

Institute for the Creative Arts

Sebastian County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2025



INSTITUTE FOR THE CREATIVE ARTS
SEBASTIAN COUNTY, ARKANSAS
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Arkansas

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Senate Chair
Sen. Jim Dotson
Senate Vice Chair



Rep. Robin Lundstrum
House Chair
Rep. RJ Hawk
House Vice Chair

Kevin William White, CPA, JD
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE **ARKANSAS LEGISLATIVE AUDIT** **INDEPENDENT AUDITOR'S REPORT**

Institute for the Creative Arts and School Board Members
Legislative Joint Auditing Committee

Report on the Audit of the Financial Statements

Disclaimer of Opinions Regulatory Basis of Accounting

We were engaged to audit the financial statements of each major governmental fund and the aggregate remaining fund information of the Institute for the Creative Arts (the "Charter School"), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Charter School's regulatory basis financial statements as listed in the table of contents.

We do not express an opinion on the accompanying regulatory basis financial statements of the Institute for the Creative Arts. Because of the significance of the matters described in the Basis for Disclaimer of Opinions Regulatory Basis of Accounting section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these regulatory basis financial statements.

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 section of our report, the accompanying financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Charter School as of June 30, 2025, or the changes in financial position for the year then ended.

Basis for Disclaimer of Opinions Regulatory Basis of Accounting

We were unable to obtain sufficient appropriate audit evidence regarding the amounts at which cash, accounts payable, and fund balance were recorded in the accompanying Balance Sheet- Regulatory Basis, and the amounts and classification of expenditures presented in the accompanying Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds – Regulatory Basis because of inadequacy of accounting records. Fiscal year ended June 30, 2025, was the Charter School's first year of operations, and the Charter School maintained the activity of multiple bank accounts outside of the Arkansas Public School Computer Network, and such activity was not maintained on a fund basis nor were expenditures recorded by major function, as required by the regulatory basis of accounting. Additionally, a Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds – Regulatory Basis was not presented, because a budget was not prepared on a fund basis format nor were expenditures budgeted or recorded by major function, as required by the regulatory basis of accounting. We were unable to confirm or verify by alternative means the accuracy and completeness of the Charter School's regulatory basis of accounting financial statements.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the financial statements are prepared by the Charter School on the basis of the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the State of Arkansas. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005, as described in Note 1, to meet the requirements of the State of Arkansas. 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Charter School's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the Charter School's financial statements in accordance with GAAS and *Government Auditing Standards* and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinions Regulatory Basis of Accounting section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these regulatory basis financial statements.

We are required to be independent of the Charter School and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2026, on our consideration of the Charter 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 solely 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 effectiveness of the Charter School's 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 Charter School's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT

A handwritten signature in dark ink, appearing to read 'Kevin White', with a stylized flourish at the end.

Kevin William White, CPA, JD
Legislative Auditor

Little Rock, Arkansas
August 24, 2026
EDCS05225

Arkansas

Sen. Jim Petty
Senate Chair
Sen. Jim Dotson
Senate Vice Chair



Rep. Robin Lundstrum
House Chair
Rep. RJ Hawk
House Vice Chair

Kevin William White, CPA, JD
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

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*

INDEPENDENT AUDITOR'S REPORT

Institute for the Creative Arts and School Board Members
Legislative Joint Auditing Committee

We were engaged to audit, in accordance with the 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 (*Government Auditing Standards*), the financial statements of each major governmental fund and the aggregate remaining fund information of the Institute for the Creative Arts (the "Charter School"), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Charter School's regulatory basis financial statements, and have issued our report thereon dated August 24, 2026. We issued an adverse opinion in regard to accounting principles generally accepted in the United States of America, because the Charter School prepared the financial statements on the basis of the financial reporting provisions of Arkansas Code, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive. Our report disclaims an opinion on such regulatory basis financial statements, because we were unable to obtain sufficient appropriate audit evidence regarding the amounts at which cash, accounts payable, and fund balance were recorded in the accompanying Balance Sheet- Regulatory Basis, and the amounts and classification of expenditures presented in the accompanying Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds – Regulatory Basis because of inadequacy of accounting records. Additionally, a Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds – Regulatory Basis was not presented, because a budget was not prepared on a fund basis format nor were expenditures budgeted or recorded by major function, as required by the regulatory basis of accounting. We were unable to confirm or verify by alternative means the accuracy and completeness of the Charter School's regulatory basis of accounting financial statements.

