

**Arkansas Arts Academy
and Subsidiary**

Regulatory Basis Financial Statements
and Supplementary Information
June 30, 2020

(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 **Arkansas Arts Academy and Subsidiary** (the School), which comprise the consolidated balance sheet – regulatory basis of each major governmental fund, the capital projects fund and the fiduciary fund as of June 30, 2020, and the related consolidated statement of revenues, expenditures and changes in fund balances – regulatory basis of each major governmental fund and the capital projects fund and the related consolidated statement of revenues, expenditures and changes in fund balance – budget and 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 of Arkansas Code Annotated §10-4-413(c) as provided in Act 2201 of 2005, as described in Note 2 to the consolidated financial statements; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the consolidated financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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, to meet the financial reporting requirements of the State of Arkansas, the consolidated financial statements are prepared by the School on the basis of the financial reporting provisions of Arkansas Code Annotated §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.

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 above 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, 2020, or the 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 on the preceding page present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund and the capital projects fund, as well as the fiduciary fund information of the School as of June 30, 2020; the respective regulatory basis changes in fund balances of each major governmental fund and the capital projects fund for the year then ended; and the regulatory basis 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 by Act 2201 of 2005 as 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 financial statements as a whole. The Schedule of Capital Assets (Unaudited), which is the responsibility of management, is presented for purposes of additional analysis and in compliance with state statute. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated March 26, 2021, on our consideration of **Arkansas Arts Academy and Subsidiary'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.



Landmark PLC
Certified Public Accountants

March 26, 2021
Rogers, Arkansas

Regulatory Basis Consolidated Financial Statements

Arkansas Arts Academy and Subsidiary

Consolidated Balance Sheet – Regulatory Basis June 30, 2020

	Governmental Funds			
	Major			
	General	Special Revenue	Capital Projects	Fiduciary Funds
ASSETS				
Cash	\$ 617,663	\$ -	\$ 12,015	\$ 125,175
Restricted cash and cash equivalents	249,147	134,407	-	-
Certificate of deposit	2,084	-	-	-
Receivables	-	31,178	45,993	-
TOTAL ASSETS	\$ 868,894	\$ 165,585	\$ 58,008	\$ 125,175
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 266,510	\$ -	\$ -	\$ -
Due to student groups	-	-	-	125,175
Total Liabilities	266,510	-	-	125,175
Fund Balances				
Restricted:				
State programs	184,328	-	-	-
Federal programs	-	165,585	-	-
Capital projects	249,147	-	58,008	-
Other	32,500	-	-	-
Unassigned	136,409	-	-	-
Total Fund Balances	602,384	165,585	58,008	-
TOTAL LIABILITIES AND FUND BALANCES	\$ 868,894	\$ 165,585	\$ 58,008	\$ 125,175

See accompanying notes to 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, 2020

	Governmental Funds		
	Major		
	General	Special Revenue	Capital Projects
REVENUES			
Federal assistance	\$ -	\$ 540,740	\$ -
State assistance	8,071,287	2,487	523,829
Local donations and grants	148,151	397	-
Meal sales	-	141,890	-
Interest income	7,071	-	-
Total Revenues	8,226,509	685,514	523,829
EXPENDITURES			
Current:			
Instructional services	4,742,243	194,235	-
Instructional support services	596,103	88,880	-
General administration	672,480	-	-
School administration	482,140	-	-
Operation and maintenance	43,422	-	638,969
Capital outlay	530,381	-	3,828
Transportation	174,372	-	-
Food services operations	-	309,291	-
Community services operations	-	441	-
Debt Service:			
Principal retirement of debt	230,000	-	-
Interest and fiscal charges	1,054,638	-	-
Total Expenditures	8,525,779	592,847	642,797
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(299,270)	92,667	(118,968)
OTHER FINANCING SOURCES (USES)			
Proceeds from loans	193,754	-	-
Proceeds from sale of equipment	1,400	-	-
Value of capital leases	205,784	-	-
Transfers, net	(62,833)	-	62,833
Total Other Financing Sources (Uses)	338,105	-	62,833
NET CHANGE IN FUND BALANCES	38,835	92,667	(56,135)
FUND BALANCES - BEGINNING OF YEAR	563,549	72,918	114,143
FUND BALANCES - END OF YEAR	\$ 602,384	\$ 165,585	\$ 58,008

See accompanying notes to 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, 2020

