



ARKANSAS
VIRTUAL ACADEMYSM

**REGULATORY BASIS FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
June 30, 2012**

(With Independent Auditors' Reports Thereon)

**Thomas &
Thomas LLP**
Certified Public Accountants

Arkansas Virtual Academy

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1 – 2
REGULATORY BASIS FINANCIAL STATEMENTS	
Balance Sheets – Regulatory Basis	3
Statements of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – Regulatory Basis	4
Statements of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General and Special Revenue Funds – Regulatory Basis	5
Notes to Financial Statements	6 – 10
SUPPLEMENTARY INFORMATION	
Schedule of Capital Assets (Unaudited)	11
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 <i>GOVERNMENT AUDITING STANDARDS</i>	12 – 13

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), as of and for the year ended June 30, 2012, as listed in the accompanying table of contents. These financial statements are the responsibility of ARVA's management, with oversight provided by the Board of Directors. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and 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 in Note 1(b), these financial statements have been prepared using accounting principles 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*, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The differences between this regulatory basis of accounting and accounting principles generally accepted in the United States of America are described in Note 1(b). 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 determinable, 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 charter school known as **Arkansas Virtual Academy**, as of June 30, 2012, or the changes in its financial position for the year then ended.

Also, in our opinion, the financial statements referred to above do present fairly, in all material respects, the respective financial position of each major governmental fund of **Arkansas Virtual Academy** as of June 30, 2012, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1(b).

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2012, 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, 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* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise ARVA's regulatory basis financial statements taken as a whole. The Schedule of Capital Assets is presented for purposes of additional analysis and is not a required part of the regulatory basis financial statements but is other supplementary information required by the regulatory basis of accounting. The information included in 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.

Thomas & Thomas LLP
Certified Public Accountants

November 20, 2012
Little Rock, Arkansas

Arkansas Virtual Academy

BALANCE SHEETS – REGULATORY BASIS

June 30, 2012

	Governmental Funds	
	Major	
	General	Special Revenue
ASSETS		
Cash	\$ 290,117	\$ 92,459
Due from other governments	620	47,699
Due from special revenue fund	16,010	-
TOTAL ASSETS	\$ 306,747	\$ 140,158
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	\$ 196,861	\$ 1,844
Accrued payroll and withholdings	8,167	33,787
Due to the state	7,895	-
Due to general fund	-	16,010
Due student groups	1,793	-
Total Liabilities	214,716	51,641
Fund Balances		
Restricted	-	88,517
Unassigned	92,031	-
Total Fund Balances	92,031	88,517
TOTAL LIABILITIES AND FUND BALANCES	\$ 306,747	\$ 140,158

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, 2012**

	Governmental Funds	
	Major	
	General	Special Revenue
REVENUES		
State assistance	\$ 3,067,691	\$ -
Federal assistance	-	344,941
Interest	1,361	-
Total Revenues	3,069,052	344,941
EXPENDITURES		
Instructional services	2,078,869	109,458
Instructional support services	433,887	157,361
School administration support services	413,114	-
General administration support services	97,218	-
Operation and maintenance of plant services	44,363	-
Total Expenditures	3,067,451	266,819
NET CHANGE IN FUND BALANCE	1,601	78,122
FUND BALANCES - BEGINNING OF YEAR	90,430	10,395
FUND BALANCES - END OF YEAR	\$ 92,031	\$ 88,517

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, 2012**

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
State assistance	\$ 3,042,504	\$ 3,067,691	\$ 25,187	\$ -	\$ -	\$ -
Federal assistance	-	-	-	455,594	344,941	(110,653)
Private contributions	24,247	-	(24,247)	-	-	-
Interest	-	1,361	1,361	-	-	-
Total Revenues	<u>3,066,751</u>	<u>3,069,052</u>	<u>2,301</u>	<u>455,594</u>	<u>344,941</u>	<u>(110,653)</u>
EXPENDITURES						
Instructional services	2,025,268	2,078,869	(53,601)	172,741	109,458	63,283
Instructional support services	449,238	433,887	15,351	335,736	157,361	178,375
School administration support services	462,557	413,114	49,443	-	-	-
General administration support services	84,297	97,218	(12,921)	-	-	-
Community services	-	-	-	2,000	-	2,000
Operation and maintenance of plant services	45,000	44,363	637	-	-	-
Other expenses	-	-	-	5,000	-	5,000
Total Expenditures	<u>3,066,360</u>	<u>3,067,451</u>	<u>(1,091)</u>	<u>515,477</u>	<u>266,819</u>	<u>248,658</u>
NET CHANGE IN FUND BALANCE	391	1,601	1,210	(59,883)	78,122	138,005
FUND BALANCES - BEGINNING OF YEAR	<u>90,430</u>	<u>90,430</u>	<u>-</u>	<u>10,395</u>	<u>10,395</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ 90,821</u>	<u>\$ 92,031</u>	<u>\$ 1,210</u>	<u>\$ (49,488)</u>	<u>\$ 88,517</u>	<u>\$ 138,005</u>