Report on Internal Control Over Financial Reporting

In connection with our engagement to audit the financial statements of the Charter School, we considered the Charter 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 opinions on the regulatory basis financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Charter School's 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the Audit Findings section of this report, that we consider to be a material weakness.

Report on Compliance and Other Matters

In connection with our engagement to audit the regulatory basis financial statements of the Charter School, we performed tests of its compliance with certain provisions of the state constitution, state and federal laws and 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the Audit Findings section of this report.

AUDIT FINDINGS

Material Weakness and Material Noncompliance

The Charter School's internal control system did not prevent, or detect and correct, on a timely basis material errors in the financial accounting records. Such records are utilized in the preparation of the Charter School's financial statements. The fiscal year ended June 30, 2025, was the Charter School's first year of operations, and management did not have a full understanding of the Regulatory Basis of Accounting or the Arkansas Public School Computer Network.

As required by section 5.3 of the Charter Agreement, the Charter School is required to at all times maintain appropriate governance and management procedures and financial controls, comply with all requirements imposed by law or regulation, and fully participate in the Arkansas Public School Computer Network (APSCN) finance and educational data reporting system.

The Charter School maintained the activity of two bank accounts with gross transactions totaling \$1,690,756 outside of APSCN, in noncompliance with section 5.3 of the Charter Agreement. These financial transactions were not recorded nor reported by fund or by expenditure function, as required by the Regulatory Basis of Accounting. These transactions were included in the financial statements via adjusting journal entry during audit fieldwork. Additionally, we were unable to fully perform audit procedures, including fraud and vendor related procedures, on the activity maintained outside of APSCN.

The Charter School's operating bank account was not properly reconciled during the 2025 fiscal year with unexplained variances ranging from \$2,015 to (\$427,920). ALA staff identified bank reconciliation errors during audit fieldwork leaving an unexplained combined variance for all bank accounts of \$62,019 as of June 30, 2025.

Material errors were identified in the General Fund resulting in a net overstatement of cash totaling \$113,664.

We were unable to obtain a budget prepared on a fund basis format by expenditure function thus a Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds – Regulatory Basis was not presented, as required by the Regulatory Basis of Accounting.

Non-payroll

Our test of 40 non-payroll expenditures revealed the following:

- The Charter School did not have adequate supporting documentation on hand for four disbursements totaling \$281,798, in noncompliance with Ark. Code Ann. § 6-13-701(e)(1)(B). During audit fieldwork, ALA was able to obtain invoice copies from the federal grantor pass-through entity for testing purposes.
- Eleven disbursements (\$209,620) did not have any indication of approval, as required by Ark. Code Ann. § 6-13-701(e)(1)(B). Additionally, although employee expense reimbursement documentation was available for review, one of the disbursements (\$715) was initiated, authorized, recorded, issued to, and endorsed by the same employee, in conflict with the Charter School's personnel policy.
- All checks tested were issued with only one authorizing signature, in noncompliance with Ark. Code Ann. § 6-13-701(e)(1)(A)(i).
- Bids were not obtained for four disbursements totaling \$445,560, as required by Ark. Code Ann. § 6-21-304.

