



**ARKANSAS**  
VIRTUAL ACADEMY<sup>SM</sup>

**REGULATORY BASIS FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION  
June 30, 2018**

**(With Independent Auditor's Reports Thereon)**



# Arkansas Virtual Academy

## TABLE OF CONTENTS

	<u>Page</u>
<b>INDEPENDENT AUDITOR’S REPORT</b>	1 – 3
<b>REGULATORY BASIS FINANCIAL STATEMENTS</b>	
Balance Sheet – Regulatory Basis	4
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Regulatory Basis	5
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds – Regulatory Basis	6
Notes to Financial Statements	7 – 12
<b>SUPPLEMENTARY INFORMATION</b>	
Schedule of Capital Assets (Unaudited)	13
<b>INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></b>	14 – 15
<b>INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE</b>	16 – 17
<b>SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</b>	18
<b>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</b>	19 – 20



## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
Arkansas Virtual Academy  
Little Rock, Arkansas

### Report on the Financial Statements

We have audited the accompanying financial statements of each major governmental fund of the charter school known as **Arkansas Virtual Academy (ARVA)**, which comprise the balance sheet – regulatory basis of the governmental funds as of June 30, 2018, the related statements of revenues, expenditures and changes in fund balance – governmental funds – regulatory basis, the statements of revenues, expenditures and changes in fund balance – budget and actual – general and special revenue funds – regulatory basis for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Arkansas Code Annotated §10-4-413(c) as provided in Act 2201 of 2005, as described in Note 1(b), to meet the requirements of the State of Arkansas. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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

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

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

### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in Note 1(b) to the financial statements, to meet the financial reporting requirements of the State of Arkansas, the financial statements are prepared by ARVA on the basis of the financial reporting provisions of Arkansas Code Annotated §10-4-413(c) as provided in Act 2201 of 2005, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1(b) and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraphs, the financial statements referred to on the preceding page do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of ARVA as of June 30, 2018, or the changes in its financial position for the year then ended.

### **Unmodified Opinions on Regulatory Basis of Accounting**

In our opinion, the financial statements referred to on the preceding page present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund of ARVA as of June 30, 2018, and the respective regulatory basis changes in financial position and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended in accordance with the financial reporting provisions of Arkansas Code Annotated §10-4-413(c) as provided in Act 2201 of 2005, as described in Note 1(b).

### **Other Matters**

#### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the regulatory basis financial statements as a whole. The schedule of capital assets, which is the responsibility of management, is presented for the purpose of additional analysis and in compliance with state statute and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, is presented for the purpose of additional analysis and is not a required part of the regulatory basis financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the regulatory basis financial statements. The information has been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and certain additional procedures,

**Other Matters (Continued)**

*Supplementary Information (Continued)*

including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the regulatory basis financial statements or to the regulatory basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the regulatory basis financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated {DATE}, 2019, on our consideration of ARVA'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ARVA's internal control over financial reporting and compliance.

Certified Public Accountants

{DATE}, 2019  
Little Rock, Arkansas

# Arkansas Virtual Academy

## BALANCE SHEET – REGULATORY BASIS

June 30, 2018

	Governmental Funds	
	General	Special Revenue
<b>ASSETS</b>		
Cash	\$ 1,675,424	\$ 55,756
Due from federal government	-	44,537
Due from special revenue fund	41,572	-
<b>TOTAL ASSETS</b>	<b>\$ 1,716,996</b>	<b>\$ 100,293</b>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>Liabilities</b>		
Accounts payable	\$ 1,311,694	\$ 2,966
Due to general fund	-	41,572
Due to student groups	3,299	-
<b>Total Liabilities</b>	<b>1,314,993</b>	<b>44,538</b>
<b>Fund Balances</b>		
Restricted	-	55,755
Unassigned	402,003	-
<b>Total Fund Balances</b>	<b>402,003</b>	<b>55,755</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,716,996</b>	<b>\$ 100,293</b>

See accompanying notes to financial statements.

