



ARKANSAS
VIRTUAL ACADEMYSM

**REGULATORY BASIS FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
June 30, 2015**

(With Independent Auditor's Reports Thereon)

**Thomas &
Thomas LLP**

Certified Public Accountants

Arkansas Virtual Academy

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT	1 – 3
REGULATORY BASIS FINANCIAL STATEMENTS	
Balance Sheet – Regulatory Basis	4
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Regulatory Basis	5
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds – Regulatory Basis	6
Notes to Financial Statements	7 – 11
SUPPLEMENTARY INFORMATION	
Schedule of Capital Assets (Unaudited)	12
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 <i>GOVERNMENT AUDITING STANDARDS</i>	13 – 14
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133	15 – 16
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	17
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	18

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Arkansas Virtual Academy
Little Rock, Arkansas

We have audited the accompanying financial statements of the charter school known as **Arkansas Virtual Academy (ARVA)**, which comprise the balance sheet – regulatory basis of the governmental funds as of June 30, 2015, the related statements of revenues, expenditures and changes in fund balance – governmental funds – regulatory basis, the statements 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 financial statements.

Management's Responsibility 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 Arkansas Code Annotated §10-4-413(c) as provided in Act 2201 of 2005, as described in Note 1(b), to meet the requirements of the State of Arkansas. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to ARVA's preparation and fair presentation of the 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 ARVA'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 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 in Note 1(b) to the financial statements, to meet the financial reporting requirements of the State of Arkansas, the financial statements are prepared by ARVA on the basis of the financial reporting provisions of Arkansas Code Annotated §10-4-413(c) as provided by 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 financial statements of the variances between the regulatory basis of accounting described in Note 1(b) 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” paragraphs, the 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 ARVA as of June 30, 2015, or the changes in its financial position for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund of ARVA as of June 30, 2015, and the respective regulatory basis changes in financial position and the respective 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 1(b).

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the 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. Such information has not been subjected to the auditing procedures applied in the audit of the 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 is presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States Local Governments and Non-Profit Organizations*, and is not a required part of the regulatory basis financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the regulatory basis financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 regulatory basis financial statements or to the 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 regulatory basis financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2016, on our consideration of ARVA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts 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 ARVA's internal control over financial reporting and compliance.

Thomas & Thomas LLP

Certified Public Accountants

January 21, 2016
Little Rock, Arkansas

Arkansas Virtual Academy

BALANCE SHEETS – REGULATORY BASIS

June 30, 2015

	Governmental Funds	
	General	Special Revenue
ASSETS		
Cash	\$ 681,539	\$ 12,553
Due from other governments	-	99,620
Due from special revenue fund	46,154	-
TOTAL ASSETS	\$ 727,693	\$ 112,173
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	\$ 371,470	\$ 53,466
Accrued payroll and withholdings	30,791	2,423
Due to general fund	-	46,154
Due student groups	2,641	-
Total Liabilities	404,902	102,043
Fund Balances		
Restricted	-	10,130
Unassigned	322,791	-
Total Fund Balances	322,791	10,130
TOTAL LIABILITIES AND FUND BALANCES	\$ 727,693	\$ 112,173

See accompanying notes to financial statements.

Arkansas Virtual Academy

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS – REGULATORY BASIS For the Year Ended June 30, 2015

	Governmental Funds	
	General	Special Revenue
REVENUES		
State assistance	\$ 10,759,696	\$ -
Federal assistance	-	790,349
Interest	4,046	-
Private contributions	903	-
Total Revenues	10,764,645	790,349
EXPENDITURES		
Instructional services	7,879,676	30,409
Instructional support services	1,351,721	750,056
School administration support services	1,244,569	-
General administration support services	83,064	-
Operation and maintenance of plant services	42,788	-
Capital outlay	41,226	-
Community services	-	57
Total Expenditures	10,643,044	780,522
EXCESS OF REVENUES OVER EXPENDITURES	121,601	9,827
OTHER FINANCING USES		
Indirect costs	-	(7,958)
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER USES	121,601	1,869
FUND BALANCES - BEGINNING OF YEAR	201,190	8,261
FUND BALANCES - END OF YEAR	\$ 322,791	\$ 10,130

See accompanying notes to financial statements.

