool will be self-sustaining through member premiums and will reissue through commercial carriers for claims in excess of specified stop loss amounts.

**Note 10: Litigation and contingencies**

The District is a defendant in various litigation matters. One matter has reached settlement for \$850,000 subsequent to year end and has been accrued in the financial statements. For the other matters, neither the ultimate outcome nor an estimated range of potential loss can be determined. 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 for these other matters in the financial statements.

The District participates in federally assisted grant programs. The District is potentially liable for expenditure which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

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**OTHER REPORTS AND SUPPLEMENTARY INFORMATION**

**PULASKI COUNTY SPECIAL SCHOOL DISTRICT**

**SCHEDULE OF CAPITAL ASSETS**

**FOR THE YEAR ENDED JUNE 30, 2007**

	<b>Balance July 1, 2006</b>	<b>Additions</b>	<b>Deletions</b>
<b>Nondepreciable capital assets:</b>			
Land	\$ 3,110,348	\$ -	\$ -
Construction in progress	1,128,038	2,580,423	-
Total nondepreciable capital assets	<u>4,238,386</u>	<u>2,580,423</u>	<u>-</u>
<b>Depreciable capital assets:</b>			
Buildings	94,358,817	822,091	155,766
Improvements/infrastructure	12,125,155	2,075,988	1,561,058
Equipment	17,857,551	2,582,110	3,734,818
Total depreciable capital assets	<u>124,341,523</u>	<u>5,480,189</u>	<u>5,451,642</u>
<b>Less accumulated depreciation for:</b>			
Buildings	38,979,343	1,910,005	155,766
Improvements/infrastructure	10,686,183	875,367	1,538,516
Equipment	13,642,968	1,478,360	3,682,017
Total accumulated depreciation	<u>63,308,494</u>	<u>4,263,732</u>	<u>5,376,299</u>
Total depreciable capital assets, net	<u>61,033,029</u>	<u>1,216,457</u>	<u>75,343</u>
<b>Capital assets, net</b>	<u>\$ 65,271,415</u>	<u>\$ 3,796,880</u>	<u>\$ 75,343</u>

<u>Transfers</u>	<u>Balance June 30, 2007</u>
\$ -	\$ 3,110,348
(1,613,434)	2,095,027
<u>(1,613,434)</u>	<u>5,205,375</u>
1,613,434	96,638,576
-	12,640,085
-	16,704,843
<u>1,613,434</u>	<u>125,983,504</u>
-	40,733,582
-	10,023,034
-	11,439,311
<u>-</u>	<u>62,195,927</u>
-	63,787,577
<u>\$ -</u>	<u>\$ 68,992,952</u>



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

To the School Board Members  
Pulaski County Special School District  
Little Rock, Arkansas

We have audited the financial statements of each major governmental fund and the aggregate remaining fund information of the Pulaski County Special School District (the "District"), as of and for the year ended June 30, 2007, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated December 18, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We issued an adverse opinion because the District prepared the financial statements in conformity with accounting practices prescribed or permitted by the Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determined, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2007, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1.

**Internal control over financial reporting**

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

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

To the School Board Members  
Page Two

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 combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will 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. Of the significant deficiencies reflected in the accompanying Schedule of Findings and Questioned Costs, we consider both deficiencies as defined above, to be material weaknesses.

#### **Compliance and other matters**

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

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

*Hudson, Cisne & Co. LLP*

Hudson, Cisne & Co. LLP  
Little Rock, Arkansas  
December 18, 2007



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the School Board Members  
Pulaski County Special School District  
Little Rock, Arkansas

**Compliance**

We have audited the compliance of the Pulaski County Special School District (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 the major federal programs for the year ended June 30, 2007. The District's major federal programs are identified in the summary of auditor's 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, *Audit of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Districts' 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 requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with

To the School Board Members  
Page Two

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

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

*Hudson, Cisne & Co. LLP*

Hudson, Cisne & Co. LLP  
Little Rock, Arkansas  
December 18, 2007

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**PULASKI COUNTY SPECIAL SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

