



ARKANSAS
VIRTUAL ACADEMYSM

**REGULATORY BASIS FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
June 30, 2013**

(With Independent Auditors' Reports Thereon)

**Thomas &
Thomas LLP**
Certified Public Accountants

Arkansas Virtual Academy

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Arkansas Virtual Academy
Little Rock, Arkansas

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 each fund as of June 30, 2013, and the related statements of revenues, expenditures and changes in fund balance – governmental funds – regulatory basis and 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 set forth in the *Arkansas Department of Education Rules Governing the Regulatory Basis of Accounting*. 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 error or fraud.

Auditors' 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. 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 auditors' 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 auditors consider internal control relevant to ARVA'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 ARVA'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), the financial statements are prepared by ARVA, on the basis of the financial reporting provisions of Arkansas Code Annotated §10-4-413(c), as set forth in the *Arkansas Department of Education Rules Governing the Regulatory Basis of Accounting*, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of the Arkansas Department of Education. 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” paragraph, the financial statements referred to in the first paragraph 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, 2013, and the changes in its financial position for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of each fund of ARVA as of June 30, 2013, and their respective changes in financial position and budgetary results for the year then ended, on the basis of the financial reporting provisions of the Arkansas Department of Education as described in Note 1(b).

Disclaimer of Opinion on Other Information

Our audit was conducted for the purpose of forming an opinion 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. 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.

Thomas & Thomas LLP
Certified Public Accountants

November 20, 2013
Little Rock, Arkansas

Arkansas Virtual Academy

BALANCE SHEETS – REGULATORY BASIS

June 30, 2013

	Governmental Funds	
	General	Special Revenue
ASSETS		
Cash	\$ 532,837	\$ 22,783
Due from other governments	8,333	16,562
Due from special revenue fund	14,713	-
TOTAL ASSETS	555,883	39,345
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	413,188	1,847
Accrued payroll and withholdings	34,463	1,034
Due to the state	12,471	-
Due to general fund	-	14,713
Due student groups	1,517	-
Total Liabilities	461,639	17,594
Fund Balances		
Restricted	-	21,751
Unassigned	94,244	-
Total Fund Balances	94,244	21,751
TOTAL LIABILITIES AND FUND BALANCES	\$ 555,883	\$ 39,345

See accompanying notes to financial statements.

Arkansas Virtual Academy

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS – REGULATORY BASIS For the Year Ended June 30, 2013

	Governmental Funds	
	General	Special Revenue
REVENUES		
State assistance	\$ 3,141,450	\$ -
Federal assistance	-	305,900
Interest	668	-
Private contributions	263	-
Total Revenues	3,142,381	305,900
EXPENDITURES		
Instructional services	2,100,259	85,312
Instructional support services	399,369	226,363
School administration support services	462,599	-
General administration support services	135,363	48
Operation and maintenance of plant services	42,578	-
Capital outlay	-	60,943
Total Expenditures	3,140,168	372,666
NET CHANGE IN FUND BALANCE	2,213	(66,766)
FUND BALANCES - BEGINNING OF YEAR	92,031	88,517
FUND BALANCES - END OF YEAR	\$ 94,244	\$ 21,751

See accompanying notes to financial statements.

Arkansas Virtual Academy

**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL AND SPECIAL REVENUE FUNDS – REGULATORY BASIS
For the Year Ended June 30, 2013**

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
State assistance	\$ 3,128,139	\$ 3,141,450	\$ 13,311	\$ -	\$ -	\$ -
Federal assistance	-	-	-	402,421	305,900	(96,521)
Interest	-	668	668	-	-	-
Private contributions	-	263	263	-	-	-
Total Revenues	<u>3,128,139</u>	<u>3,142,381</u>	<u>14,242</u>	<u>402,421</u>	<u>305,900</u>	<u>(96,521)</u>
EXPENDITURES						
Instructional services	2,136,734	2,100,259	36,475	126,097	85,312	40,785
Instructional support services	427,181	399,369	27,812	274,533	226,363	48,170
School administration support services	389,733	462,599	(72,866)	-	-	-
General administration support services	71,356	135,363	(64,007)	-	48	(48)
Community services	-	-	-	2,000	-	2,000
Operation and maintenance of plant services	45,000	42,578	2,422	-	-	-
Capital outlay	-	-	-	81,472	60,943	20,529
Other expenses	-	-	-	5,000	-	5,000
Total Expenditures	<u>3,070,004</u>	<u>3,140,168</u>	<u>(70,164)</u>	<u>489,102</u>	<u>372,666</u>	<u>116,436</u>
NET CHANGE IN FUND BALANCE	58,135	2,213	(55,922)	(86,681)	(66,766)	19,915
FUND BALANCES - BEGINNING OF YEAR	<u>92,031</u>	<u>92,031</u>	<u>-</u>	<u>88,517</u>	<u>88,517</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ 150,166</u>	<u>\$ 94,244</u>	<u>\$ (55,922)</u>	<u>\$ 1,836</u>	<u>\$ 21,751</u>	<u>\$ 19,915</u>

See accompanying notes to financial statements.

Arkansas Virtual Academy

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

Arkansas Virtual Academy is a nonprofit organization incorporated under the laws of the state of Arkansas in 2003. This nonprofit corporation was granted a charter by the Arkansas State Board of Education on October 8, 2007, to operate an open-enrollment charter school, also known as Arkansas Virtual Academy (ARVA), with a maximum enrollment not to exceed five-hundred students. ARVA's charter was renewed by the Arkansas State Board of Education effective July 1, 2012, for a three-year period that will expire on June 30, 2015. 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 eighth grade. During the year ended June 30, 2013, ARVA was granted an increase in their maximum enrollment to 3,000 students by Act 1309 of the State of Arkansas 89th General Assembly. In addition, ARVA is allowed to offer educational opportunities to students from grades 9 through 12. Both changes become effective for the school year beginning July 1, 2013.