# Arkansas Virtual Academy

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –  
GOVERNMENTAL FUNDS – REGULATORY BASIS  
For the Year Ended June 30, 2018**

	Governmental Funds	
	General	Special Revenue
<b>REVENUES</b>		
State assistance	\$ 13,400,085	\$ -
Federal assistance	-	1,027,295
Private contributions	4,046	-
<b>Total Revenues</b>	13,404,131	1,027,295
<b>EXPENDITURES</b>		
Instructional services	11,771,247	108,103
Instructional support services	1,162,456	943,808
School administration support services	130,409	-
General administration support services	205,313	-
Operation and maintenance of plant services	55,607	-
Capital outlay	35,095	-
<b>Total Expenditures</b>	13,360,127	1,051,911
<b>EXCESS OF REVENUES OVER EXPENDITURES (EXCESS OF EXPENDITURES OVER REVENUES)</b>	44,004	(24,616)
<b>FUND BALANCES - BEGINNING OF YEAR</b>	357,999	80,371
<b>FUND BALANCES - END OF YEAR</b>	\$ 402,003	\$ 55,755

See accompanying notes to financial statements.

# Arkansas Virtual Academy

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL AND SPECIAL REVENUE FUNDS – REGULATORY BASIS For the Year Ended June 30, 2018

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>						
State assistance	\$ 12,067,094	\$ 13,400,085	\$ 1,332,991	\$ -	\$ -	\$ -
Federal assistance	-	-	-	1,313,102	1,027,295	(285,807)
Private contributions	3,516	4,046	530	-	-	-
<b>Total Revenues</b>	<b>12,070,610</b>	<b>13,404,131</b>	<b>1,333,521</b>	<b>1,313,102</b>	<b>1,027,295</b>	<b>(285,807)</b>
<b>EXPENDITURES</b>						
Instructional services	8,857,101	11,771,247	(2,914,146)	112,473	108,103	4,370
Instructional support services	1,643,108	1,162,456	480,652	1,164,329	943,808	220,521
School administration support services	-	130,409	(130,409)	-	-	-
General administration support services	995,158	205,313	789,845	-	-	-
Community services	-	-	-	4,000	-	4,000
Operation and maintenance of plant services	54,120	55,607	(1,487)	-	-	-
Capital outlay	-	35,095	(35,095)	-	-	-
<b>Total Expenditures</b>	<b>11,549,487</b>	<b>13,360,127</b>	<b>(1,810,640)</b>	<b>1,280,802</b>	<b>1,051,911</b>	<b>228,891</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES (EXCESS OF EXPENDITURES OVER REVENUES )</b>	<b>521,123</b>	<b>44,004</b>	<b>(477,119)</b>	<b>32,300</b>	<b>(24,616)</b>	<b>(56,916)</b>
<b>OTHER FINANCING USES</b>						
Indirect costs	-	-	-	(25,722)	-	25,722
<b>EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES (EXCESS OF EXPENDITURES OVER REVENUES AND OTHER FINANCING USES)</b>	<b>521,123</b>	<b>44,004</b>	<b>(477,119)</b>	<b>6,578</b>	<b>(24,616)</b>	<b>(31,194)</b>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<b>357,999</b>	<b>357,999</b>	<b>-</b>	<b>80,371</b>	<b>80,371</b>	<b>-</b>
<b>FUND BALANCES - END OF YEAR</b>	<b>\$ 879,122</b>	<b>\$ 402,003</b>	<b>\$ (477,119)</b>	<b>\$ 86,949</b>	<b>\$ 55,755</b>	<b>\$ (31,194)</b>

See accompanying notes to financial statements.

