ARKANSAS
VIRTUAL ACADEMY℠

REGULATORY BASIS FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
June 30, 2009

(With Independent Auditors' Report 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 and the fiduciary fund of the charter school known as **Arkansas Virtual Academy** (ARVA), as of and for the year ended June 30, 2009, 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 practices 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 does not require ARVA to prepare its financial statements in accordance with 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 effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, are not reasonably determinable.

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, 2009, or changes in financial position for the year then ended. Further, ARVA has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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 and the fiduciary fund of Arkansas Virtual Academy as of June 30, 2009, 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).

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The Board of Directors
Arkansas Virtual Academy
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In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2010, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise ARVA's regulatory basis financial statements. 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 prescribed 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

February 23, 2010
Little Rock, Arkansas

Arkansas Virtual Academy

BALANCE SHEET – REGULATORY BASIS
June 30, 2009

	Governmental Funds		
	Major		
	General	Special Revenue	Fiduciary Fund
ASSETS			
Cash	$ 270,025	$ 54,007	$ 432
Receivables	-	59,069	-
Total assets	$ 270,025	$ 113,076	$ 432
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	$ 223,426	$ 580	$ -
Payroll taxes and withholdings	3,124	-	-
Due student groups	-	-	432
Total liabilities	226,550	580	432
Fund Balances - Unreserved			
Designated for specified programs	-	112,496	-
Undesignated	43,475	-	-
Total fund balances	43,475	112,496	-
TOTAL LIABILITIES AND FUND BALANCES	$ 270,025	$ 113,076	$ 432

The accompanying notes are an integral part of these financial statements.

Arkansas Virtual Academy

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS – REGULATORY BASIS
For the Year Ended June 30, 2009

	Governmental Funds	
	Major	
	General	Special Revenue
REVENUES		
State assistance	$ 2,930,589	$ -
Federal assistance	-	217,948
Private assistance	4,881	-
Interest	682	-
Total revenues	2,936,152	217,948
EXPENDITURES		
Instructional services	2,143,345	104,222
Instructional support services	16,222	150,546
School administration support services	582,364	-
General administration support services	223,303	756
Community services	-	969
Operation and maintenance of plant services	46,875	321
Capital outlay	12,950	22,561
Total expenditures	3,025,059	279,375
NET CHANGE IN FUND BALANCE	(88,907)	(61,427)
FUND BALANCES - BEGINNING OF YEAR	132,382	173,923
FUND BALANCES - END OF YEAR	$ 43,475	$ 112,496

The accompanying notes are an integral part of these 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, 2009**

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
State assistance	$ 3,019,691	$ 2,930,589	$ (89,102)	$ -	$ -	$ -
Federal assistance	-	-	-	219,499	217,948	(1,551)
Private assistance	-	4,881	4,881	-	-	-
Interest	1,500	682	(818)	-	-	-
Total revenues	3,021,191	2,936,152	(85,039)	219,499	217,948	(1,551)
EXPENDITURES						
Instructional services	2,110,488	2,143,345	(32,857)	145,991	104,222	41,769
Instructional support services	20,000	16,222	3,778	237,581	150,546	87,035
School administration support services	679,524	582,364	97,160	-	-	-
General administration support services	260,603	223,303	37,300	6,650	756	5,894
Community services	-	-	-	1,469	969	500
Operation and maintenance of plant services	42,493	46,875	(4,382)	411	321	90
Capital outlay	12,895	12,950	(55)	-	22,561	(22,561)
Total expenditures	3,126,003	3,025,059	100,944	392,102	279,375	112,727
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(104,812)	(88,907)	15,905	(172,603)	(61,427)	111,176
FUND BALANCES - BEGINNING OF YEAR	132,382	132,382	-	173,923	173,923	-
FUND BALANCES - END OF YEAR	$ 27,570	$ 43,475	$ 15,905	$ 1,320	$ 112,496	$ 111,176

The accompanying notes are an integral part of these financial statements.

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 expires on June 30, 2012, 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. 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). Under this basis of accounting, ARVA is required to present a balance sheet - regulatory basis; a statement of revenues, expenditures and changes in fund balances - regulatory basis; and a statement of revenues, expenditures and changes in fund balances - budget and actual - general and special revenue funds - regulatory basis (collectively, the “financial statements”). In addition to the financial statements, ARVA is required to present a schedule of capital assets that includes information regarding the historical cost and related accumulated depreciation of land, buildings, furniture, fixtures and equipment used in operating the school.

The financial statements are required to be presented using a fund basis format, with the general, special revenue and fiduciary funds presented in separate columns, and all other funds, if any, aggregated in one column. During the year ended June 30, 2009, ARVA's balances and transactions were recorded in three funds as follows:

> The General Fund is used to record all financial resources and operating expenditures, except those that are required to be reported in the special revenue fund (described below).
>
> The Special Revenue Fund is used to account for federal, state and privately funded grants that are legally restricted to be expended for specified purposes.
>
> The Fiduciary Fund is used to report balances held by ARVA on behalf of various student clubs, groups and organizations. These resources are held by ARVA acting as a custodial agent for others.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Measurement Focus and Basis of Accounting *(Continued)*
Under the RBA, revenues are reported in the financial statements in the accounting period in which they become both measurable and available to finance expenditures of the reporting period. Expenditures for goods and services, including the purchase of capital assets, are reported when goods or services are received and a liability has been incurred. Revenues are required to be reported by source, while expenditures are required to be reported by function.