Payroll

Our test of 12 employees' payroll expenditures revealed the following:

- Three employees' positions required timesheets. We were unable to obtain 29 of the timesheets for review. Additionally, the 18 timesheets that were available did not contain the signature of the employee nor a signature of an approving supervisor, as required by the Charter School's Fiscal Management Policy.
- Employee contracts did not include the level of education nor the years of experience necessary to agree to the salary schedule. We were able to obtain the level of education and years of experience by alternative means in APSCN for testing. Eight employees' contracts tested did not agree with the salary schedule, or the salary schedule did not include the position that was on the contract.
- Four employees tested were paid a salary above their contract amount for what appeared to be stipends. Due to the lack of documentation, we could not determine an amount of overpayment, if any.

AUDIT FINDINGS (Continued)

Material Weakness and Material Noncompliance (Continued)

Payroll (Continued)

Our test of 6 employees' leave records revealed the following:

- Supporting documentation could not be provided for two employees' beginning sick leave balances.
- Three employees had personal leave days although their position did not qualify for personal leave per the Charter School's personnel policy.

Receipts were not issued for all sources of income, as required by Ark. Code Ann. § 6-13-701(f)(2).

Capital asset records were not maintained in APSCN, as required by section 5.3 of the Charter Agreement. The inventory tracking system used by the Charter School tracked all equipment and supplies regardless of cost, and asset tags on equipment did not correspond to the asset ids in the asset listing. Additionally, all property within the Charter School facility was not clearly identified as owned by the Charter School, Charter Sponsoring Applicant (Community School of the Arts), or another entity, as required by section 5.9 of the Charter Agreement.

The deficiencies above prevented us from obtaining sufficient appropriate audit evidence to provide a basis for an audit opinion on the regulatory basis financial statements resulting in a disclaimer of opinion on the Regulatory Basis of Accounting. Charter School management should adopt sound accounting policies and establish and maintain internal control that will initiate, authorize, record, process, and report transactions consistent with management's assertions embodied in the financial statements and that will safeguard Charter School assets and ensure all financial activity is properly recorded.

Charter School Management response (summarized):

In December 2023, Community School of the Arts (CSA), the sponsoring entity for the Institute for the Creative Arts (ICA), received formal approval from the Arkansas State Board of Education to open ICA in August of 2024.

At that same time, CSA was awarded the Charter Schools Program (CSP) Grant by the Arkansas Public Schools Resource Center (APSRC) and funds were spent from January-September of 2024. These funds were never entered into APSCN due to the following:

1. ICA was not officially a school when the funds were awarded and some of the funding was spent prior to open.
2. CSA, as the sponsoring entity spent the funds from accounts that would never be entered into APSCN because CSA is not the Charter.
3. The ICA bank account set up at Regions Bank was temporary for grant fund use.
4. We were not given any guidance that CSP grant funds should be placed in APSCN.

In addition, in March 2024, CSA, received a federal New Markets Tax Credits (NMTC) award to offset costs of building a new facility that would be the home to ICA. Included in this NMTC structure were bank accounts at the HOPE Credit Union, the lending firm for CSA that included a total of \$600,000 to be used for ICA as needed for start-up costs for a new school. These accounts were not entered into the APSCN system for the following reasons:

1. CSA was not aware that these accounts needed to be included in APSCN.
2. ICA was encouraged to have only one bank account in APSCN so as not to make learning the system more complicated than necessary. These accounts were never intended to become the daily operating account for ICA.
3. Funds from these accounts were temporarily used to pay costs covered by the CSP grant during the time when ICA was not officially open and was not yet established in the APSCN system.
4. Under NMTC guidelines, transactions flow through a Community Development Entity (CDE) and/or special purpose entity structure, and the associated bank accounts are often controlled or required by the investor/CDE agreements rather than by the charter school directly. As a result, these transactions were not initially recorded in APSCN by fund or expenditure function as required under the regulatory basis of accounting.
5. Funds from the HOPE accounts that were moved into the established ICA operating account at First National Bank of Fort Smith were, in fact, input into APSCN.