See accompanying notes to financial statements.

Arkansas Virtual Academy

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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. This charter expired on June 30, and continuation and renewal of the charter are 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 Arkansas State Board of Education effective July 1, 2012. The charter is 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 *Rules and Regulations Governing Charter Schools*, presently offers educational opportunities to students in grade levels from kindergarten through eighth grade.

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 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, 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, recording depreciation expense and specific 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.

Arkansas Virtual Academy

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

ARVA's major funds are as follows:

General Fund – The General Fund is used to account for and report all financial resources and operating expenditures, except those that are required to be reported in the special revenue fund (described below).

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.

ARVA had no other funds at or during the year ended June 30, 2012.

(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 the entity's governing body through the approval of resolutions. Assigned fund balance is a limitation imposed by a designee of the entity'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.

(f) Budget and Budgetary Accounting

As required by State statutes, ARVA prepares an annual budget that is filed with the Arkansas Department of Education (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).

Arkansas Virtual Academy

NOTES TO FINANCIAL STATEMENTS June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 (FDIC) insurance limits be collateralized. At June 30, 2012, the bank balance of ARVA's demand deposit accounts maintained at a financial institution totaled \$448,357, 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, 2012, are as follows:

	<u>Amount</u>
2013	\$ 10,200
2014	3,400
2015	3,400
2016	<u>1,700</u>
Total	<u>\$ 18,700</u>

Total occupancy and equipment rentals were approximately \$131,000 for the year ended June 30, 2012.

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. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. 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.

Arkansas Virtual Academy

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 4: RETIREMENT PLAN (Continued)

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%.

ARVA's contributions to ATRS for the years ended June 30, 2012, 2011, and 2010 were \$68,378, \$70,528, and \$78,409 respectively. These contributions are equal to the required contributions for each year.

NOTE 5: ON BEHALF PAYMENTS

During the year ended June 30, 2012, health insurance premiums of approximately \$4,000 were paid by the Arkansas Department of Education 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 June 22, 2007 through June 30, 2012, 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.

ARVA signed a renewal agreement with the third-party management agent to continue these services effective for the period from July 1, 2012 through June 30, 2022.

During the year ended June 30, 2012, fees and reimbursements totaled approximately \$2,129,000. At June 30, 2012, accounts payable includes approximately \$174,000 of fees and reimbursements that have been incurred but not paid. No performance incentive fee was earned during the year ended June 30, 2012.

Arkansas Virtual Academy

NOTES TO FINANCIAL STATEMENTS June 30, 2012

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, 2012. In addition, there have been no settlements in excess of ARVA's coverage.

Arkansas Virtual Academy

SCHEDULE OF CAPITAL ASSETS (UNAUDITED)

June 30, 2012

DEPRECIABLE CAPITAL ASSETS

Equipment	\$ 119,748
Less accumulated depreciation	<u>(118,986)</u>
Total Depreciable Capital Assets, Net	<u><u>\$ 762</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.

**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 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, 2012, which collectively comprise ARVA's regulatory basis financial statements, and have issued our report thereon dated November 20, 2012. 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.

As described more fully 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 differ from accounting principles generally accepted in the United States of America. Accordingly, our independent auditors' report includes an adverse opinion in relation to accounting principles generally accepted in the United States of America, but an unqualified opinion on the financial position of each major governmental fund of ARVA as of June 30, 2012, 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

Management of ARVA is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered ARVA's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of ARVA's internal control over financial reporting.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ARVA's regulatory basis financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of 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 tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Board of Directors, management, federal and state awarding agencies and others within ARVA, and is not intended to be, and should not be, used by anyone other than these specified parties.

Thomas & Thomas LLP

Certified Public Accountants

November 20, 2012
Little Rock, Arkansas