

**Arkansas Arts Academy  
and Subsidiary**

**Regulatory Basis Financial Statements  
and Supplementary Information  
June 30, 2021**

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

# Arkansas Arts Academy and Subsidiary

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors

**Arkansas Arts Academy and Subsidiary**

Rogers, Arkansas

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of each major governmental fund and the fiduciary funds of **Arkansas Arts Academy and Subsidiary** (the School), which comprise the consolidated balance sheet – regulatory basis of the governmental funds as of June 30, 2021, the related consolidated statement of revenues, expenditures and changes in fund balance – governmental funds – regulatory basis and the consolidated statements of revenues, expenditures and changes in fund balance – budget to actual – general and special revenue funds – regulatory basis for the year then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with financial reporting provisions prescribed by the Arkansas Code Annotated §10-4-413(c) as provided in Act 867 of 2019, which is described in Note 2. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these consolidated 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 consolidated financial statements are free from material misstatement.

To the Board of Directors  
**Arkansas Arts Academy and Subsidiary**  
Rogers, Arkansas

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School'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 consolidated 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 more fully in Note 2 to the consolidated financial statements, the School has prepared the consolidated financial statements using financial reporting practices prescribed by Arkansas Code Annotated §10-4-413(c) as provided in Act 867 of 2019, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the consolidated financial statements of the variances between the regulatory basis of accounting described in Note 2 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 consolidated 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 the School as of June 30, 2021, or the respective changes in its financial position for the year then ended.

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

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the respective consolidated regulatory basis financial position of each major governmental fund and the aggregate remaining fund information of the School, as of June 30, 2021, and the respective changes in financial position and budgetary comparison for the general and special revenue funds for the year then ended in accordance with the financial reporting provisions of Arkansas Code Annotated §10-4-413(c) as provided in Act 867 of 2019, described in Note 2.

To the Board of Directors  
**Arkansas Arts Academy and Subsidiary**  
Rogers, Arkansas

## **Other Matters**

### *Supplementary Information*

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

The schedule of expenditures of federal awards, as required by Title 2 *U.S. Code of Federal Regulations part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* and the Schedule of State Assistance are presented for the purpose of additional analysis and are not a required part of the regulatory basis financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated regulatory basis financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated regulatory basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated regulatory basis financial statements or to the consolidated regulatory basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated regulatory basis financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated January 5, 2023, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Landmark PLC". The signature is written in a cursive, flowing style.

Rogers, Arkansas  
January 5, 2023



## **Regulatory Basis Consolidated Financial Statements**

# Arkansas Arts Academy and Subsidiary

## Consolidated Balance Sheet – Regulatory Basis June 30, 2021

	<u>Governmental Funds</u>			
	<u>Major</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Fiduciary Funds</u>
<b>ASSETS</b>				
Cash	\$ 801,393	\$ 157,965	\$ -	\$ 126,716
Restricted cash and cash equivalents	227,075	-	-	-
Certificate of deposit	2,084	-	-	-
Due from other funds	41,213	-	-	-
Accounts receivable	-	25,118	44,012	-
<b>TOTAL ASSETS</b>	<u><u>\$ 1,071,765</u></u>	<u><u>\$ 183,083</u></u>	<u><u>\$ 44,012</u></u>	<u><u>\$ 126,716</u></u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable and accrued expenses	\$ 279,733	\$ 36,327	\$ -	\$ 11,384
Due to other funds	-	-	41,213	-
Due to student groups	-	-	-	115,332
<b>Total Liabilities</b>	<u>279,733</u>	<u>36,327</u>	<u>41,213</u>	<u>126,716</u>
<b>Fund Balances</b>				
Restricted:				
State programs	41,062	-	-	-
Federal programs	-	146,756	-	-
Capital projects	227,075	-	2,799	-
Other	498	-	-	-
Unassigned	523,397	-	-	-
<b>Total Fund Balances</b>	<u>792,032</u>	<u>146,756</u>	<u>2,799</u>	<u>-</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$ 1,071,765</u></u>	<u><u>\$ 183,083</u></u>	<u><u>\$ 44,012</u></u>	<u><u>\$ 126,716</u></u>

See accompanying notes to consolidated financial statements.