The charter school administration including the business manager, outside accounting firm, and president with assistance from the finance team at APSRC and the ADE EFinance team as well as outside help from a retired public school finance officer will obtain complete transaction details for the accounts for the particular audit period in question.

The charter school is committed to full compliance with Section 5.3 of the charter agreement and will ensure all financial activity is properly recorded and reported through APSCN going forward.

AUDIT FINDINGS (Continued)

Material Weakness and Material Noncompliance (Continued)

Transactions will be recorded in APSCN, properly classified by fund and expenditure function, reconciled monthly with a final review from ICA's outside accounting firm. ICA will retain complete copies of all financial records, vendor invoices, disbursement schedules, and supporting documentation. Disbursement processing will require a minimum of two individuals, require written or electronic approval, and finance training will be conducted. All checks will have two authorized signatures prior to disbursement. A checklist and approval step will be added to the procurement process for evidence of competitive bids, if applicable.

In October 2024, there was turnover in the finance position and bank reconciliation variances had accumulated. On-going work has been implemented with a new finance officer who will assist in monthly bank reconciliations until this task is completely and fully understood and carried out correctly by the ICA business manager. All bank accounts will be reconciled monthly, within 15 days of receipt of the bank statement, and reviewed by ICA's outside accounting firm and ICA President. Reconciliations and supporting documentation will be retained and made available for board or auditor review.

An annual budget will be adopted with the structure of the regulatory basis financial statements and in APSCN.

ICA has implemented a standardized timesheet template requiring both employee and supervisor signatures prior to submission. Effective immediately all new and renewed teacher contracts will include, or have attached/referenced, documentation verifying: (a) highest degree/certification level held, and (b) verified years of valid teaching experience, consistent with the salary schedule placement criteria. Additionally, relevant HR staff will be trained on the updated procedures and controls.

Capital assets will be reconciled and entered into the APSCN asset module, and staff will receive further training in the 26-27 school year.

Charter School's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Charter School's response to the finding identified in our audit and described in the Audit Findings section of this report. The Charter School's response was not subjected to the other auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on the response.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

ARKANSAS LEGISLATIVE AUDIT



Matt Fink, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
August 24, 2026

INSTITUTE FOR THE CREATIVE ARTS
SEBASTIAN COUNTY, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2025

Exhibit A

	Governmental Funds		
	Major		Other
	General	Special Revenue	Aggregate
ASSETS			
Cash	\$ 60,870	\$ 8,929	\$ 21,806
Accounts receivable		19	2,511
 TOTAL ASSETS	 \$ 60,870	 \$ 8,948	 \$ 24,317
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 3,125		
Fund Balances:			
Restricted	6,886	\$ 8,948	\$ 24,317
Assigned	8,261		
Unassigned	42,598		
Total Fund Balances	57,745	8,948	24,317
 TOTAL LIABILITIES AND FUND BALANCES	 \$ 60,870	 \$ 8,948	 \$ 24,317

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

INSTITUTE FOR THE CREATIVE ARTS
SEBASTIAN COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2025

Exhibit B

	Major		Other
	General	Special Revenue	Aggregate
REVENUES			
State assistance	\$ 381,218	\$ 220	\$ 24,317
Federal assistance		597,396	
Activity revenues	24,494		
Meal sales		4,892	
Investment income	9,816		
Other revenues	5,760		
TOTAL REVENUES	421,288	602,508	24,317
EXPENDITURES			
Regular programs	259,301		
Special education	250	1,590	
Compensatory education programs	139,746		
Other instructional programs	251,830		
Student support services	130,344		
Instructional staff support services	77,968		
General administration support services	84,118		
School administration support services	545		
Central services support services	42,337		
Operation and maintenance of plant services	25,510		
Student transportation services	767		
Food services operations		73,534	
Activity expenditures	16,234		
Unclassified expenditures and voided transactions	(30,381)	541,293	
TOTAL EXPENDITURES	998,569	616,417	
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(577,281)	(13,909)	24,317
OTHER FINANCING SOURCES (USES)			
Transfers in		58,738	
Transfers out	(58,738)		
Funds received from Community School of the Arts	205,000		
Funds repaid to Community School of the Arts	(115,000)	(35,000)	
TOTAL OTHER FINANCING SOURCES (USES)	31,262	23,738	
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(546,019)	9,829	24,317
FUND BALANCES - JULY 1	603,764	(881)	0
FUND BALANCES - JUNE 30	\$ 57,745	\$ 8,948	\$ 24,317

