ARKANSAS
VIRTUAL ACADEMY℠

REGULATORY BASIS FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
June 30, 2011

(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 of the charter school known as **Arkansas Virtual Academy** (ARVA), as of and for the year ended June 30, 2011, 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 effect 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, 2011, 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, 2011, 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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In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2011, 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 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 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

December 7, 2011
Little Rock, Arkansas

Arkansas Virtual Academy

BALANCE SHEET – REGULATORY BASIS
June 30, 2011

	Governmental Funds	
	Major	
	General	Special Revenue
ASSETS		
Cash	$ 657,473	$ 12,959
Due from other governments	8,553	78,789
Due from special revenue fund	33,726	-
TOTAL ASSETS	$ 699,752	$ 91,748
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	$ 596,250	$ 11,830
Accrued payroll and withholdings	6,938	35,797
Due to the state	5,089	-
Due to general fund	-	33,726
Due student groups	1,045	-
Total Liabilities	609,322	81,353
Fund Balances		
Restricted	-	10,395
Unassigned	90,430	-
Total Fund Balances	90,430	10,395
TOTAL LIABILITIES AND FUND BALANCES	$ 699,752	$ 91,748

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, 2011

	Governmental Funds	
	Major	
	General	Special Revenue
REVENUES		
State assistance	$ 3,014,326	$ -
Federal assistance	-	385,625
Interest	915	-
Total Revenues	3,015,241	385,625
EXPENDITURES		
Instructional services	2,150,470	171,381
Instructional support services	12,576	211,545
School administration support services	523,311	-
General administration support services	244,012	-
Operation and maintenance of plant services	37,917	1,098
Total Expenditures	2,968,286	384,024
NET CHANGE IN FUND BALANCE	46,955	1,601
FUND BALANCES - BEGINNING OF YEAR	43,475	8,794
FUND BALANCES - END OF YEAR	$ 90,430	$ 10,395

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, 2011**

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
State assistance	$ 2,971,360	$ 3,014,326	$ 42,966	$ -	$ -	$ -
Federal assistance	-	-	-	406,377	385,625	(20,752)
Interest	-	915	915	-	-	-
Total Revenues	2,971,360	3,015,241	43,881	406,377	385,625	(20,752)
EXPENDITURES						
Instructional services	2,060,758	2,150,470	(89,712)	242,373	171,381	70,992
Instructional support services	37,745	12,576	25,169	278,821	211,545	67,276
School administration support services	639,270	523,311	115,959	-	-	-
General administration support services	283,795	244,012	39,783	-	-	-
Operation and maintenance of plant services	48,000	37,917	10,083	3,039	1,098	1,941
Total Expenditures	3,069,568	2,968,286	101,282	524,233	384,024	140,209
NET CHANGE IN FUND BALANCE	(98,208)	46,955	145,163	(117,856)	1,601	119,457
FUND BALANCES - BEGINNING OF YEAR	43,475	43,475	-	8,794	8,794	-
FUND BALANCES - END OF YEAR	$ (54,733)	$ 90,430	$ 145,163	$ (109,062)	$ 10,395	$ 119,457

See accompanying notes to 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, 2011, 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.

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 or a liability has been incurred. Revenues are required to be reported by source, while expenditures are required to be reported by function.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Measurement Focus and Basis of Accounting *(Continued)*
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. 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 supplementary information.

(c) Interfund Balances and Transactions
Receivables and payables resulting from short-term interfund loans are classified as "due to" or "due from" other funds.

(d) Fund Balances
In February 2009, a new governmental accounting standard was issued that established fund balance classifications based on the extent to which the reporting entity is bound to honor constraints on the use of the resources reported in each governmental fund as well as establish additional note disclosures regarding fund balance classification policies and procedures. The guidance is effective for fiscal years beginning after June 15, 2010 and is to be applied retrospectively. The adoption of this guidance did not change the previously reported amounts of fund balances on ARVA's June 30, 2010 Balance Sheet.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) 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).

(f) 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. In the event of an institutional failure, any excess over FDIC insurance may not be recoverable. At June 30, 2011, the bank balance of ARVA's demand deposit accounts maintained at multiple financial institutions totaled $692,543, of which $339,498 was uninsured and not 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, 2011, are as follows:

	Amount
2012	$ 44,100
2013	10,200
2014	3,400
2015	3,400
2016	1,700
Total	$ 62,800

Total occupancy and equipment rentals were approximately $140,000 for the year ended June 30, 2011.

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, 2011, 2010, and 2009 were $70,528, $78,409, and $67,212 respectively. These contributions are equal to the required contributions for each year.

NOTE 5: ON BEHALF PAYMENTS

During the year ended June 30, 2011, health insurance premiums of approximately $5,000 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 effective 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.

During the year ended June 30, 2011, fees and reimbursements totaled approximately $2,274,000. At June 30, 2011, accounts payable includes approximately $588,000 of fees and reimbursements that have been incurred but not paid. No performance incentive fee was earned during the year ended June 30, 2011.

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, 2011. In addition, there have been no settlements in excess of ARVA's coverage.

Arkansas Virtual Academy

SCHEDULE OF CAPITAL ASSETS (UNAUDITED)
June 30, 2011

DEPRECIABLE CAPITAL ASSETS	
Equipment	$ 136,548
Less accumulated depreciation	(122,059)
Total Depreciable Capital Assets, Net	$ 14,489

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.

Capital assets are depreciated using the straight-line method over their estimated useful lives, which range from five 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, 2011, which collectively comprise ARVA's regulatory basis financial statements, and have issued our report thereon dated December 7, 2011. 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 and the fiduciary fund of ARVA as of June 30, 2011, 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 *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.

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.

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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 2011-1.

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

December 7, 2011
Little Rock, Arkansas

Arkansas Virtual Academy

SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011

FINDING—COMPLIANCE AND OTHER MATTERS

2011-1 Deposits

Condition/Criteria/Cause/Effect: At times during the year ended June 30, 2011 and at June 30, 2011, 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 implemented policies and procedures to ensure compliance with these statutes; however, at times during the year the established policies and procedures were not properly followed. 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 and ARVA management will closely monitor cash balances in their accounts to ensure that account balances are maintained within FDIC insurance limits.