# Arkansas Virtual Academy

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **(a) Reporting Entity**

Arkansas Virtual Academy is a nonprofit organization incorporated in 2003 under the laws of the State of Arkansas. This nonprofit corporation was granted a charter by the Arkansas State Board of Education (State Board) in 2007, to operate an open-enrollment charter school, also known as Arkansas Virtual Academy (ARVA), with continuation and renewal of the charter contingent upon acceptable student performance and compliance with certain accountability provisions set forth in Arkansas law pertaining to charter schools.

ARVA's charter was renewed by the State Board effective July 1, 2015, for a five-year period that will expire on June 30, 2020. The charter school, which is operated by the nonprofit corporation in accordance with the Arkansas Department of Education (ADE) *Rules and Regulations Governing Charter Schools*, presently offers educational opportunities to students in grade levels from kindergarten through twelfth grade. During the year ended June 30, 2017, ARVA's request for an increase in their maximum enrollment from 2,000 students to 3,000 students over a three year period was approved by the State Board. For the year ended June 30, 2018, ARVA's maximum enrollment was 2,440 students. ARVA's maximum enrollment will increase to 2,700 beginning July 1, 2018, and 3,000 beginning July 1, 2019.

These financial statements include only balances and transactions directly attributable to the charter school. They do not include any balances or transactions attributable to the nonprofit corporation.

#### **(b) Measurement Focus and Basis of Accounting**

The financial statements are prepared in accordance with a regulatory basis of accounting (RBA). This basis of accounting is prescribed by Arkansas Code Annotated §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, if any, presented in the aggregate. The law also stipulates that the financial statements consist of a balance sheet - regulatory basis; a statement of revenues, expenditures and changes in fund balances - regulatory basis; a comparison of the final adopted budget to the actual expenditures for the general fund and special revenue funds of the entity; notes to the financial statements; and a supplemental schedule of capital assets, including land, buildings, and equipment. The law further stipulates that the State Board shall promulgate the rules necessary to administer the regulatory basis of presentation.

The RBA is not in accordance with U.S. generally accepted accounting principles (U.S. GAAP). U.S. GAAP require that basic financial statements present government-wide financial statements. Additionally, U.S. 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; inclusion of the net pension liability 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.

# Arkansas Virtual Academy

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

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

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.

Major governmental funds (per the RBA) are defined as the General Fund and the Special Revenue Fund, as described below:

General Fund – The General Fund is used to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Fund – The Special Revenue Fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Special Revenue Fund includes federal revenues and related expenditures which are restricted for specific educational programs or projects.

ARVA had no other funds during the year ended June 30, 2018.

#### **(c) Revenue Recognition**

Revenues are recognized when they become susceptible to accrual in accordance with the RBA.

#### **(d) Capital Assets**

Capital assets are reported at historical cost or estimated historical cost, if actual historical cost 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 acquisition value when received. ARVA maintains a threshold level of \$1,000 for capitalizing assets.

Capital assets are depreciated using the straight-line method over their estimated useful lives, which range from three to twenty years. No salvage value is taken into consideration for purposes of calculating depreciation.

#### **(e) Interfund Balances and Transactions**

Receivables and payables resulting from short-term interfund loans are classified as due to or due from other funds.

#### **(f) Fund Balances**

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balance represents amounts that cannot be spent because they are either not in a spendable form or are legally or contractually required to be maintained intact. Restricted fund balance represents amounts that are restricted to specific purposes when constraints placed on the use of resources are either externally

# Arkansas Virtual Academy

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

#### **(f) Fund Balances (Continued)**

imposed by creditors, grantors, contributors or laws or regulations of other governments or are imposed by law through constitutional provisions or enabling legislation. Committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of ARVA's governing body. Assigned fund balance represents amounts that are constrained by ARVA's intent to be used for specific purposes, but are neither restricted nor committed. Unassigned fund balance represents amounts that have not been assigned to other funds and that have not been restricted, committed or assigned to specific purposes within the general fund.

ARVA's highest level of decision-making authority is its Board of Directors. The establishment of amounts classified as committed fund balances and subsequent modifications to such balances are the result of formal actions taken by ARVA's Board of Directors through a resolution or adoption of board policy.