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

INSTITUTE FOR THE CREATIVE ARTS
SEBASTIAN COUNTY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Board of Education, a five member group, is the level of government, which has responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Institute for the Creative Arts (the "Charter School"). The Charter School, established July 1, 2024, is an open-enrollment charter school, and the sponsoring entity is Community School of the Arts, a nonprofit corporation. There are no component units.

B. Description of Funds

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

General Fund - The General Fund is used to account for and report all financial resources not accounted for and reported in another fund.

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

Other governmental funds, presented in the aggregate, consist of the following:

Capital Projects Fund – 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.

C. Measurement Focus and Basis of Accounting

The financial statements are prepared in accordance with a regulatory basis of accounting (RBA). This basis of accounting is prescribed by Ark. Code Ann. § 10-4-413(c) 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 entity; 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 require that basic financial statements present government-wide financial statements. Additionally, GAAP require the following major concepts: Management's Discussion and Analysis, accrual basis of accounting for government-wide financial statements, including depreciation expense, modified accrual basis of accounting for fund financial statements, separate financial statements for fiduciary fund types and other requirements for fiduciary fund types, separate identification of special and extraordinary items, inclusion of capital assets, leases, and debt in the financial statements, inclusion of compensated absences and the net pension liability 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.

INSTITUTE FOR THE CREATIVE ARTS
SEBASTIAN COUNTY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

The accompanying financial statements are presented on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for purposes of recording specific activities or attaining certain objectives. Major governmental funds are defined as general and special revenue, and such funds are presented separately in the financial statements. All other governmental funds are presented in the aggregate. Fiduciary fund types are presented in a separate column in the Balance Sheet – Regulatory Basis. Revenues are reported by major sources and expenditures are reported by major function. 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 financed purchases are reported as other financing sources. Changes in private-purpose funds will be reflected in the notes to financial statements.

D. Revenue Recognition Policies

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

E. Capital Assets

Information on capital assets and related depreciation is reported at Schedule 1. 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 acquisition value when received. The Charter School policy maintains a threshold level of \$1,000 for capitalizing equipment. However, the Charter School tracked all equipment and supplies including items less than \$1,000 reported at Schedule 1. Library holdings are not capitalized.

F. Fund Balance Classifications

1. Restricted fund balance – represents amounts that are restricted to specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through bond covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
2. Assigned fund balance – represents amounts that are constrained by the Charter School's *intent* to be used for specific purposes, but are neither restricted nor committed.
3. Unassigned fund balance – represents amounts that have not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. 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.

G. Fund Balance Classification Policies and Procedures

The President, in conjunction with other management and accounting personnel, is authorized to assign amounts to a specific purpose. The Charter School's Board of Education has not adopted a formal policy addressing this authorization.

INSTITUTE FOR THE CREATIVE ARTS
SEBASTIAN COUNTY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Fund Balance Classification Policies and Procedures (Continued)

The Charter School's revenues, expenditures, and fund balances are tracked in the accounting system by numerous sources of funds. The fund balances of these sources of funds are combined to derive the Charter School's total fund balances by fund. It is uncommon for an individual source of funds to contain restricted and unrestricted (committed, assigned, or unassigned) funds. The Charter School does not have a policy addressing whether it considers restricted or unrestricted amounts to have been spent when expenditures are incurred for purposes for which both restricted and unrestricted amounts are available. Charter School personnel decide which resources (source of funds) to use at the time expenditures are incurred. For classification of fund balance amounts, restricted resources are considered spent before unrestricted. The Charter School does not have a policy addressing which resources to use within the unrestricted fund balances when committed, assigned, or unassigned fund balances are available. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, committed amounts are reduced first, followed by assigned amounts, and then unassigned amounts.