Arkansas Virtual Academy

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL AND SPECIAL REVENUE FUNDS – REGULATORY BASIS For the Year Ended June 30, 2015

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
State assistance	\$ 12,944,832	\$ 10,759,696	\$ (2,185,136)	\$ -	\$ -	\$ -
Federal assistance	-	-	-	972,346	790,349	(181,997)
Interest	-	4,046	4,046	-	-	-
Private contributions	-	903	903	-	-	-
Total Revenues	12,944,832	10,764,645	(2,180,187)	972,346	790,349	(181,997)
EXPENDITURES						
Instructional services	8,925,578	7,879,676	1,045,902	26,426	30,409	(3,983)
Instructional support services	1,726,961	1,351,721	375,240	977,424	750,056	227,368
School administration support services	-	1,244,569	(1,244,569)	-	-	-
General administration support services	1,062,974	83,064	979,910	-	-	-
Community services	-	-	-	4,000	57	3,943
Operation and maintenance of plant services	42,756	42,788	(32)	-	-	-
Capital outlay	-	41,226	(41,226)	-	-	-
Food services	-	-	-	-	-	-
Total Expenditures	11,758,269	10,643,044	1,115,225	1,007,850	780,522	227,328
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,186,563	121,601	(1,064,962)	(35,504)	9,827	45,331
OTHER FINANCING USES						
Indirect costs	-	-	-	(7,958)	(7,958)	-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER USES	1,186,563	121,601	(1,064,962)	(43,462)	1,869	45,331
FUND BALANCES - BEGINNING OF YEAR	201,190	201,190	-	8,261	8,261	-
FUND BALANCES - END OF YEAR	\$ 1,387,753	\$ 322,791	\$ (1,064,962)	\$ (35,201)	\$ 10,130	\$ 45,331

See accompanying notes to financial statements.

Arkansas Virtual Academy

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

Arkansas Virtual Academy is a nonprofit organization incorporated under the laws of the State of Arkansas in 2003. This nonprofit corporation was granted a charter by the Arkansas State Board of Education on October 8, 2007, to operate an open-enrollment charter school, also known as Arkansas Virtual Academy (ARVA), with continuation and renewal of the charter contingent upon acceptable student performance and compliance with certain accountability provisions set forth in Arkansas law pertaining to charter schools.

ARVA's charter was renewed by the Arkansas State Board of Education effective July 1, 2015 for a five-year period that will expire on June 30, 2020. The charter school, which is operated by the nonprofit corporation in accordance with the Arkansas Department of Education (ADE) *Rules and Regulations Governing Charter Schools*, presently offers educational opportunities to students in grade levels from kindergarten through twelfth grade. During the year ended June 30, 2015, ARVA's request for a decrease in their maximum enrollment from 3,000 students to 2,000 students was approved by the Arkansas State Board of Education. This change becomes effective for the school year beginning July 1, 2015.

These financial statements include only balances and transactions directly attributable to the charter school. They do not include any balances or transactions attributable to the nonprofit corporation.

(b) Measurement Focus and Basis of Accounting

These financial statements are prepared in accordance with a regulatory basis of accounting (RBA). This basis of accounting is prescribed by Arkansas Code Annotated §10-4-413(c), as provided in Act 2201 of 2005, 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 - regulatory basis; a statement of revenues, expenditures and changes in fund balances - regulatory basis; a comparison of the final adopted budget to the actual expenditures for the general fund and special revenue funds of the entity; notes to the financial statements; and a supplemental schedule of capital assets, including land, buildings, and equipment. The law further stipulates that the Arkansas State Board of Education shall promulgate the rules necessary to administer the regulatory basis of presentation.

The RBA is not in accordance with U.S. generally accepted accounting principles (U.S. GAAP). U.S. GAAP require that basic financial statements present government-wide financial statements. Additionally, U.S. 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, separate identification of special and extraordinary items, inclusion of capital assets and debt in the financial statements, inclusion of 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.

Arkansas Virtual Academy

NOTES TO FINANCIAL STATEMENTS June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) 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. 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.

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 and operating expenditures, 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 legally restricted or committed to expenditure for specified 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.

ARVA had no other funds as of or during the year ended June 30, 2015.

(c) Revenue Recognition

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

(d) Capital Assets

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

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

(e) Interfund Balances and Transactions

Receivables and payables resulting from short-term interfund loans are classified as due to or due from other funds.

(f) Fund Balances

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors or contributors or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by ARVA's governing body through the approval of resolutions. Assigned fund

Arkansas Virtual Academy

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Fund Balances (Continued)

balance is a limitation imposed by a designee of ARVA's governing body. Unassigned fund balance consists of the net resources in excess of amounts classified nonspendable, restricted, committed or assigned.

When both restricted and unrestricted fund balances are available for use, it is ARVA's policy to use restricted fund balances first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

(g) Budget and Budgetary Accounting

ARVA is required by state statutes to prepare an annual budget. The annual budget is required to be approved by ARVA's Board and submitted to the ADE no later than September 30 of each year. Budget amendments, if any, are not required to be submitted for approval to ADE. ARVA's budget is prepared utilizing the same basis of accounting described in Note 1(b).