ARVA's revenues, expenditures and fund balances are tracked in the accounting system by source of funds. The fund balances of these sources of funds are combined to derive ARVA's total fund balance by fund. It is uncommon for an individual source of funds to contain restricted and unrestricted funds. ARVA's policy is to use restricted fund balances first, then unassigned fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unassigned fund balance classifications can be used.

#### **(g) Budget and Budgetary Accounting**

ARVA is required by state law to prepare an annual budget. The annual budget is prepared on a fiscal year basis. ARVA does not prepare and submit amended budgets during the fiscal year. The ADE's regulations allow for the cash basis or the modified accrual 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.

#### **(h) Stabilization Arrangements**

ARVA's Board of Directors has not formally set aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise.

#### **(i) Minimum Fund Balance Policies**

ARVA's Board of Directors has not formally adopted a minimum fund balance policy.

#### **(j) Use of Estimates**

The preparation of financial statements in conformity with the RBA requires management to make estimates and assumptions that affect reported amounts of certain assets and liabilities and various disclosures in the financial statements. Accordingly, actual results could differ from those estimates.

# Arkansas Virtual Academy

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

### **NOTE 2: CASH**

ARVA's cash consists of demand deposits maintained at a financial institution. State statutes require that ARVA's funds be deposited in banks located in the State of Arkansas and that all deposit balances in excess of the Federal Deposit Insurance Corporation insurance limits be collateralized. At June 30, 2018, the bank balance of ARVA's demand deposit accounts maintained at a financial institution totaled \$2,008,958, all of which was insured or collateralized.

### **NOTE 3: ACCOUNTS RECEIVABLE**

Accounts receivable at June 30, 2018 were comprised solely of federal assistance to the special revenue fund totaling \$44,537.

### **NOTE 4: LEASE COMMITMENTS**

ARVA leases certain office equipment and office space under noncancelable operating leases with terms in excess of one year. Approximate future minimum lease payments, by fiscal year, under such leases at June 30, 2018, are as follows:

2019	\$ 73,723
2020	89,667
2021	88,007
2022	86,970
2023	86,970
Thereafter	<u>86,970</u>
Total	<u>\$ 512,307</u>

Total occupancy and equipment rentals were approximately \$614,000 for the year ended June 30, 2018.

### **NOTE 5: ACCOUNTS PAYABLE**

Accounts payable at June 30, 2018 were comprised of vendor payables of \$1,311,694 from general funds and \$2,966 from special revenue funds.

# Arkansas Virtual Academy

## NOTES TO FINANCIAL STATEMENTS June 30, 2018

### **NOTE 6: RETIREMENT PLAN**

#### Plan Description

ARVA contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers employees of schools and education-related agencies, except certain non-teaching school employees. ATRS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and can be amended only by the Arkansas General Assembly. ATRS 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, by calling 1-800-666-2877, or by visiting the ATRS website at [www.artrs.gov](http://www.artrs.gov).

#### Funding Policy

ATRS has contributory and non-contributory plans. Contributory members are required by state law to contribute 6% of their salaries. Each participating employer is required by state law to contribute at a rate determined by the ATRS Board of Trustees, based on the annual actuarial valuation. The employer rate at June 30, 2018, is 14% of covered salaries. ARVA's contributions to ATRS for the years ended June 30, 2018, 2017 and 2016 were \$513,036, \$395,662 and \$328,819, respectively, which were equal to the required contributions for each year.

#### Net Pension Liability

The Arkansas Department of Education has stipulated that the requirements of Governmental Accounting Standards Board Statement No. 68 under the RBA would be limited to disclosure of ARVA's proportionate share of the collective net pension liability. ARVA's proportionate share of the collective net pension liability at June 30, 2017 (the actuarial valuation date and measurement date) was approximately \$4,008,000.

