



ARKANSAS
ARTS ACADEMY

Board Meeting Agenda
March 10, 2020, 6:30 pm
High School Commons

1. Call to order
2. Establish Quorum/Roll Call
3. Pledge of Allegiance
4. Comments from the Public
5. Consent Agenda
 - Approve minutes from February Meeting
 - Enrollment Report
 - February Financials
6. New Business:
 - Audit Report – Landmark CPA presentation
 - Principal Reports
 - Elementary Funding Update
 - Excessive Absences, Attendance Codes, Bus Discipline, Cell Phone School Contract, Child Nutrition amended Charge Policy, Citizen/Parent Complaint Policy, Restroom Policy
 - 2020 – 2021 Course Catalog Approval
 - Ozark Regional Transit Information
7. Executive Session
 - Personnel: Hiring/Renewal/Promotion/Demotion/Transfer/Non-Renewal/Termination:
Review Personnel Issues
 - Contracts needing signatures
 - New employees, resignations, non-renewals
 - New Board Position
8. Adjournment:



ARKANSAS
ARTS ACADEMY

Board Meeting Agenda
Tuesday, February 11, 2020
6:30 pm High School Commons

1. Call to order at 6:30 pm
2. Establish Quorum/Roll Call: Howard Alsdrof, Tony Beardsley, Mike Camp, Asele Mack, Cara Riley, Dave Russell and Mary Ley
Absent: Anthony Porche
3. Pledge of Allegiance
4. Comments from the Public:
Brooke Payne ask about remaining monies in each budget line item, and how we set up projected budgets for the upcoming year and how we prepare for possible teacher resignation. Mary Ley addressed these questions by saying we are operating on an extremely tight budget and sometimes we need to move money from one budget area to cover another budget item. Our staffing is based on State requirements and Matt Young was chosen to head the Special Education Department due to his certification and knowledge of State Special Education requirements.
5. Consent Agenda
 - Approve minutes from January Regular School Board Meeting and January Special School Board Meeting
 - Enrollment Report
 - Lottery List
 - January Financials

A motion was made to accept the Consent Agenda by Dave Russel and a second by Cara Riley and passed with a 5-0 vote.

6. New Business:
 - Principal Reports: Matt Young, K6 Principal shared that Laura Donadio's Mascot design, Dr. Care Bear, was selected for Washington Regional Urgent Care facility. Riley Manzo's T-shirt design is a finalist in the Kendrick Fincher 5K Run T-shirt contest. Please see attached upcoming events to see what our K-6 have coming up.

Heather Wright shared that our high school archery team placed 1st in State and Riley Lewis placed 1st in his division. Our High School scored an A and our Elementary scored a B on the State Report Card report.

- Special Education Surrogate Parent Policy: Matt Young spoke on the State Requirement to implement a SPED Surrogate Parent Policy for our district. The State wrote the policy for us and we need Board approval to implement this program. A motion was made to approve the SPED

Surrogate Parent Policy by Dave Russell and a second by Tony Beardsley and the motion carried with a 5-0 vote.

- 7-12 Bell Schedule Approval for 2020-2021: Heather Wright ask that the 7–2 campus adopt one schedule, start time of 8:30 to 3:50, instead of the two schedules we are using this year. A motion was made by Tony Beardsley, a second by Dave Russell and the motion carried with a 5-0 vote.
 - 2020 – 2021 Course Catalog Approval: Discussion of changes to the 2020 – 2021 Course catalog was tabled to the March School Board Meeting.
 - School Board Election: Applications for School Board will be posted by February 12th. Application need to be submitted by March 6th, we will post candidate videos and have a Forum of Candidates on April 14th. The Board discussed whether family members would be able to run for School Board, the impact of having a family member on the School Board and how employees might be impacted. Howard Alsdorf, Tony Beardsley and Dave Russell shared their concerns because of previous challenges they faced by having an Employee family member on the School Board. A motion was made by Dave Russell, a second by Tony Beardsley and the motion passed with 5-0 vote.
 - Increasing Cultural Awareness Proposal: Mary spoke on Emma Willis who suggested a Professional Development by Ron Phillips beginning on February 26th, and continuing every other Wednesday from 1:30 – 4:30 pm. Mary also discussed creating an Advisory Group after a couple of meetings to update our policies.
 - Mary discussed she is exploring creating an Arts Director and a Dean of Students position in the future but is gathering information at this time.
 - Asele Mack brought up Sensitivity training for students. Heather Wright said she has her Counselors heavily involved in training for students.
 - Mary expects the FBI report in a week with regard to the threats to the high school.
 - A grant through the Walton Family Foundation for student and staff training is available. Asele suggested that our students tour the current Crystal Bridges Exhibit and follow up with discussion groups.
 - Mary shared the information she gathered in her meeting with the Mayor and Rogers Chief of Police about obtaining a School Resource Officer for our district. Next year the City will be charging schools \$80,000 per year for each Officer assigned to school campuses. Due to budgetary constraints, we will not be pursuing an Officer at this time.
7. Adjournment: A motion was made by Dave Russell, with a second by Cara Riley to adjourn the meeting at 7:17 pm and the motion carried with 1 5-0 vote.