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
State assistance	\$ 7,890,122	\$ 8,071,287	\$ 181,165
Local donations and grants	260,500	148,151	(112,349)
Interest income	-	7,071	7,071
Total Revenues	8,150,622	8,226,509	75,887
EXPENDITURES			
Current:			
Instructional services	4,790,453	4,742,243	48,210
Instructional support services	658,759	596,103	62,656
General administration	742,642	672,480	70,162
School administration	467,385	482,140	(14,755)
Operation and maintenance	1,409,406	43,422	1,365,984
Capital outlay	-	530,381	(530,381)
Transportation	115,784	174,372	(58,588)
Community services operations	15,500	-	15,500
Debt Service:			
Principal retirement of debt	-	230,000	(230,000)
Interest and fiscal charges	-	1,054,638	(1,054,638)
Total Expenditures	8,199,929	8,525,779	(325,850)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(49,307)	(299,270)	(249,963)
OTHER FINANCING SOURCES (USES)			
Proceeds from loans	-	193,754	193,754
Proceeds from sale of equipment	-	1,400	1,400
Value of capital leases	-	205,784	205,784
Transfers, net	-	(62,833)	(62,833)
Total Other Financing Sources (Uses)	-	338,105	338,105
NET CHANGE IN FUND BALANCE	\$ (49,307)	\$ 38,835	\$ 88,142

See accompanying notes to 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, 2020

	Special Revenue Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Federal assistance	\$ 527,665	\$ 540,740	\$ 13,075
State assistance	2,000	2,487	487
Local donations and grants	-	397	397
Meal sales	190,000	141,890	(48,110)
Total Revenues	719,665	685,514	(34,151)
EXPENDITURES			
Current:			
Instructional services	242,218	194,235	47,983
Instructional support services	104,498	88,880	15,618
General administration	7,000	-	7,000
Food services operations	384,735	309,291	75,444
Community services operations	500	441	59
Total Expenditures	738,951	592,847	146,104
NET CHANGE IN FUND BALANCE	\$ (19,286)	\$ 92,667	\$ 111,953

See accompanying notes to financial statements.

Arkansas Arts Academy and Subsidiary

Notes to Consolidated Financial Statements June 30, 2020

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 12th 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 a basis of accounting other than accounting principles generally accepted in the United States of America (U.S. GAAP). The RBA is prescribed by Arkansas Code Annotated §10-4-413(c), as provided in Act 2201 of 2005, which requires that financial statements be presented on a fund basis with, as a minimum, the general fund and special revenue fund presented separately and all other funds, if any, 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 supplementary 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.

U.S. GAAP requires that basic financial statements present government-wide financial statements. Additionally, U.S. GAAP requires the following major concepts: Management's Discussion and Analysis, accrual basis of accounting for government-wide 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, 2020

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 function. Other transactions, which are not reported as revenues or expenditures are reported as other financing sources and uses.

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 the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditure for specified purposes.

Other funds consist of the following:

Capital Projects Funds - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or in trust funds 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.

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.

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, 2020.

Arkansas Arts Academy and Subsidiary

Notes to Consolidated Financial Statements June 30, 2020

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.

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, 2020.

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, 2020.

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.

For the purpose of fund balance classifications, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and lastly unassigned fund balance.

Budget and Budgetary Accounting

The School is required by state law to prepare an annual budget. The annual budget is required to be approved by 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).

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.

Arkansas Arts Academy and Subsidiary

Notes to Consolidated Financial Statements June 30, 2020

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, 2020, the bank balances of the School's demand deposits amounted to \$1,243,446, of which \$500,000 was insured and \$743,666 was collateralized by securities held in the School's name. No amounts are uninsured or uncollateralized.

NOTE 4: RECEIVABLES

As of June 30, 2020, the receivables balance was comprised of the following:

	General Fund	Special Revenue Fund	Capital Projects Fund
Federal assistance	\$ -	\$ 31,178	\$ -
State assistance	-	-	45,993
	\$ -	\$ 31,178	\$ 45,993

NOTE 5: CONCENTRATIONS

The School is economically dependent on funding received through state awards, federal awards, and private donations. During the year ended June 30, 2020, approximately 98% of total revenues were from state, federal and private sources.

Arkansas Arts Academy and Subsidiary

Notes to Consolidated Financial Statements June 30, 2020

NOTE 6: 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 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. ATRS issues a publicly available financial report that includes financial statements and required supplementary information. The 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.

Funding Policy - ATRS has contributory and noncontributory plans. Contributory members are required by State law to contribute 6% 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% of covered salaries. The School's contributions to ATRS for the years ended June 30, 2019, 2018 and 2017, were \$612,898, \$502,721 and \$469,585, 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, 2019 (actuarial valuation date and measurement date) was \$5,933,698.

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 7: ON-BEHALF PAYMENTS

During the year ended June 30, 2020, health insurance premiums of \$156,480 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.

Arkansas Arts Academy and Subsidiary

Notes to Consolidated Financial Statements June 30, 2020

NOTE 8: CAPITAL LEASES

During the year ended June 30, 2020, the School entered into a three leases for computer equipment that are classified as a capital leases. As of June 30, 2020, the cost of the equipment under capital leases was \$205,784 and accumulated depreciation on the equipment is \$29,230.