(h) Use of Estimates

The preparation of financial statements in conformity with the regulatory basis of accounting requires management to make estimates and assumptions that affect reported amounts of certain assets and liabilities and various disclosures in the financial statements. Accordingly, actual results could differ from those estimates.

NOTE 2: CASH

ARVA's cash consists of demand deposits maintained at a financial institution. State statutes require that ARVA's funds be deposited in banks located in the State of Arkansas and that all deposit balances in excess of the Federal Deposit Insurance Corporation insurance limits be collateralized. At June 30, 2015, the bank balance of ARVA's demand deposit accounts maintained at a financial institution totaled \$853,465, all of which was insured or collateralized.

NOTE 3: LEASE COMMITMENTS

ARVA leases certain office equipment and office space under noncancelable operating leases with terms in excess of one year. Approximate future minimum lease payments, by fiscal year, under such leases at June 30, 2015, are as follows:

2016	\$ 60,000
2017	60,200
2018	10,600
2019	6,100
Total	<u>\$ 136,900</u>

Arkansas Virtual Academy

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 3: LEASE COMMITMENTS (Continued)

Total occupancy and equipment rentals were approximately \$552,000 for the year ended June 30, 2015.

NOTE 4: RETIREMENT PLAN

Plan Description

ARVA 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. ATRS 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.

Funding Policy

ATRS has contributory and non-contributory 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 ATRS Board of Trustees, based on the annual actuarial valuation. The employer rate at June 30, 2015, is 14% of covered salaries. ARVA's contributions to ATRS for the years ended June 30, 2015, 2014 and 2013 were \$238,816, \$142,317 and \$69,940, respectively, which were equal to the required contributions for each year.

Net Pension Liability

The Arkansas Department of Education has stipulated that the requirements of Governmental Accounting Standards Board Statement No. 68 would be limited to disclosure of ARVA's proportionate share of the collective net pension liability under the regulatory basis of accounting. ARVA's proportionate share of the collective net pension liability at June 30, 2014 (the actuarial valuation date and measurement date) was \$940,528.

NOTE 5: ON BEHALF PAYMENTS

The allocation of the health insurance premiums paid by the ADE to the Employee Benefits Division, on-behalf of ARVA's employees, totaled \$55,518 for the year ended June 30, 2015.

NOTE 6: DETAILS OF GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

At June 30, 2015, the Special Revenue fund balance was restricted for administrative activities for the Medical Assistance Program (ARMAC).

Arkansas Virtual Academy

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 7: EDUCATIONAL PRODUCTS AND SERVICES AGREEMENT

Pursuant to the terms of an agreement executed by and between ARVA and a third-party management agent in effect during the period from July 1, 2012 through June 30, 2022, the management agent is responsible for providing all administrative, educational and technology services necessary to conduct ARVA's educational programs, including educational program consulting, personnel management, facility and property management, business administration, budgeting and financial reporting, financial management, maintenance of records, pupil recruitment and admissions, family services, student discipline, annual reports, teacher training and professional development, charter renewal, public and governmental relations and any other services agreed to in writing.

For these services, the management agent receives management fees and technology fees, plus reimbursement for all curriculum, instructional tools and equipment necessary to conduct ARVA's educational programs, as specified in the related agreement, to the extent that such fees do not cause ARVA to incur a net loss in the general fund. In addition, the agreement provides that the management agent is eligible to receive a performance incentive fee for operating at a surplus while meeting certain educational goals.

During the year ended June 30, 2015, fees and reimbursements under the third-party management agent agreement totaled approximately \$7,804,000, which is net of credits totaling approximately \$739,000 to ensure compliance with provisions in the management agreement specifying that the payment of such fees may not reduce the general fund balance below the reserve requirement calculated as three percent (3%) of total annual operating funds, excluding funds from federal sources or private grants. At June 30, 2015, accounts payable includes approximately \$361,500 of fees and reimbursements that have been incurred but not paid. No performance incentive fee was earned during the year ended June 30, 2015.

NOTE 8: RISK MANAGEMENT

ARVA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and students; and natural disasters. ARVA has purchased commercial insurance to address these risks.

There have been no significant reductions in ARVA's insurance coverage during the year ended June 30, 2015. In addition, there have been no settlements in excess of ARVA's coverage.