Howard Alsdort, President

Date



ARKANSAS
ARTS ACADEMY

Board Meeting Agenda

February 11, 2020

1. Call to order
2. Establish Quorum/Roll Call
3. Pledge of Allegiance
4. Comments from the Public
5. Consent Agenda
 - Approve minutes from January Meeting
 - Enrollment Report
 - Lottery List
 - January Financials
 - School Board Elections
6. New Business:
 - Principal Reports
 - Special Education Surrogate Parent Policy
 - 7-12 Bell Schedule Approval for 2020-2021
 - 2020 – 2021 Course Catalog Approval
 - Increasing Cultural Awareness Proposal
7. Adjournment

Arkansas Arts Academy
Enrollment Report
March 6, 2020

Elementary School	3-5-20 Enrollment	20-21 Numbers	20-21 Wait List	Change from 2020-2021
Kindergarten	80	80	159	0
1st	79	80	85	1
2nd	80	80	89	0
3rd	81	80	98	-1
4th	84	84	86	0
5th	82	84	107	2
6th	82	84	116	2
Total	568	572	740	4
Middle/High School				
7th	105	110	87	5
8th	107	110	40	3
9th	103	110	63	7
10th	87	110	32	23
11th	88	103	0	15
12th	64	95	0	31
Total MS & HS	554	638	222	84
Total	1122	1210	962	88

Excessive Absences

Parents are notified by mail when their child has accumulated more than three (3) absences and by certified mail when their child has accumulated more than six (6) absences in a semester. Parents/ guardians will be reminded that the student may be denied promotion or graduation for exceeding six (6) absences in a semester. The school will file a Family In Need of Services (FINS) report with the Department of Human Services in cases of excessive absences. Legal reference ACT 1322 of 2013 For additional ways to monitor attendance, see Online Support Services.

Attendance Codes

A - Absent

CV - College Visit

SUS - Suspended Out of School

PR - Principal Approved

T - Tardy

FT - Field Trips

Bus Discipline

We are the only charter schools to provide an extensive bus program. We want all children in Northwest Arkansas have the opportunity to attend our amazing school. When children are on the bus they have the same behavioral expectations as if they were in the classroom. We have set high standards of student conduct to maximize safety and consideration of others. We have established three bus behavior clusters that are categorized into **Minor Offenses, Intermediate, and Major Offenses.**

Minor Offenses

1. Acts that disregard respect of other passengers.
2. Irresponsible acts.

The bus driver will report to the school administrator minor offenses. The assistant principal will issue a verbal warning the first time, written warning the second time, and the third time the student will receive a suspension from the use of the bus and the length of the suspension will be determined by the principal.

Intermediate Offenses

1. Any act that could impact the safety of any school bus rider, including oneself.
This act will be immediately reported to the principal who will use the schools code of conduct deemed appropriate. Will most likely involve some term of bus suspension.

Major Offenses

Any action that is a classified Level 3 offense such as fighting, harassment, and all action defined as Level 3, will lose bus services for the remainder of the year.

Cell Phone School Contract 2020-2021

Cell phone use is prohibited without permission. Cell phones qualify as one of the all-time best inventions and worst at the same time. They are great for family and friend communication but they are also an educational challenge in keeping students focused and engaged.

The distractions from a phone are so rampant in a school setting that we feel it has led us to create this phone contract for clarity. We are seeking parent support. By signing this contract, student and parent(s)/guardians acknowledge the following rules:

Cell phones may be used before and after school but once you enter the building all phones must be put in his/her backpack. They may be used during lunch in the commons area but if they are used inappropriately the student will lose the right to use the device during lunch.

1st and 2nd Offense – phones are taken to the main office and retrieved at the end of the day.

3rd Offense – Parents will need to retrieve student phone from the office

I have reviewed the above information and agree to follow the rules for cell phone usage. I understand that if I fail to follow the above rules, I will receive the consequences listed above.