### **NOTE 7: ON BEHALF PAYMENTS**

The allocation of the health insurance premiums paid by the ADE, on-behalf of ARVA's employees, totaled approximately \$97,000 for the year ended June 30, 2018.

### **NOTE 8: DETAILS OF GOVERNMENTAL FUND BALANCE CLASSIFICATIONS**

At June 30, 2018, the Special Revenue fund balance was restricted for administrative activities for the Medical Assistance Program.

# Arkansas Virtual Academy

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

### **NOTE 9: EDUCATIONAL PRODUCTS AND SERVICES AGREEMENT**

Pursuant to the terms of an agreement executed by and between ARVA and a management agent in effect during the period from July 1, 2012 through June 30, 2022, the management agent is responsible for providing all administrative, educational and technology services necessary to conduct ARVA's educational programs, including educational program consulting, personnel management, facility and property management, business administration, budgeting and financial reporting, financial management, maintenance of records, pupil recruitment and admissions, family services, student discipline, annual reports, teacher training and professional development, charter renewal, public and governmental relations and any other services agreed to in writing.

For these services, the management agent receives management fees and technology fees, plus payments for all curriculum, instructional tools and equipment necessary to conduct ARVA's educational programs, as specified in the related agreement, to the extent that such fees do not cause ARVA to incur a net loss in the general fund. In addition, the agreement provides that the management agent is eligible to receive a performance incentive fee for operating at a surplus while meeting certain educational goals.

During the year ended June 30, 2018, expenditures incurred under the management agent agreement totaled approximately \$8,406,000, which is net of credits totaling approximately \$3,199,000 to ensure compliance with provisions in the management agreement specifying that the payment of such fees may not reduce the general fund balance below the reserve requirement calculated as three percent of total annual operating funds, excluding funds from federal sources or private grants. At June 30, 2018, accounts payable includes approximately \$1,296,000 of fees and payments for services that have been incurred but not paid. No performance incentive fee was earned during the year ended June 30, 2018.

### **NOTE 10: RISK MANAGEMENT**

ARVA 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. ARVA has purchased commercial insurance to address these risks.

There have been no significant reductions in ARVA's insurance coverage during the year ended June 30, 2018. In addition, there have been no settlements in excess of ARVA's coverage.

# Arkansas Virtual Academy

## SCHEDULE OF CAPITAL ASSETS (UNAUDITED) June 30, 2018

### DEPRECIABLE CAPITAL ASSETS

Equipment	\$ 225,622
Less accumulated depreciation	<u>(189,321)</u>
<b>Total Depreciable Capital Assets, Net</b>	<b><u><u>\$ 36,301</u></u></b>

See Independent Auditor's Report.



**INDEPENDENT AUDITOR'S 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  
Arkansas Virtual Academy  
Little Rock, Arkansas

We have audited, 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, the financial statements of each major governmental fund of the charter school known as **Arkansas Virtual Academy (ARVA)** as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise ARVA's regulatory basis financial statements, and have issued our report thereon dated {DATE}, 2019. We issued an adverse opinion because ARVA prepared the financial statements on the basis of the financial reporting provisions of Arkansas Code, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund of ARVA as of June 30, 2018, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1(b) to the financial statements.

**Internal Control Over Financial Reporting**

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

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

### **Internal Control Over Financial Reporting (Continued)**

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. During the audit, we identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs, that we consider to be a material weakness.

### **Compliance and Other Matters**

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

### **Management's Response to Finding**

ARVA's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. ARVA's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

Certified Public Accountants

{DATE}, 2019  
Little Rock, Arkansas



## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

The Board of Directors  
Arkansas Virtual Academy  
Little Rock, Arkansas

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

We have audited **Arkansas Virtual Academy's (ARVA)** compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of ARVA's major federal programs for the year ended June 30, 2018. ARVA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

Management is responsible for compliance with the federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the ARVA's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and audit requirements of Title 2 of the *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance 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 ARVA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of ARVA's compliance.