H. Stabilization Arrangements

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

I. Minimum Fund Balance Policies

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

J. Budget and Budgetary Accounting

The Charter School is required by state law to prepare an annual budget. The annual budget is prepared on a fiscal year basis. The Charter School does not prepare and submit amended budgets during the fiscal year. The State Department of Education's regulations allow for the cash basis or the modified accrual basis. However, the majority of the school districts employ the cash basis method.

Budgetary perspective differences are not considered to be significant, because the structure of the information utilized in preparing the budget and the applicable fund financial statements is essentially the same.

K. Encumbrances

The Charter School does not utilize encumbrance accounting.

2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

Cash deposits are carried at cost. The Charter School's cash deposits at June 30, 2025, were as follows:

	Bank Balance
Insured (FDIC)	\$ 24,909
Insured (National Credit Union Administration)	183,375
Total Deposits	<u>\$ 208,284</u>

INSTITUTE FOR THE CREATIVE ARTS
SEBASTIAN COUNTY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025

3: ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2025, were comprised of the following:

Description	Governmental Funds	
	Major	Other
	Special Revenue	Aggregate
State assistance	\$ 19	\$ 2,511

4: ACCOUNTS PAYABLE

Accounts payable at June 30, 2025, were comprised of the following:

Description	Governmental Fund
	Major
	General
Vendor payables	\$ 3,125

5: COMMITMENTS

The Charter School was contractually obligated for the following at June 30, 2025:

- A. Lease (lease of nonfinancial assets with initial noncancelable lease terms in excess of one year)

General description of lease and leasing arrangement: The Charter School entered into a lease and operating agreement with Community School of the Arts for the right to use property, improvements, and equipment dated March 19, 2024, commencing on July 1, 2024. The agreement includes a 30 year term for the facility and improvements and a 90 month term for the equipment.

Future minimum lease payments for the succeeding years as of June 30, 2025:

Year Ended June 30,	Amount
2026	\$ 1,430,000
2027	1,430,000
2028	1,430,000
2029	1,430,000
2030	1,430,000
2031-2035	7,411,428
2036-2040	7,587,640
2041-2045	7,587,640
2046-2050	7,587,640
2051-2054	6,070,112
Total	\$ 43,394,460

INSTITUTE FOR THE CREATIVE ARTS
SEBASTIAN COUNTY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025

5: COMMITMENTS (Continued)

A. Lease (lease of nonfinancial assets with initial noncancelable lease terms in excess of one year) (Continued)

Lease payments totaling \$648,500 were due for the year ended June 30, 2025; however, no lease payments were made. The Charter School and Community School of the Arts amended the lease on August 27, 2025. See note 11 for the amended terms and updated future minimum lease payments.

B. Revolving Term Note

The Charter School entered into a revolving term note with Community School of the Arts for \$3,000,000 bearing 1% interest dated December 12, 2024, and maturing on December 12, 2027. The Charter School did not draw any funds during the fiscal year ended June 30, 2025.

6: INTERFUND TRANSFERS

The Charter School transferred \$58,738 from the general fund to the special revenue funds to supplement food service operations.

7: RETIREMENT PLAN

Arkansas Teacher Retirement System

Plan Description

The Charter School contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers employees of schools and education-related agencies, except certain non-teaching school employees. ATRS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit 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, by calling 501-682-1517, or by visiting the ATRS website at www.artrs.gov.