(Student printed name)

(Student Signature)

(Parent signature)

(Date)

Citizen /Parent Complaint Policy

We are grateful for all of our Arkansas Arts Academy families. We are thankful you chose us! We strive to give your child an awesome educational experience. In the case a parent or community citizen has a complaint associated with Arkansas Arts Academy please follow these steps:

1. Please visit directly with the person the complaint originated from. Most of the time it doesn't take long to realize it is a simple miscommunication.
2. If the first step did not meet your satisfaction, please visit with the principal.
3. If you feel the principal wasn't able to find resolution, please meet with the CEO/Superintendent.
4. In the case you still feel dissatisfied you may contact a Board member listed on the website. Remember, at a Board meeting personnel issues are not allowed to be discussed.

Restroom Policy

Arkansas Arts Academy High School wants all students feel welcomed and comfortable. We have individual-user option restrooms available to all students who voluntarily seek additional privacy. There are single restrooms in the hallway behind the cafeteria in building "c", on the second floor of building "c", in the nurse's office, and in the main office.

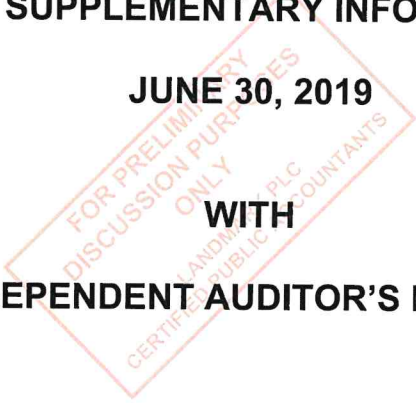
**ARKANSAS ARTS ACADEMY
AND SUBSIDIARY**

**REGULATORY BASIS FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

JUNE 30, 2019

WITH

INDEPENDENT AUDITOR'S REPORT



**ARKANSAS ARTS ACADEMY
AND SUBSIDIARY
JUNE 30, 2019**

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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 regulatory basis financial statements of **Arkansas Arts Academy and Subsidiary** (the School), which comprise the balance sheet – regulatory basis of each major governmental fund, the capital projects fund and the fiduciary fund as of June 30, 2019, and the related statement of revenues, expenditures and changes in fund balance – regulatory basis of each major governmental fund and the capital projects fund and the related 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 those regulatory basis 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 1. 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.

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 1 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 1 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, 2019, 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, 2019; 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 1.

Other Matters – Supplementary Information

Our audit was conducted for the purpose of forming opinions on the regulatory basis 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 regulatory basis 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 **Month XX, 2020**, 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.

Rogers, Arkansas
Month XX, 2020

**ARKANSAS ARTS ACADEMY
AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET – REGULATORY BASIS
JUNE 30, 2019**

	<u>Governmental Funds</u>			
	<u>Major</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Fiduciary Funds</u>
ASSETS				
Cash	\$ 287,871	\$ -	\$ 70,006	\$ 99,963
Restricted cash and cash equivalents	530,862	71,852	-	-
Certificate of deposit	2,084	-	-	-
Receivables	-	24,433	44,137	-
TOTAL ASSETS	<u>\$ 820,817</u>	<u>\$ 96,285</u>	<u>\$ 114,143</u>	<u>\$ 99,963</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 257,268	\$ 23,367	\$ -	\$ 2,709
Due to student groups	-	-	-	97,154
Total Liabilities	<u>257,268</u>	<u>23,367</u>	<u>-</u>	<u>99,863</u>
FUND BALANCES				
Restricted:				
State programs	113,500	-	-	-
Federal programs	-	72,918	-	-
Capital projects	417,052	-	114,143	-
Unassigned	32,997	-	-	-
Total Fund Balances	<u>563,549</u>	<u>72,918</u>	<u>114,143</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 820,817</u>	<u>\$ 96,285</u>	<u>\$ 114,143</u>	<u>\$ 99,863</u>

See Independent Auditor's Report and Notes to Consolidated Financial Statements.

**ARKANSAS ARTS ACADEMY
AND SUBSIDIARY**

**CONSOLIDATED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – GENERAL AND SPECIAL REVENUE FUNDS – REGULATORY BASIS
YEAR ENDED JUNE 30, 2019**