<b>Federal Grant/Pass-Through Grantor/Program Title</b>	<b>Federal CFDA number</b>	<b>Federal expenditures</b>
<b>U.S. DEPARTMENT OF EDUCATION</b>		
<b>Passed through Arkansas Department of Education</b>		
21 <sup>st</sup> Century community learning center grant	84.287A	\$ 188,748
Adult education - state grant program	84.002A	310,398
Title 1 - Part A - Grants to local education agencies	84.010	3,308,547
Special education - grants to states	84.027	2,874,703
Vocational education - basic grants to states	84.048	111,066
Safe and drug free schools and committees	84.186A	60,770
Education technology state grant	84.318	123,557
Improving teacher quality state grant	84.367	770,020
Hurricane education recovery act	84.938C	47,319
English language acquisition grants	84.365	14,779
Class size reduction	84.298	1,085
Reading first grant	84.357	335,408
Total U.S. Department of Education		8,146,400
<b>U.S. DEPARTMENT OF AGRICULTURE</b>		
<b>Passed through Arkansas Department of Education</b>		
School breakfast program (988,915 units served)	10.553	1,290,418
National school lunch program (2,038,076 units served)	10.555	3,383,639
<b>Passed through Arkansas Department of Human Services</b>		
National school lunch program - Food Donation	10.550	396,595
Child and adult care food program (75,662 snacks served)	10.558	22,510
Summer food service (1,634 breakfasts, 6,789 lunches served)	10.559	10,649
Total U.S. Department of Agriculture		5,103,811
<b>NATIONAL AERONAUTICS AND SPACE ADMINISTRATION</b>		
Aerospace education services program	43.001	5,103
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>		
<b>Passed through Arkansas Department of Human Services</b>		
Child care mandatory and matching funds	93.956	34,729
Comprehensive school health programs	93.938	981
Medical assistance program	93.778	51,225
		86,935
Total expenditures of federal awards		\$ 13,342,249

**Notes to schedule:**

1. This schedule includes the federal awards activity of the District and is present on the modified-accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.
2. Medicaid reimbursements are defined as contracts for services and not federal awards, therefore such reimbursements totaling \$175,285 are not covered by the reporting requirements of OMB Circular A-133.

**PULASKI COUNTY SPECIAL SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2007**

**A. SUMMARY OF AUDITOR'S RESULTS**

1. Our report expresses an unqualified opinion on the basic financial statements of Pulaski County Special School District.
2. Two significant deficiencies disclosed during the audit of the financial statements are reported in the 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*. Both are considered to be material weaknesses.
3. No instances of non-compliance material to the financial statement of Pulaski County Special School District were disclosed during the audit.
4. There were no significant deficiencies during the audit of the major federal award programs.
5. Our report on compliance for the major federal awards programs for Pulaski County Special School District expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs.
7. The programs tested as major programs included: Local Educational Agencies - Title I Grants - CFDA No. 84.010 and Education Technology State Grants - CFDA No. 84.048.
8. The threshold for distinguishing types A and B program was \$400,267.
9. Pulaski County Special School District was determined to be a low-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENTS AUDIT**

**2007-1**

*Deficiency:* Controls not in place to accrue revenues receivable and expenditures payable at year end in accordance with the Regulatory Basis of Accounting.

*Auditor's Recommendation:* Implement a policy that accounting personnel review collections received and disbursements made during the first months of the new fiscal year to determine whether the related revenues or expenditures should be accrued into the previous year's activity.

*District's Response:* A policy will be instituted to assign appropriate accounting personnel to these duties in future years.

**PULASKI COUNTY SPECIAL SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2007**

**B. FINDINGS - FINANCIAL STATEMENTS AUDIT (continued)**

**2007-2**

*Deficiency:* Controls not in place to adjust property tax revenues to the amount allowed in current year revenues under Arkansas Department of Education (ADE) guidelines.