# Arkansas Arts Academy and Subsidiary

## Consolidated Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Regulatory Basis Year ended June 30, 2021

	<b>Governmental Funds</b>		
	<b>Major</b>		
	<b>General</b>	<b>Special Revenue</b>	<b>Capital Projects</b>
<b>REVENUES</b>			
Federal assistance	\$ -	\$ 976,227	\$ -
State assistance	8,514,394	2,252	516,879
Local donations and grants	110,261	-	22,093
Meal sales	-	25,746	-
Interest income	109	-	-
<b>Total Revenues</b>	<b>8,624,764</b>	<b>1,004,225</b>	<b>538,972</b>
<b>EXPENDITURES</b>			
Regular programs	3,517,296	23,842	-
Special education	121,069	45,637	-
Compensatory education program	150,812	97,703	-
Other instructional program	725,084	-	-
Student support services	335,521	176,631	-
Instructional staff support services	271,436	248,757	-
General administrative support services	263,403	-	-
School administrative support services	489,561	-	-
Business support services	476,326	16,154	-
Operation and maintenance of plant services	674,134	43,978	22,093
Student transportation services	167,763	-	-
Other support services	2,317	-	-
Food service operations	-	420,287	-
Community services	-	714	-
Activity expenditures	32,002	-	-
Capital outlays	22,093	-	-
Debt Service:			
Principal retirement of debt	660,000	-	-
Interest and fiscal charges	1,040,238	-	-
<b>Total Expenditures</b>	<b>8,949,055</b>	<b>1,073,703</b>	<b>22,093</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(324,291)</b>	<b>(69,478)</b>	<b>516,879</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Trustee fees	(7,500)	-	-
Transfers, net	521,439	50,649	(572,088)
<b>Total Other Financing Sources (Uses)</b>	<b>513,939</b>	<b>50,649</b>	<b>(572,088)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>189,648</b>	<b>(18,829)</b>	<b>(55,209)</b>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<b>602,384</b>	<b>165,585</b>	<b>58,008</b>
<b>FUND BALANCES - END OF YEAR</b>	<b>\$ 792,032</b>	<b>\$ 146,756</b>	<b>\$ 2,799</b>

See accompanying notes to consolidated financial statements.

# Arkansas Arts Academy and Subsidiary

## Consolidated Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund – Regulatory Basis Year ended June 30, 2021

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
State assistance	\$ 8,512,516	\$ 8,514,394	\$ 1,878
Local donations and grants	107,316	110,261	2,945
Interest income	-	109	109
<b>Total Revenues</b>	<u>8,619,832</u>	<u>8,624,764</u>	<u>4,932</u>
<b>EXPENDITURES</b>			
Regular programs	3,536,771	3,517,296	19,475
Special education	140,032	121,069	18,963
Compensatory education program	150,947	150,812	135
Other instructional program	732,013	725,084	6,929
Student support services	341,936	335,521	6,415
Instructional staff support services	279,126	271,436	7,690
General administrative support services	265,989	263,403	2,586
School administrative support services	490,774	489,561	1,213
Business support services	491,919	476,326	15,593
Operation and maintenance of plant services	560,344	674,134	(113,790)
Student transportation services	171,606	167,763	3,843
Other support services	2,000	2,317	(317)
Activity expenditures	-	32,002	(32,002)
Capital outlays	-	22,093	(22,093)
Debt Service:			
Principal retirement of debt	660,000	660,000	-
Interest and fiscal charges	601,153	1,040,238	(439,085)
<b>Total Expenditures</b>	<u>8,424,610</u>	<u>8,949,055</u>	<u>(524,445)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>195,222</u>	<u>(324,291)</u>	<u>(519,513)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Trustee fees	-	(7,500)	(7,500)
Transfers, net	-	521,439	521,439
<b>Total Other Financing Sources (Uses)</b>	<u>-</u>	<u>513,939</u>	<u>513,939</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 195,222</u>	<u>\$ 189,648</u>	<u>\$ (5,574)</u>

See accompanying notes to consolidated financial statements.

# Arkansas Arts Academy and Subsidiary

## Consolidated Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Special Revenue Fund – Regulatory Basis Year ended June 30, 2021

	Special Revenue Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
Federal assistance	\$ 1,234,210	\$ 976,227	\$ (257,983)
State assistance	2,487	2,252	(235)
Meal sales	76,750	25,746	(51,004)
<b>Total Revenues</b>	<u>1,313,447</u>	<u>1,004,225</u>	<u>(309,222)</u>
<b>EXPENDITURES</b>			
Regular programs	48,127	23,842	24,285
Special education	72,073	45,637	26,436
Compensatory education program	134,101	97,703	36,398
Student support services	305,115	176,631	128,484
Instructional staff support services	337,533	248,757	88,776
Business support services	21,341	16,154	5,187
Operation and maintenance of plant services	43,978	43,978	-
Food service operations	323,533	420,287	(96,754)
Community services	1,000	714	286
<b>Total Expenditures</b>	<u>1,286,801</u>	<u>1,073,703</u>	<u>213,098</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers, net	-	50,649	50,649
<b>Total Other Financing Sources (Uses)</b>	<u>-</u>	<u>50,649</u>	<u>50,649</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 26,646</u>	<u>\$ (18,829)</u>	<u>\$ (45,475)</u>

See accompanying notes to consolidated financial statements.