If ARVA utilized the basis of accounting that is generally accepted (GAAP) which is not required by the RBA, the financial statements would be comprised of a statement of net assets and a statement of activities prepared using the economic resources measurement focus and the full accrual basis of accounting that would report all of the assets and liabilities attributable to the school and the nonprofit corporation. Reported assets would include capital assets, net of depreciation, and may include additional receivables for revenues earned, but not collected as of the reporting date, prepaid expenses and inventories. Liabilities would include deferred amounts for revenues collected but not yet earned and may include debt or capital lease obligations. Revenues would be reported when earned, without regard to availability, and all expenses would be reported when incurred, including depreciation expense. The financial statements would also include fund financial statements prepared on the current financial resources measurement focus and the modified accrual basis of accounting. In addition, if ARVA followed GAAP in the presentation of the financial statements, the fiduciary fund would be presented in a separate statement, and management's discussion and analysis would be included as required supplemental information.

(c) Fund Balances
Fund balances in the general fund are considered reserved if they are legally required to be used for specified purposes; otherwise they are reported as unreserved. Designated fund balances in the special revenue fund represent amounts that must be expended for purposes specified in contract or grant agreements, but are not presented as reserved due to the fact that the use of this special revenue fund itself communicates legal restrictions on the use of any and all resources accumulated in this fund.

(d) 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).

(e) 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. ARVA's policy is that accounts will be maintained at multiple financial institutions within the State to ensure that bank balances are within FDIC insured limits. At times during the year ended June 30, 2009, deposit balances exceeded amounts insured by the FDIC and were not collateralized. In the event of an institutional failure, the excess over FDIC insurance may not be recoverable. At June 30, 2009, ARVA's total demand deposits maintained at multiple financial institutions were $346,209, of which $1,268 was not 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, 2009, are as follows:

	Amount
2010	$ 45,000
2011	10,700
2012	317
Total	$ 56,017

Total occupancy and equipment rentals were approximately $174,800 for the year ended June 30, 2009.

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 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.

Employees covered by ATRS have the option to contribute a portion of their salary. Those that choose to contribute must contribute 6% of their salary. ARVA must contribute 14% of eligible payroll, as required by State law. ARVA's contributions to ATRS for the years ended June 30, 2009 and 2008 were $67,212 and $59,225, respectively. These contributions are equal to the required contributions for each year.

NOTE 5: EDUCATIONAL PRODUCTS AND SERVICES AGREEMENT

A third-party management agent provides educational and related products including curriculum, instructional tools and computers necessary to conduct ARVA's educational programs. Pursuant to the terms of an agreement executed by and between ARVA and the management agent effective June 22, 2007 through June 30, 2012, the management agent is responsible for providing administrative and technology services 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. 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, 2009, total fees and reimbursements totaled approximately $2,446,500. At June 30, 2009, accounts payable includes approximately $197,100 of fees and reimbursements that have been incurred but not paid. No performance incentive fee was earned during the year ended June 30, 2009.

NOTE 6: RELATED ORGANIZATIONS

Prior to July 1, 2007, the ADE operated the Arkansas Virtual School as a program of the ADE which was funded by a federal grant. The ADE contracted with a management agent to operate the program, which was managed through a separate LLC (Arkansas Virtual School LLC). Upon the effective date of ARVA's charter, all assets and commitments of Arkansas Virtual School LLC were transferred to ARVA.

At June 30, 2009 approximately $59,100 of the federal funds is presented as a receivable of the special revenue fund in the accompanying financial statements. These funds were subsequently transferred to ARVA in July 2009.

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, 2009. In addition, there have been no settlements in excess of ARVA's coverage.

Arkansas Virtual Academy

SCHEDULE OF CAPITAL ASSETS (UNAUDITED)
June 30, 2009

Depreciable Capital Assets:		
Equipment	$	123,739
Less accumulated depreciation		59,065
Total depreciable capital assets, net	$	64,674

Capital assets are capitalized at historical cost or estimated historical cost, if actual data is not available. Donated capital assets are reported at fair value when received. ARVA maintains a threshold level of $1,000 for capitalizing assets.

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

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 the financial statements of each major governmental fund and the fiduciary fund of the charter school known as **Arkansas Virtual Academy** (ARVA) as of and for the year ended June 30, 2009, which collectively comprise ARVA's regulatory basis financial statements, and have issued our report thereon dated February 23, 2010. 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 practices differ from accounting principles generally accepted in the United States of America. Accordingly, the report on these financial statements includes an adverse opinion in relation to accounting principles generally accepted in the United States of America. However, the financial statements present fairly, in all material respects, the respective financial position of each major governmental fund and the fiduciary fund of ARVA as of June 30, 2009, 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, 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 control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects an organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the RBA such that there is more than a remote likelihood that a misstatement of ARVA's financial statements that is more than inconsequential will not be prevented or detected by ARVA's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by ARVA's internal control.

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

Compliance and Other Matters
As part of obtaining reasonable assurance about whether 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2009-1.

ARVA's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit ARVA's response and, accordingly, we express no opinion on it.

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

February 23, 2010
Little Rock, Arkansas

Arkansas Virtual Academy

SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2009

FINDING—COMPLIANCE AND OTHER MATTERS

2009-1 Deposits

Condition/Criteria/Cause/Effect: At times during the year ended June 30, 2009, bank account balances exceeded amounts insured by the Federal Deposit Insurance Corporation (FDIC) and were not collateralized. State statutes require that all bank balances be fully insured by the FDIC or fully collateralized by securities pledged by the financial institution. ARVA has not implemented policies or procedures to ensure compliance with these statutes. In the event of an institutional failure, the excess over FDIC insurance may not be recoverable.

Recommendation**:** We suggest that ARVA obtain collateral for balances in excess of FDIC insurance limits.

Response: The Board has adopted a policy whereby accounts will be opened at multiple financial institutions to ensure that account balances are maintained within FDIC insurance limits.