Funding Policy

ATRS has contributory and noncontributory plans. Contributory members are required by State law to contribute 7% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 15% of covered salaries. The Charter School's contributions to ATRS for the year ended June 30, 2025, were \$115,319, equal to the required contributions.

Net Pension Liability

The Division of Elementary and Secondary Education has stipulated that, under the regulatory basis of accounting, the requirements of Governmental Accounting Standards Board Statement no. 68 would be limited to disclosure of the Charter School's proportionate share of the collective net pension liability. The Charter School's proportionate share of the collective net pension liability at June 30, 2024, (actuarial valuation date and measurement date) was \$0.

8: RISK MANAGEMENT

The Charter 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 natural disasters.

The Charter School carries commercial insurance for property, general liability, crime, worker's compensation, and commercial umbrella liability.

INSTITUTE FOR THE CREATIVE ARTS
SEBASTIAN COUNTY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025

8: RISK MANAGEMENT (Continued)

The Charter School participates in the Arkansas Fidelity Bond Trust Fund administered by the Governmental Bonding Board. This program provides coverage for actual losses sustained by its members through fraudulent or dishonest acts committed by officials or employees. Each loss is limited to \$300,000 with a \$2,500 deductible. Premiums for coverage are paid by the Chief Fiscal Officer of the State of Arkansas from funds withheld from the Public School Fund.

The Charter School did not have any settled claims during the year ended June 30, 2025.

9: ON-BEHALF PAYMENTS

The allocation of the health insurance premiums paid by the Division of Elementary and Secondary Education to the Employee Benefits Division, on-behalf of the Charter School's employees, totaled \$21,574 for the year ended June 30, 2025.

10: DETAILS OF GOVERNMENTAL FUND BALANCE CLASSIFICATIONS DISPLAYED IN THE AGGREGATE

Description	Governmental Funds		
	Major		Other
	General	Special Revenue	
Fund Balances:			
Restricted for:			
Enhanced student achievement funding	\$ 6,157		
Professional development	729		
Capital projects			\$ 24,317
Child nutrition programs		\$ 1,654	
Special education programs		7,294	
Total Restricted	<u>6,886</u>	<u>8,948</u>	<u>24,317</u>
Assigned to:			
Student activities	<u>8,261</u>		
Unassigned	<u>42,598</u>		
Totals	<u>\$ 57,745</u>	<u>\$ 8,948</u>	<u>\$ 24,317</u>

INSTITUTE FOR THE CREATIVE ARTS
SEBASTIAN COUNTY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025

11: SUBSEQUENT EVENT

On August 27, 2025, the Charter School and Community School of the Arts (CSA) amended their facility and equipment lease originally dated March 19, 2024. The Charter School had past due lease payments of \$648,500 from the year ended June 30, 2025. In accordance with the amended lease, CSA will forbear rent from September 1, 2025 to August 31, 2026. Commencing September 1, 2026, the Charter School will resume lease payments including the past due lease payments from the year ended June 30, 2025. The amended future lease payments are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2026	\$ 0
2027	1,080,833
2028	1,297,000
2029	1,297,000
2030	1,297,000
2031-2035	8,708,428
2036-2040	7,587,640
2041-2045	7,587,640
2046-2050	7,587,640
2051-2054	<u>6,070,112</u>
Total	<u><u>\$ 42,513,293</u></u>

INSTITUTE FOR THE CREATIVE ARTS
SEBASTIAN COUNTY, ARKANSAS
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2025
(Unaudited)

Schedule 1

	Balance June 30, 2025
Depreciable capital assets:	
Equipment	\$ 498,782
Less accumulated depreciation for:	
Equipment	129,758
Total depreciable capital assets, net	369,024
Capital assets, net	* \$ 369,024

* The capital asset policy includes a threshold of \$1,000 for capitalizing equipment as discussed in Note 1E. However, the above schedule includes equipment and supplies with a historical cost of less than \$1,000.