# **Arkansas Arts Academy and Subsidiary**

## **Notes to Consolidated Financial Statements June 30, 2021**

### **NOTE 1: NATURE OF ACTIVITIES**

#### **Reporting Entity**

Arkansas Arts Academy is a nonprofit organization which was granted a charter by the Arkansas State Board of Education to operate a charter school located in Rogers, Arkansas, also known as Arkansas Arts Academy. The school's charter was renewed effective June 30, 2018 for a ten-year term and is scheduled for renewal June 30, 2028. The school provides kindergarten through 12<sup>th</sup> grade academic programs with integration of the arts.

BCCSO, LLC (subsidiary) was formed May 28, 2010 for the purpose of holding real estate and the related debt. Arkansas Arts Academy is the sole member of BCCSO, LLC.

### **NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Principles of Consolidation**

The consolidated financial statements include the accounts of Arkansas Arts Academy and its subsidiary, BCCSO, LLC, collectively referred to as "the School." All significant inter-organizational accounts and transactions have been eliminated.

#### **Measurement Focus and Basis of Accounting**

The consolidated financial statements are prepared in accordance with the regulatory basis of accounting (RBA), which is another comprehensive basis of accounting (OCBOA) other than accounting principles generally accepted in the United States of America (U.S. GAAP). This basis of accounting is prescribed by Arkansas Code Annotated §10-4-413(c), as provided in Act 867 of 2019, and requires that financial statements be presented on a fund basis with, as a minimum, the general fund and special revenue fund presented separately and all other funds included in the audit presented in the aggregate. The law also stipulates that the financial statements consist of a balance sheet; a statement of revenues, expenditures, and changes in fund balances; a comparison of the final adopted budget to the actual expenditures for the general fund and special revenue funds of the School; notes to 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 requires that basic consolidated financial statements present government-wide financial statements. Additionally, GAAP requires 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 applicable note disclosures. The RBA does not require government-wide financial statements or the previously identified concepts.

# Arkansas Arts Academy and Subsidiary

## Notes to Consolidated Financial Statements June 30, 2021

The accompanying consolidated 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 functions. Other transactions, which are not reported as revenues or expenditures are reported as other financing sources and uses. Transactions related to the recording of installment contracts and capital leases are reported as other financing sources.

### **Description of Fund**

Major governmental funds (per the RBA) are defined as General and Special Revenue.

*General Fund* – The General Fund is the general operating fund and is used to account for all financial resources, except those required to be reported in another fund.

*Special Revenue Fund* – The Special Revenue Fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. The Special Revenue Fund includes federal revenues and related expenditures, restricted for specific educational programs or projects, including the School's food service operations. The Special Revenue Fund also includes required matching for those federal programs, program income required to be used to further the objective of those programs, and transfers from the general fund to supplement such programs.

Other governmental funds consist of the following:

*Capital Projects Funds* - The Capital Projects Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets. The Capital Projects Fund excludes those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

*Fiduciary Funds* – The Fiduciary Funds type is used to report balances held by the School on behalf of various student clubs, groups and organizations. These resources are held by the School acting as a custodial agent for others.

### **Revenue Recognition Policies**

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

### **Capital Assets**

Information on capital assets and related depreciation is reported in the required supplementary information. Capital assets are capitalized at historical cost or estimated historical cost, if actual data is not available. Capital assets purchased are recorded as expenditures in the applicable fund at the time of purchase. Donated capital assets are reported at fair value when received. The School maintains a threshold level of \$1,000 for capitalizing assets.

# Arkansas Arts Academy and Subsidiary

## Notes to Consolidated Financial Statements June 30, 2021

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

### **Inter-fund Receivables and Payables**

Inter-fund receivables and payables result from services rendered from one fund to another or from inter-fund loans.

### **Fund Balance Classifications**

Fund balances represent the difference between assets and liabilities and are categorized as follows:

*Non-spendable Fund Balance* – Includes amounts that are not in a spendable form or are required to be maintained intact. The School does not have any non-spendable fund balance at June 30, 2021.

*Restricted Fund Balance* - Includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation. The fund balance that is restricted for state programs and federal programs reflect amounts restricted for specific state and federal programs as mandated by respective state and federal grant or funding agreements. The fund balance that is restricted for capital projects reflects amounts that are restricted for construction or other capital outlay projects. The fund balance that is restricted for other purposes includes donated funds, the use of which has been restricted by the donor for specific uses.

*Committed Fund Balance* – Includes amounts that can be used only for the specific purposes determined by a formal action of the School's highest level of decision-making authority (the Board of Directors). The School does not have any committed fund balance as of June 30, 2021.

*Assigned Fund Balance* – Includes amounts intended for a specific purpose by the Board of Directors or by a School official that has been delegated authority to assign amounts. The School does not have any assigned fund balances as of June 30, 2021.