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

These financial statements are prepared in accordance with a regulatory basis of accounting prescribed by Arkansas Code Annotated §10-4-413(c), as set forth in the *Arkansas Department of Education Rules Governing the Regulatory Basis of Accounting (RBA)*, which 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 - 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 of Education 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, specific procedures for the identification of major governmental funds, and specific 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, 2013

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.

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

General Fund – The General Fund is used to account for and report all financial resources and operating expenditures, 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 legally restricted or committed to expenditure for specified purposes other than debt service or capital projects.

ARVA had no other funds as of or during the year ended June 30, 2013.

(c) Revenue Recognition

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

(d) Interfund Balances and Transactions

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

(e) 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 cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors or contributors or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by ARVA's governing body through the approval of resolutions. Assigned fund balance is a limitation imposed by a designee of ARVA's governing body. Unassigned fund balance consists of the net resources in excess of amounts classified nonspendable, restricted, committed or assigned.

When both restricted and unrestricted fund balances are available for use, it is ARVA's policy to use restricted fund balances first, then unrestricted 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 unrestricted fund balance classifications can be used.

Arkansas Virtual Academy

NOTES TO FINANCIAL STATEMENTS June 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Budget and Budgetary Accounting

As required by State statutes, ARVA prepares an annual budget that is filed with the ADE. The budget is required to be approved by ARVA's Board and submitted to the ADE no later than September 30 of each year. Budget amendments, if any, are not required to be submitted for approval to ADE. ARVA's budget is prepared utilizing the same basis of accounting described in Note 1(b).

(g) Use of Estimates

The preparation of financial statements in conformity with the regulatory basis of accounting 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.

NOTE 2: CASH

ARVA's cash consists of demand deposits maintained at multiple financial institutions. 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, 2013, the bank balance of ARVA's demand deposit accounts maintained at a financial institution totaled \$900,258, all of which was insured or collateralized.

NOTE 3: LEASE COMMITMENTS

ARVA leases certain office equipment and office space used for general and administrative purposes 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, 2013, are as follows:

	<u>Amount</u>
2014	\$ 46,200
2015	46,200
2016	47,400
2017	45,800
2018	<u>3,700</u>
Total	<u>\$ 189,300</u>

Total occupancy and equipment rentals were approximately \$125,000 for the year ended June 30, 2013.

Arkansas Virtual Academy

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 4: RETIREMENT PLAN

ARVA participates in the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers all Arkansas public and charter school employees, except certain nonteachers hired prior to July 1, 1989. 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 and contribution 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 that 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.

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% of covered salaries. ARVA's contributions to ATRS for the years ended June 30, 2013, 2012, and 2011 were \$69,940, \$68,378, and \$70,528, respectively, equal to the required contributions for each year.

NOTE 5: ON BEHALF PAYMENTS

During the year ended June 30, 2013, health insurance premiums of approximately \$5,500 were paid by ADE to the Arkansas Employee Benefits Division on behalf of district employees.

NOTE 6: EDUCATIONAL PRODUCTS AND SERVICES AGREEMENT

Pursuant to the terms of an agreement executed by and between ARVA and a third-party 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 reimbursement 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.

Arkansas Virtual Academy

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 6: EDUCATIONAL PRODUCTS AND SERVICES AGREEMENT (Continued)

During the year ended June 30, 2013, fees and reimbursements totaled approximately \$2,332,000. At June 30, 2013, accounts payable includes approximately \$382,000 of fees and reimbursements that have been incurred but not paid. No performance incentive fee was earned during the year ended June 30, 2013.

NOTE 7: 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, 2013. In addition, there have been no settlements in excess of ARVA's coverage.

Arkansas Virtual Academy

SCHEDULE OF CAPITAL ASSETS (UNAUDITED) June 30, 2013

DEPRECIABLE CAPITAL ASSETS

Equipment	\$ 180,691
Less accumulated depreciation	<u>(124,827)</u>
Total Depreciable Capital Assets, Net	<u><u>\$ 55,864</u></u>

Capital assets are reported at historical cost or estimated historical cost, if actual historical cost is not available. Donated capital assets are reported at estimated fair 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.

See Independent Auditors' Report.

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

The Board of Directors
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, 2013, and the related notes to the financial statements, which collectively comprise ARVA's regulatory basis financial statements, and have issued our report thereon dated November 20, 2013.

As described in Note 1(b), the financial statements referred to above are prepared using accounting practices prescribed by the Arkansas Code and set forth in the *Arkansas Department of Education Rules Governing the Regulatory Basis of Accounting (RBA)*, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Accordingly, our independent auditors' report includes an adverse opinion on accounting principles generally accepted in the United States of America, but an unmodified opinion on the financial position of each major governmental fund of ARVA as of June 30, 2013, and the respective changes in financial position and budgetary results for the year then ended, on the regulatory basis of accounting described in Note 1(b).

Internal Control Over Financial Reporting

In planning and performing our audit of the 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 opinion 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 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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 and 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*.

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 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.

Thomas & Thomas LLP
Certified Public Accountants

November 20, 2013
Little Rock, Arkansas