*Auditor's Recommendation:* Implement a policy assigning accounting personnel having necessary understanding of property tax revenue recognition under ADE guidelines to properly record property tax revenues, any related receivables or deferrals, as well as any necessary reversing entries in the following year.

*District's Response:* A policy will be instituted to assign accounting personnel with the appropriate knowledge and skill to these duties.

**C. FINDINGS - FEDERAL AWARDS AUDIT**

None

**PRIOR YEAR FINDINGS AND QUESTIONED COST**

There were no findings or questioned costs that were required to be reported for the year ended June 30, 2006.



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

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

We have examined management's assertions that Pulaski County Special School District substantially complied with the requirements of Arkansas Code Annotated 6-1-101 and the applicable laws and regulations including those listed in the accompanying schedule of statutes required to be addressed by the Arkansas Department of Education during the year ended June 30, 2007. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on management's assertions about the District's compliance based on our examination.

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

In our opinion, Pulaski County Special School District complied with the aforementioned requirements for the year ended June 30, 2007.

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

*Hudson, Cisne & Co. LLP*

Hudson Cisne & Co. LLP  
Little Rock, Arkansas  
December 18, 2007

**PULASKI COUNTY SPECIAL SCHOOL DISTRICT  
SCHEDULE OF STATUTES REQUIRED BY ARKANSAS DEPARTMENT OF EDUCATION  
TO BE ADDRESSED IN INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
FOR THE YEAR ENDED JUNE 30, 2007**

<u>DESCRIPTION</u>	<u>STATUTES</u>
Bidding & Purchasing Commodities	6-13-628; 6-21-301 - 6-21-305;
Teacher's License Requirement	6-17-401
Use of Contractors	22-9-201 - 22-9-205
Board of Directors	6-13-604; 6-13-606; 6-13-608; 6-13-611-06-13-613; 6-13-615-6-13-620; 6-13-1406; 6-24-101; 6-24-105
Election Requirements	6-13-622; 6-13-630; 6-13-631; 6-13-634; 6-14-102 6-14-106; 6-14-109; 6-14-118; 6-13-1412; 6-13-1413
Warrants	6-13-701; 6-17-918; 6-17-919; 6-20-403
Personnel Policies	6-17-201 et seq.
Certification Requirements	6-17-309; 6-17-401
Contracts	6-17-801 et seq.
Teacher Salary Fund	6-17-908
Trust Funds	6-5-307
Salary Laws	6-17-2201 et seq.; 6-17-2301 et seq.
Sick Leave Policies	6-17-1201 et seq.; 6-17-1301 et seq.
Fair Dismissal Act	6-17-1501 et seq.; 6-17-1701 et seq.
Collateralization & Investments	6-20-222; 19-1-504
Surety Bonds	19-1-403
Petty Cash	6-20-409
Nonrecurring Salary Payments	6-20-412
Bonded & Non-bonded Debt	6-20-401; 6-20-402; 6-20-1201 et seq.
Use of DM&O Millage	26-80-110
Revolving Loan Fund	6-19-114; 6-20-801 et seq.;
Deposits of Funds	19-8-104; 19-8-106
Failure to Make Records	6-17-911
Investment of Funds	19-1-504
Management Letter for Audit	14-75-101-14-75-104
Employment and assignment	6-17-301 et seq.
Teacher salaries, the Minimum Foundation Program Aid Act	6-17-803; 6-17-907; 6-17-908; 6-17-911 - 6-17-915; 6-17-918; 6-17-919

**PULASKI COUNTY SPECIAL SCHOOL DISTRICT**  
**SUPPLEMENTAL DATA SHEET**  
**FOR THE YEAR ENDED JUNE 30, 2007**

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

1. Entity's Full Name: Pulaski County Special School District
2. Entity's Address: 925 E. Dixon Road  
Little Rock, AR 72206
3. Entity's FEIN: 71-6021158
4. Entity's Telephone Number: (501) 490-6252
5. Name of Director: Mr. James R. Sharpe, Superintendent
6. Name of Contact Person: Mr. Larry O'Briant, CFO