*Unassigned Fund Balance* – Includes any remaining fund balance that has not been reported in any other classification. This classification can also include negative amounts in other governmental funds if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

The School does not have a formal policy addressing whether it considers restricted amounts to have been spent when expenditures are incurred for purposes for which both restricted and unrestricted amounts are available. School personnel decide which resources (source of funds) to use at the time expenditures are incurred or which resources to use within the unrestricted fund balance when committed, assigned, or unassigned fund balances are available. For the purposes of fund balance classification, expenditures are considered to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and lastly unassigned fund balance.

# **Arkansas Arts Academy and Subsidiary**

## **Notes to Consolidated Financial Statements June 30, 2021**

### **Budget and Budgetary Accounting**

The School is required by state law to prepare an annual budget. The annual budget is required to be approved the School's Board of Directors and submitted to the Arkansas Department of Education (ADE) no later than September 30 of each year. Budget amendments, if any, are not required to be submitted for approval to ADE. The School's budget is prepared utilizing the same basis of accounting described previously.

### **Income Taxes**

The School is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar state statute. Consequently, no provision for income taxes is reflected in the accompanying consolidated financial statements. Additionally, the School has been classified as an organization that is not a private foundation under Section 509(a).

### **Stabilization Arrangements**

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

### **Minimum Fund Balance Policies**

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

### **Receivables**

Receivables consist of amounts due to the School by the ADE for current year funding. The entire amount is considered collectible; therefore, no allowance for uncollectible amounts is considered necessary.

### **Use of Estimates**

Management uses estimates and assumptions in preparing the consolidated financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

### ***NOTE 3: FINANCIAL INSTRUMENTS WITH RISK OF ACCOUNTING LOSS***

The School maintains demand deposits at financial institutions. State statutes require that the School's funds be deposited in banks located in the State of Arkansas and that all deposit balances in excess of Federal Deposit Insurance Corporation (FDIC) insurance limits be collateralized. In the event of an institutional failure, any excess over FDIC insurance may not be recoverable. At June 30, 2021, the bank balances of the School's demand deposits amounted to \$1,408,441, of which \$477,075 was insured and \$931,366 was collateralized by securities held in the School's name. No amounts are uninsured or uncollateralized.



# Arkansas Arts Academy and Subsidiary

## Notes to Consolidated Financial Statements June 30, 2021

### **NOTE 4: ACCOUNTS RECEIVABLE**

As of June 30, 2021, the receivables balance was comprised of the following:

	<b>General Fund</b>	<b>Special Revenue Fund</b>	<b>Capital Projects Fund</b>
Federal assistance	\$ -	\$ 25,118	\$ -
State assistance	-	-	44,012
	<u>\$ -</u>	<u>\$ 25,118</u>	<u>\$ 44,012</u>

### **NOTE 5: CONCENTRATIONS**

The School is economically dependent on funding received through state awards and federal awards. During the year ended June 30, 2021, approximately 98% of total revenues were from state and federal awards.

### **NOTE 6: ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable and accrued expenses is comprised of the following at June 30, 2021:

	<b>General Fund</b>	<b>Special Revenue Fund</b>	<b>Fiduciary Fund</b>	<b>Total</b>
Accounts payable	\$ 20,897	\$ 36,327	\$ 11,384	\$ 68,608
Accrued expenses	258,836	-	-	258,836
<b>Total</b>	<u>\$ 279,733</u>	<u>\$ 36,327</u>	<u>\$ 11,384</u>	<u>\$ 327,444</u>

### **NOTE 7: CAPITAL LEASES**

During the year ended June 30, 2020, the School entered into three leases for computer equipment that are classified as capital leases. As of June 30, 2021, the cost of the equipment under capital leases was \$205,784 and accumulated depreciation on the equipment is \$75,151.

# Arkansas Arts Academy and Subsidiary

## Notes to Consolidated Financial Statements June 30, 2021

The future minimum lease payments required under the capital lease and the present value of the net minimum lease payments as of June 30, 2021, are as follows:

Years ending June 30,		
	2022	\$ 76,017
	2023	<u>41,669</u>
Total minimum lease payments		117,686
Less amount representing Interest		<u>16,659</u>
Present value of minimum lease payments		<u>\$ 101,027</u>

### **NOTE 8: BONDS PAYABLE AND LONG-TERM DEBT**

#### **Series 2017 Bonds**

In July 2017, the Arkansas Development Finance Authority issued \$25,260,000 in Charter School Lease Revenue Bonds, net of an original discount of \$512,262, and secured by a loan agreement with BCCSO, LLC as borrower. The proceeds of these bonds will be used to pay a portion of acquiring, constructing, renovating, improving, and equipping certain education facilities of the School and to refund the Series 2010A BCCSO Project Bonds. These bonds are tax exempt and mature serially through 2047. The interest rates on the bond range from 3% to 4.5%.