The future minimum lease payments required under the capital lease and the present value of the net minimum lease payments as of June 30, 2020, are as follows:

Years ending June 30,		
	2021	\$ 76,017
	2022	76,017
	2023	<u>41,669</u>
Total minimum lease payments		193,703
Less amount representing Interest		<u>22,268</u>
Present value of minimum lease payments		<u>\$ 171,435</u>

NOTE 9: 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.

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:

Arkansas Arts Academy and Subsidiary

Notes to Consolidated Financial Statements June 30, 2020

Years Ending June 30,	Principal	Interest	Total
2021	\$ 535,000	\$ 1,040,238.00	\$ 1,575,238
2022	550,000	1,024,187.00	1,574,187
2023	570,000	1,007,688.00	1,577,688
2024	585,000	990,587.00	1,575,587
2025	605,000	973,038.00	1,578,038
2026-2030	3,385,000	4,499,825.00	7,884,825
2031-2035	4,180,000	3,873,750.00	8,053,750
2036-2040	5,230,000	2,871,450.00	8,101,450
2041-2045	6,430,000	1,707,573.00	8,137,573
2046-2047	2,960,000	370,650.00	3,330,650
	\$ 25,030,000	\$ 18,358,986	\$ 43,388,986

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,	
2021	\$ 125,000
2022	125,000
2023	150,000
2024	150,000
2025	150,000
2026-2030	900,000
2031-2035	1,000,000
2036-2040	1,000,000
2041-2045	1,000,000
2046-2047	400,000
	\$ 5,000,000

Arkansas Arts Academy and Subsidiary

Notes to Consolidated Financial Statements June 30, 2020

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

	<u>Balance</u> <u>June 30, 2019</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2020</u>	<u>Due Within</u> <u>One Year</u>
Bonds payable					
Series 2017 Bonds	\$ 25,260,000	\$ -	\$ 230,000	\$ 25,030,000	\$ 535,000
Bonds payable, net	25,260,000	-	230,000	25,030,000	535,000
WFF loan	4,806,246	193,754	-	5,000,000	125,000
 Total long-term debt	 <u>\$ 30,066,246</u>	 <u>\$ 193,754</u>	 <u>\$ 230,000</u>	 <u>\$ 30,030,000</u>	 <u>\$ 660,000</u>

NOTE 10: 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 11: OPERATING LEASES

The School leases copiers, office space, and a school bus under long-term noncancelable operating lease agreements. The total rental expense for operating leases for the year ended June 30, 2020 was \$29,312.

Future minimum lease payments for operating leases are as follows:

Years ending June 30,		
2021	\$	29,312
2022		29,562
2023		31,156
2024		30,000
2025		27,500

NOTE 12: 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, 2020

NOTE 13: 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, 2020. In addition, there have been no settlements in excess of the School's coverage.

NOTE 14: SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 26, 2021, the date that the financial statements were available to be issued, and none were identified requiring recognition or disclosure.

Supplementary Information

**Arkansas Arts Academy
and Subsidiary**

**Schedule of Capital Assets (Unaudited)
June 30, 2020**

Non-depreciable capital assets		
Land		\$ 360,237
Depreciable capital assets		
Buildings	\$ 30,167,082	
Furniture and equipment	<u>2,757,171</u>	
	32,924,253	
Less accumulated depreciation	<u>4,900,717</u>	
Total depreciable capital assets		<u>28,023,536</u>
Capital assets, net		<u><u>\$ 28,383,773</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, 2020, 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 March 26, 2021. We issued an adverse opinion because the School prepared the 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 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 financial position of each major governmental fund, and the capital projects fund, as well as the fiduciary fund information, of the School as of June 30, 2020, and the respective changes in financial position of each major governmental fund and the capital projects fund, and the respective budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 2 to the financial statements.

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.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2020-01 that we consider to be a significant deficiency.

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*.

Arkansas Arts Academy's Response to Findings

The School's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The School's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion it.

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.

The logo for Landmark PLC Certified Public Accountants. It features the name "Landmark PLC" in a large, stylized, cursive script font. Below this, the words "Certified Public Accountants" are written in a smaller, clean, sans-serif font.

March 26, 2021
Rogers, Arkansas

Arkansas Arts Academy and Subsidiary

Schedule of Findings and Responses Year ended June 30, 2020

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.

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.

Arkansas Arts Academy and Subsidiary

Summary Schedule of Prior Year Findings and Responses Year ended June 30, 2020

2019-001: 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, 2019, we noted no evidence of review by the CEO on a few bank reconciliations, invoices, and monthly payroll registers.

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 in the year ended June 30, 2019, 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 School has already taken steps to correct this finding, including using the Arkansas Public School Resource Center to assist in the accounting and finance areas.

Status: The School has not corrected this finding. See finding 2020-001.



**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, 2020. 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, 2020.


Certified Public Accountants

Rogers, Arkansas
March 26, 2021