Arkansas Virtual Academy

SCHEDULE OF CAPITAL ASSETS (UNAUDITED)

June 30, 2015

DEPRECIABLE CAPITAL ASSETS

Equipment	\$ 231,321
Less accumulated depreciation	<u>(163,851)</u>
Total Depreciable Capital Assets, Net	<u><u>\$ 67,470</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**

The Board of Directors
Arkansas Virtual Academy
Little Rock, 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 financial statements of each major governmental fund of the charter school known as **Arkansas Virtual Academy (ARVA)** as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise ARVA's regulatory basis financial statements, and have issued our report thereon dated January 21, 2016. We issued an adverse opinion because ARVA 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. However, the financial statements present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund of ARVA as of June 30, 2015, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1(b).

Internal Control Over Financial Reporting

In planning and performing our audit of the regulatory basis financial statements, we considered ARVA's internal control over financial reporting (internal control) to determine the 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 ARVA's internal control. Accordingly, we do not express an opinion on the effectiveness of ARVA'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 ARVA's regulatory basis financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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.

Internal Control Over Financial Reporting (Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and 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 ARVA's regulatory basis financial statements are free from 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 determination of regulatory basis financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 ARVA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ARVA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Thomas & Thomas LLP

Certified Public Accountants

January 21, 2016
Little Rock, Arkansas

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

The Board of Directors
Arkansas Virtual Academy
Little Rock, Arkansas

Report on Compliance for Each Major Federal Program

We have audited **Arkansas Virtual Academy's (ARVA)** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of ARVA's major federal programs for the year ended June 30, 2015. ARVA'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 the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the ARVA'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 OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 ARVA'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 ARVA's compliance.

Opinion on Each Major Federal Program

In our opinion, ARVA 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, 2015.

Report on Internal Control over Compliance

Management of ARVA 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 ARVA'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 OMB Circular A-133, 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 ARVA'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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Thomas & Thomas LLP

Certified Public Accountants

January 21, 2016
Little Rock, Arkansas

Arkansas Virtual Academy

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended June 30, 2015

Federal Grantor/Pass -Through Grantor/Program or Cluster Title	Federal CFDA Number	Expenditures
OTHER PROGRAMS		
U.S. Department of Education		
Passed Through Arkansas Department of Education:		
Title I, Part A - Grants to Local Educational Agencies	84.010	\$ 408,387
Title VI, Part B - Special Education - Grants to States	84.027	319,130
Title II, Part A - Improving Teacher Quality State Grants	84.367	22,678
Total U.S. Department of Education		750,195
 U.S. Department of Health and Human Services		
Passed Through Arkansas Department of Education:		
Medical Assistance Program (ARMAC)	93.778	37,677
TOTAL OTHER PROGRAMS		787,872
TOTAL EXPENDITURES OF FEDERAL AWARDS		\$ 787,872

The accompanying notes are an integral part of this schedule.

Note 1: Basis of Presentation – The Schedule of Expenditures of Federal Awards (the “Schedule”) includes federal grant activity of Arkansas Virtual Academy (ARVA) under programs of the federal government for the year ended June 30, 2015. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of ARVA, it is not intended to and does not present the financial position or changes in financial position of ARVA.

Note 2: Summary of Significant Accounting Policies – Expenditures reported on the Schedule are reported on the regulatory basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Note 3: Medicaid reimbursements are defined as contracts for services and not federal awards; therefore, they are not covered by the reporting requirements of OMB Circular A-133. Total Medicaid funding for the year ended June 30, 2015, was \$608.

See Independent Auditor’s Report.

Arkansas Virtual Academy

SCHEDULE OF FINDINGS AND QUESTIONED COSTS Year Ended June 30, 2015

Section I – Summary of Auditor’s Results

- **Type of Auditor’s Reports Issued**

GAAP basis of reporting – adverse
Regulatory basis opinion units – unmodified

- **Internal Control over Financial Reporting**

No material weakness or significant deficiency identified.

- **Noncompliance Material to Financial Statements Noted**

None

- **Internal Control over Major Federal Programs**

No material weakness or significant deficiency identified.

- **Type of Auditor’s Report Issued on Compliance for Major Federal Programs**

Unmodified opinion

- **Audit Findings Required to be Reported in Accordance with Section 510(a) of OMB Circular A-133**

None

- **Identification of Major Federal Programs**

Department of Education, Title I, Part A – Grants to Local Educational Agencies, CFDA #84.010
Department of Education, Special Education – Grants to States, CFDA #84.027

- **Dollar Threshold used to Distinguish Between Type A and Type B programs**

\$300,000

- **Auditee Qualified as Low-Risk Auditee**

No

Findings – Consolidated Financial Statements

None

Findings and Questioned Costs – Major Federal Award Programs Audit

None

See Independent Auditor’s Report.