As part of the bond issue, BCCSO, LLC entered into a lease agreement with Arkansas Arts Academy, whereby Arkansas Arts Academy will lease the facilities back from BCCSO, LLC at a monthly lease rate equal to the debt service requirement of the bonds. Lease expense and the related lease income have been eliminated in consolidation.

# Arkansas Arts Academy and Subsidiary

## Notes to Consolidated Financial Statements June 30, 2021

The loan agreement requires minimum debt service payments that are equal to the bond sinking fund requirements to provide for the redemption of the bonds upon maturity. The minimum debt service requirement of the bonds for the next five years and thereafter including principal and interest are as follows:

Years Ending June 30,	Principal	Interest	Total
2022	\$ 550,000	\$ 1,024,187	\$ 1,574,187
2023	570,000	1,007,688	1,577,688
2024	585,000	990,587	1,575,587
2025	605,000	973,038	1,578,038
2026	625,000	953,375	1,578,375
2027-2031	3,530,000	4,353,750	7,883,750
2032-2036	4,365,000	3,510,350	7,875,350
2037-2041	5,460,000	2,419,131	7,879,131
2042-2046	6,695,000	1,182,847	7,877,847
2047	1,510,000	63,420	1,573,420
	<u>\$ 24,495,000</u>	<u>\$ 16,478,373</u>	<u>\$ 40,973,373</u>

### ***Walton Family Foundation Loan***

As part of the 2017 Bond issuance, the School entered into a thirty-year interest free construction loan for up to \$5,000,000 with the Walton Family Foundation (WFF) to facilitate the construction of the new facility. Future maturities of this loan are as follows:

Years Ending June 30,	
2022	\$ 125,000
2023	150,000
2024	150,000
2025	150,000
2026	175,000
2027-2031	925,000
2032-2036	1,000,000
2037-2041	1,000,000
2042-2046	1,000,000
2047	200,000
	<u>\$ 4,875,000</u>

# Arkansas Arts Academy and Subsidiary

## Notes to Consolidated Financial Statements June 30, 2021

The following is a summary of changes in long-term debt:

	<u>Balance</u> <u>June 30, 2020</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2021</u>	<u>Due Within</u> <u>One Year</u>
Bonds payable					
Series 2017 Bonds	\$ 25,030,000	\$ -	\$ 535,000	\$ 24,495,000	\$ 550,000
Bonds payable, net	25,030,000	-	535,000	24,495,000	550,000
WFF loan	5,000,000	-	125,000	4,875,000	125,000
Total long-term debt	<u>\$ 30,030,000</u>	<u>\$ -</u>	<u>\$ 660,000</u>	<u>\$ 29,370,000</u>	<u>\$ 675,000</u>

### **NOTE 9: OPERATING LEASES**

The School leases copiers, office space, and a school bus under long-term non-cancelable operating lease agreements. The total rental expense for operating leases for the year ended June 30, 2021 was \$29,312.

Future minimum lease payments for operating leases are as follows:

Years ending June 30,

2022	\$ 29,562
2023	31,156
2024	30,000
2025	27,500

### **NOTE 10: EMPLOYEE BENEFIT PLANS**

#### **Arkansas Teacher Retirement System**

*Plan Description* - The School contributes to the Arkansas Teachers Retirement System (ATRS), a cost-sharing multiple-employer defined benefit plan that covers all Arkansas public school employees, except certain non-teachers 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 for ATRS. 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 Arts Academy and Subsidiary

## Notes to Consolidated Financial Statements June 30, 2021

*Funding Policy* - ATRS has contributory and noncontributory plans. Contributory members are required by State law to contribute 6.25% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on an annual actuarial valuation. The current employer rate is 14.25% of covered salaries. The School's contributions to ATRS for the years ended June 30, 2021, 2020 and 2019, were \$714,850, \$718,692 and \$612,898 and, respectively, equal to the required contributions.

*Net Pension Liability* - The ADE has stipulated that, under the regulatory basis of accounting, the requirements of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* – an amendment of GASB statement No. 27, would be limited to disclosure of the School's proportionate share of the collective net pension liability. The School's proportionate share of the collective net pension liability at June 30, 2021 (actuarial valuation date and measurement date) was \$4,188,414.

### ***Defined Contribution Plan – 403(b)***

During the year ended June 30, 2009, the School adopted a 403(b) plan covering all employees of the School. The plan is funded solely by employee contributions, pursuant to a salary reduction agreement. Annual contributions may not exceed the amount permitted under section 415 of the Internal Revenue Code. Employees vest immediately in their contributions.

### ***NOTE 11: ON-BEHALF PAYMENTS***

During the year ended June 30, 2021, health insurance premiums of \$161,345 were paid by the ADE to the Arkansas Employee Benefits Division on-behalf of School employees. This amount is not included in revenues or expenditures in the School's consolidated financial statements.