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

In our opinion, ARVA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

## Report on Internal Control over Compliance

Management of ARVA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered ARVA's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 ARVA's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Certified Public Accountants

{DATE}, 2019  
Little Rock, Arkansas

# Arkansas Virtual Academy

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2018

Federal Grantor/Pass -Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures
<b>OTHER PROGRAMS</b>			
<b>U.S. Department of Education</b>			
Passed Through Arkansas Department of Education:			
Title I, Part A - Grants to Local Educational Agencies	84.010	6043700	\$ 520,365
Title VI, Part B - Special Education - Grants to States	84.027	6043700	392,804
Title II, Part A - Supporting Effective Instruction			
State Grants	84.367	6043700	55,595
Total U.S. Department of Education			968,764
<b>U.S. Department of Health and Human Services</b>			
Passed Through Arkansas Department of Education:			
Title IV-E Foster Care	93.658	6043700	8,806
Medical Assistance Program (ARMAC)	93.778	6043700	74,341
Total U.S. Department of Health and Human Services			83,147
<b>TOTAL OTHER PROGRAMS</b>			1,051,911
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			\$ 1,051,911

The accompanying notes are an integral part of this schedule.

Note 1: Basis of Presentation – The Schedule of Expenditures of Federal Awards (the “Schedule”) includes federal grant activity of Arkansas Virtual Academy (ARVA) under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of the Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of ARVA, it is not intended to and does not present the financial position or changes in financial position of ARVA.

Note 2: Summary of Significant Accounting Policies – Expenditures reported on the Schedule are reported on the regulatory basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3: ARVA has elected not to use the 10 percent de minimus indirect cost rate as allowed under the Uniform Guidance.

**See Independent Auditor’s Report.**

# Arkansas Virtual Academy

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS Year Ended June 30, 2018

### Section I – Summary of Auditor’s Results

- **Type of Auditor’s Reports Issued**  
GAAP basis of reporting – adverse  
Regulatory basis opinion units – unmodified
- **Internal Control over Financial Reporting**  
A material weakness was identified during the audit of the financial statements.
- **Noncompliance Material to Financial Statements Noted**  
None
- **Internal Control over Major Federal Programs**  
No material weakness or significant deficiency identified.
- **Type of Auditor’s Report Issued on Compliance for Major Federal Programs**  
Unmodified opinion
- **Audit Findings Under the Uniform Guidance**  
None
- **Identification of Major Federal Programs**  
Department of Education, Title VI, Part B – Special Education - Grants to State, CFDA #84.027  
Department of Education, Title II, Part A – Improving Teacher Quality State Grants, CFDA #84.367
- **Dollar Threshold used to Distinguish Between Type A and Type B programs**  
\$750,000
- **Auditee Qualified as Low-Risk Auditee**  
No

See Independent Auditor’s Report.

# Arkansas Virtual Academy

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS *(Continued)* Year Ended June 30, 2018

### Section II – Financial Statement Findings

#### ***Material Weakness***

*Finding* **2018-1**

*Condition* During the year ended June 30, 2018, credit card payments were being paid via automatic payment without any approval from management or the Board. In addition, there were several instances where there was no supporting documentation for amounts charged on the credit card.

*Criteria and Cause* Review and approval is an integral part of any internal control system to ensure disbursements are authorized and for valid business expenditures.

*Effect* A lack of review and approval increases the risk that errors or fraud may occur and not be detected in a timely manner.

*Recommendation* We recommend that ARVA implement procedures to require that supporting documentation for any credit card transaction be submitted, reviewed and agreed to the credit card statement each month. In addition, we recommend that management segregate duties such that a person who has the ability to make charges on the credit card does not have the ability to initiate the automatic payment.

*Response* Management has taken steps to develop and implement a new policy specific to the use of ARVA's credit card that requires the review and approval of ARVA's credit card activity.

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

None noted

**See Independent Auditor's Report.**