### ***NOTE 12: CONTINGENCIES***

The School was the recipient of federal and state funding. Federal and state funding programs are subject to audit by the federal or state government or their representatives. Accordingly, the amount, if any, of expenditures which may be disallowed by the program representatives cannot be determined at this time, although the School expects such amounts, if any, to be immaterial.

### ***NOTE 13: RISKS AND UNCERTAINTIES***

The COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of COVID-19 on the School and its financial results will depend on the future developments, including the duration and spread of the outbreak within the markets in which the School operates and the related impact on consumer confidence and spending, all of which are highly uncertain.

# Arkansas Arts Academy and Subsidiary

## Notes to Consolidated Financial Statements June 30, 2021

### **NOTE 14: RISK MANAGEMENT**

The School 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. The School has purchased commercial insurance to address these risks. There have been no significant reductions in the Schools insurance coverage during the year ended June 30, 2021. In addition, there have been no settlements in excess of the School's coverage.

### **NOTE 15: INTERFUND TRANSFERS**

The following details the transfers between governmental funds for operating expenses:

	<b>General Fund</b>	<b>Special Revenue Fund</b>	<b>Capital Projects Fund</b>	<b>Total</b>
Transfers in	\$ 13,759,329	\$ 87,855	\$ -	\$ 13,847,184
Transfers out	<u>(13,237,890)</u>	<u>(37,206)</u>	<u>(572,088)</u>	<u>(13,847,184)</u>
Total	<u>\$ 521,439</u>	<u>\$ 50,649</u>	<u>\$ (572,088)</u>	<u>\$ -</u>

### **NOTE 16: SUBSEQUENT EVENTS**

Management has evaluated subsequent events through January 5, 2023, the date that the financial statements were available to be issued, and none were identified requiring recognition or disclosure.

## **Other Reports Supplementary Information**

# Arkansas Arts Academy and Subsidiary

## Schedule of Capital Assets (Unaudited) June 30, 2021

Non-depreciable capital assets		
Land		\$ 360,237
Depreciable capital assets		
Buildings	\$ 30,237,725	
Furniture and equipment	<u>2,774,551</u>	
	33,012,276	
Less accumulated depreciation	<u>5,846,326</u>	
Total depreciable capital assets		<u>27,165,950</u>
Capital assets, net		<u><u>\$ 27,526,187</u></u>

See Independent Auditor's Report.





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

To the Board of Directors  
**Arkansas Arts Academy and Subsidiary**  
Rogers, 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 consolidated financial statements of Arkansas Arts Academy and Subsidiary (the School) as of and for the year ended June 30, 2021, and the related notes to the consolidated financial statements, which collectively comprise the School's consolidated financial statements as listed in the table of contents, and have issued our report thereon dated January 5, 2023.

We issued an adverse opinion because the School prepared the consolidated financial statements on the basis of financial reporting provisions of the Arkansas Code, which is a basis of accounting other than accounting principles generally accepted in the United States of America (U.S. GAAP). The effects on the consolidated financial statements between the regulatory basis of accounting and U.S. GAAP, although not readily determinable, are presumed to be material. However, the consolidated financial statements present fairly, in all material respects, the respective consolidated regulatory basis financial position of each major governmental fund, and the aggregate remaining fund information of the School, as of June 30, 2021, and the respective changes in financial position and budgetary comparison for the general and special revenue funds for the year then ended in accordance with the financial reporting provisions of Arkansas Code Annotated §10-4-413(c) as provided in Act 867 of 2019, described in Note 2.

**Internal Control over Financial Reporting**

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

To the Board of Directors  
**Arkansas Arts Academy and Subsidiary**  
Rogers, Arkansas

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

Our consideration of internal control 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 the School's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Landmark PLC". The signature is written in a cursive, flowing style.

Rogers, Arkansas  
January 5, 2023



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

To the Board of Directors  
**Arkansas Arts Academy and Subsidiary**  
Rogers, Arkansas

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

We have audited the compliance of **Arkansas Arts Academy and Subsidiary** (the School) with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2021. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

To the Board of Directors  
**Arkansas Arts Academy and Subsidiary**  
Rogers, Arkansas

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

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021

### **Report on Internal Control Over Compliance**

The management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

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

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

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

A handwritten signature in black ink that reads "Landmark PLC". The signature is written in a cursive, flowing style.

Rogers, Arkansas  
January 5, 2023

# Arkansas Arts Academy and Subsidiary

## Schedule of Expenditures of Federal Awards Year ended June 30, 2021

Cluster/Program	Federal Agency / Pass-Through Entity	Pass-Through Entity Identifying Number	Assistance Listing Number	Amount Expended
<b>U.S. Department of Agriculture</b>				
Child Nutrition Cluster (CNC) National School Lunch Program	AR Department of Education	0440	10.555	\$ 286,651
Commodities	AR Department of Health and Human Services	0440	10.553	18,891
Food Distribution	AR Department of Health and Human Services	0440	10.553	9,853
School Breakfast Program	AR Department of Education	0440	10.553	6,187
<b>Total U.S. Department of Agriculture</b>				<u>321,582</u>
<b>U.S. Department of Treasury</b>				
COVID Emergency Leave	AR Department of Education	0440	21.019	<u>58,319</u>
<b>Total U.S. Department of Treasury</b>				<u>58,319</u>
<b>U.S. Department of Education</b>				
E.S.E.A. Title I, Part A Title I Grants to Local Education Agencies	AR Department of Education	0440	84.010	96,595
Special Education Cluster (IDEA) Grants to States (IDEA, Part B)	AR Department of Education	0440	84.027	130,682
Special Education Preschool Grants	AR Department of Education	0440	84.173A	5,142
Title II, Part A - Improving Teacher Quality State Grants	AR Department of Education	0440	84.367	27,206
Title IV Student Support & Academic Achievement	AR Department of Education	0440	84.424A	10,000
COVID Emergency Leave Part 2	AR Department of Education	0440	84.425D	3,706
ESSER I Emergency Relief Fund	AR Department of Education	0440	84.425D	58,311
COVID School Meals	AR Department of Education	0440	84.425D	7,217
ESSER II Emergency Relief Fund	AR Department of Education	0440	84.425D	<u>76,203</u>
<b>Total U.S. Department of Education</b>				<u>415,062</u>
<b>Total Federal Awards Expended</b>				<u>\$ 794,963</u>

**See Independent Auditor's Report.**

# **Arkansas Arts Academy and Subsidiary**

## **Notes to Schedule of Expenditures of Federal Awards Year ended June 30, 2021**

### **Scope of Audit Pursuant to the Uniform Guidance**

All federal and state financial award programs of Arkansas Arts Academy and Subsidiary (the School) are included in the scope of the Uniform Guidance audit. For purposes of this schedule, federal awards include those received from other agencies, the original source of which was a federal agency.

### **Summary of Significant Accounting Policies**

The School's grant funds are accounted for on the modified accrual basis of accounting. Under the modified accrual basis, grant revenues are recognized when received and expenditures are recorded when paid. These grant funds are included in the "Contributions, donations, and grants" line of the Consolidated Statement of Revenues, Expenditures, and Changes in Fund Balance – Regulatory Basis. The School is the recipient of federal and state grant awards. The grant programs are administered by various departments within the School. The activities of these departments are monitored by School staff to ensure compliance with the requirements of grants.

### **Relationship to Federal Financial Reports**

Grant expenditures reports as of June 30, 2021, which have been submitted to grantor agencies will, in some cases, differ slightly from amounts disclosed herein. The reports prepared for grantor agencies are typically prepared at a later date and often reflect refined estimates of the year-end accruals. The reports will agree at termination of the grant as the discrepancies noted are timing differences.

### **10% De Minimis Indirect Cost Rate**

The School has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

### **Sub Recipients**

No awards were provided to sub recipients.

### **Medicaid Reimbursements**

Medicaid reimbursements are defined as contracts for services and not federal awards; therefore, they are not covered by the reporting requirements of the Uniform Guidance. Total Medicaid funding for the year ended June 30, 2021 amounted to \$161,842 from the Arkansas Department of Health and Human Services.

**See Independent Auditor's Report.**

# Arkansas Arts Academy and Subsidiary

## Schedule of State Assistance Year ended June 30, 2021

<b>Cluster/Program</b>	<b>Pass-Through Entity</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Amount Awarded</b>
Charter School Facilities Funding	AR Department of Education	0440	\$ 516,879
Early Childhood Special Education	AR Department of Education	0440	8,703
Government Computer Science Grant Program	AR Department of Education	0440	4,520
GT Advanced Placement	AR Department of Education	0440	5,228
Limited English Proficiency Funding	AR Department of Education	0440	55,474
National School Lunch Student Funding	AR Department of Education	0440	189,266
Other LEA Within State	AR Department of Education	0440	178
Professional Development Funding	AR Department of Education	0440	56,192
State Child Nutrition Match	AR Department of Education	0440	2,252
State Foundation Funding	AR Department of Education	0440	7,796,086
Student Growth Funding	AR Department of Education	0440	560,344
<b>Total AR Department of Education</b>			<u>9,195,122</u>
<b>Total State Awards</b>			<u><u>\$ 9,195,122</u></u>

# Arkansas Arts Academy and Subsidiary

## Schedule of Findings and Questioned Costs Year ended June 30, 2021

### I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

1. The opinion expressed in the independent auditor's report on accounting principles generally accepted in the United States of America:

☐ Unmodified   ☐ Qualified   ☒ Adverse   ☐ Disclaimer

The opinions expressed in the independent auditor's report on the basis of accounting prescribed or permitted by the State of Arkansas:

☒ Unmodified   ☐ Qualified   ☐ Adverse   ☐ Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:

Significant deficiency(ies)?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> None reported
Material weakness(es)?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

3. Noncompliance considered material to the financial statements was disclosed by the audit?

☐ Yes   ☒ No

4. The independent auditor's report on internal control over compliance with requirements that could have a direct and material effect on each major federal awards program disclosed:

Significant deficiency(ies)?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> None reported
Material weakness(es)?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

5. The opinion expressed in the independent auditor's report on internal control over compliance with requirements that could have a direct and material effect on each major federal awards program were:

☒ Unmodified   ☐ Qualified   ☐ Adverse   ☐ Disclaimer

6. The audit disclosed findings required to be reported by the Uniform Guidance?

☐ Yes   ☒ No



# Arkansas Arts Academy and Subsidiary

## Schedule of Findings and Questioned Costs Year ended June 30, 2021

7. The District's major programs were:

<u>Cluster / Program</u>	<u>Assistance Listing Number</u>
Child Nutrition Cluster (CNC)	
National School Lunch Program	10.555
Commodities	10.553
Food Distribution	10.553
School Breakfast Program	10.553
COVID Emergency Leave Part 2	84.425D
ESSER I Emergency Relief Fund	84.425D
COVID School Meals	84.425D
ESSER II Emergency Relief Fund	84.425D

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in the Uniform Guidance was \$750,000.

9. The District qualified as a low-risk auditee as that term is defined in the Uniform Guidance?

☐ Yes ☒ No

### II. FINDINGS RELATING TO THE FINANCIAL STATEMENT AUDIT AS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED *GOVERNMENT AUDITING STANDARDS*

There were no audit findings for the year ended June 30, 2021.

### III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

There were no audit findings for the year ended June 30, 2021.

# Arkansas Arts Academy and Subsidiary

## Summary Schedule of Prior Year Audit Findings Year ended June 30, 2021

### 2020-001: Review of Financial Documents

**Condition:** The School's system of internal control includes various processes/transactions requiring the review and approval of the Chief Executive Officer (CEO). During the course of our work for the year ended June 30, 2020, we noted no evidence of review by the CEO on bank reconciliations, invoices, monthly payroll registers, and journal entries.

**Criteria and Cause:** Financial documents should be reviewed by the CEO, in accordance to the School's internal control procedures. The School had turnover in the Finance Department and at the CEO position in the year ended June 30, 2020, which contributed to these documents being processed without proper approval.

**Effect:** Under the current process, fraudulent or incorrect transactions could be recorded without being detected on a timely basis.

**Recommendation:** We recommend the School follow its internal control procedures related to documenting review and approval of financial documents.

**Views of Responsible Officials and Planned Corrective Actions:** The CEO will document approval of financial documents.

**Status:** Corrected

### 2020-002: Outstanding Checks

**Condition:** At the time of our audit, the School had 46 checks totaling \$31,308 that had been outstanding for greater than one year.

**Criteria and Cause:** Outstanding checks greater than a year old should be investigated and possibly cancelled as part of the controls over cash disbursements. The School had turnover in the Finance Department and at the CEO position in the year ended June 30, 2020, which contributed to these checks not being investigated in a timely manner.

**Effect:** Investigating aged outstanding checks is an important control procedure which ensures that all outgoing check are accounted for, that all vendors have been paid, and helps to reduce opportunities for errors or fraudulent activities to go undetected.

**Recommendation:** We recommend the School implement procedures to investigate aged outstanding checks.

**Views of Responsible Officials and Planned Corrective Actions:** The School will investigate outstanding checks greater than a year old.

**Status:** Corrected



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
ARKANSAS STATE REQUIREMENTS**

To the Board of Directors  
**Arkansas Arts Academy and Subsidiary**  
Rogers, Arkansas

We have examined **Arkansas Arts Academy and Subsidiary's** (the School) compliance with the requirements of Arkansas Code Annotated 6-1-101 and the applicable laws and regulations required to be addressed by the Arkansas Department of Education during the year ended June 30, 2021. Management of the School is responsible for the School's compliance with specified requirements. Our responsibility is to express an opinion on the School's compliance based on our examination.

Our examination was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the School complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the School complied with the specific requirements. The nature, timing, and extent of the procedures selected depend on our judgement, including an assessment of risks of material noncompliance, whether due to fraud or error. We believe that the evidence obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the School's compliance with specified requirements.

In our opinion, the School complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2021.

This report is intended solely for the information and use of the board of directors, management and the Arkansas Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Landmark PLC". The signature is written in a cursive, flowing style.

Rogers, Arkansas  
January 5, 2023