	<u>Governmental Funds</u>		
	<u>Major</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
REVENUES			
Federal assistance	\$ -	\$ 515,813	\$ -
State assistance	7,124,472	2,025	482,546
Local donations and grants	225,611	2,776	-
Meal sales	-	182,586	-
Interest income	21,269	-	-
Total Revenues	<u>7,371,352</u>	<u>703,200</u>	<u>482,546</u>
EXPENDITURES			
Current:			
Instructional services	4,516,032	158,547	-
Instructional support services	395,462	58,721	-
General administration	695,902	59,234	-
School administration	368,886	-	-
Operation and maintenance	440,038	-	266,891
Capital outlay	8,325,375	-	133,990
Transportation	60,371	-	-
Food services operations	-	352,836	-
Community services operations	-	3,501	-
Debt Service:			
Interest and fiscal charges	1,054,638	-	-
Total Expenditures	<u>15,856,704</u>	<u>632,839</u>	<u>400,881</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(8,485,352)</u>	<u>70,361</u>	<u>81,665</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from loans	4,656,246	-	-
Total Other Financing Sources	<u>4,656,246</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(3,829,106)</u>	<u>70,361</u>	<u>81,665</u>
FUND BALANCES - BEGINNING OF YEAR	<u>4,392,655</u>	<u>2,557</u>	<u>32,478</u>
FUND BALANCES - END OF YEAR	<u>\$ 563,549</u>	<u>\$ 72,918</u>	<u>\$ 114,143</u>

See Independent Auditor's Report and Notes to Consolidated Financial Statements.

**ARKANSAS ARTS ACADEMY
AND SUBSIDIARY**
**CONSOLIDATED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL –
GENERAL AND SPECIAL REVENUE FUNDS – REGULATORY BASIS
YEAR ENDED JUNE 30, 2019**

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Federal assistance	\$ -	\$ -	\$ -
State assistance	7,090,525	7,124,472	33,947
Local donations and grants	170,001	225,611	55,610
Meal sales	-	-	-
Interest income	-	21,269	21,269
Total Revenues	<u>7,260,526</u>	<u>7,371,352</u>	<u>110,826</u>
EXPENDITURES			
Current:			
Instructional services	3,897,787	4,516,032	(618,245)
Instructional support services	669,997	395,462	274,535
General administration	562,617	695,902	(133,285)
School administration	593,609	368,886	224,723
Operation and maintenance	1,427,249	440,038	987,211
Capital outlay	-	8,325,375	(8,325,375)
Transportation	127,883	60,371	67,512
Food services operations	-	-	-
Community services operations	-	-	-
Debt Service:			
Interest and fiscal charges	-	1,054,638	(1,054,638)
Total Expenditures	<u>7,279,142</u>	<u>15,856,704</u>	<u>(8,577,562)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(18,616)</u>	<u>(8,485,352)</u>	<u>(8,466,736)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from loans	-	4,656,246	4,656,246
Total Other Financing Sources	<u>-</u>	<u>4,656,246</u>	<u>4,656,246</u>
NET CHANGE IN FUND BALANCES	<u>\$ (18,616)</u>	<u>\$ (3,829,106)</u>	<u>\$ (3,810,490)</u>

See Independent Auditor's Report and Notes to Consolidated Financial Statements.

Special Revenue Fund

<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
\$ 403,470	\$ 515,813	\$ 112,343
2,000	2,025	25
-	2,776	2,776
148,000	182,586	34,586
-	-	-
<u>553,470</u>	<u>703,200</u>	<u>149,730</u>
131,921	158,547	(26,626)
140,092	58,721	81,371
55,863	59,234	(3,371)
-	-	-
-	-	-
-	-	-
-	-	-
285,000	352,836	(67,836)
5,000	3,501	1,499
-	-	-
<u>617,876</u>	<u>632,839</u>	<u>(14,963)</u>
(64,406)	70,361	134,767
-	-	-
-	-	-
<u>\$ (64,406)</u>	<u>\$ 70,361</u>	<u>\$ 134,767</u>

FOR PRELIMINARY
DISCUSSION PURPOSES
LANDMARK PLG
CERTIFIED PUBLIC ACCOUNTANTS

See Independent Auditor's Report and Notes to Consolidated Financial Statements.

**ARKANSAS ARTS ACADEMY
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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, 2019**

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.

**ARKANSAS ARTS ACADEMY
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019**

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, 2019.

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, 2019.

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, 2019.

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.

**ARKANSAS ARTS ACADEMY
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019**

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 in Note 1.

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 Arkansas Arts Academy by the ADE for current year funding and grant reimbursements. The entire amount is considered collectible; therefore, no allowance for uncollectible amounts is considered necessary.

Use of Estimates

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

NOTE 2: 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, 2019, the bank balances of the School's demand deposits amounted to \$1,525,882, of which \$500,000 was insured and \$1,025,882 was collateralized by securities held in the School's name. No amounts are uninsured or uncollateralized.

**ARKANSAS ARTS ACADEMY
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 3: RECEIVABLES

As of June 30, 2019, the receivables balance was comprised of the following:

	General Fund	Special Revenue Fund	Capital Projects Fund
Federal assistance	\$ -	\$ 24,433	\$ -
Other	-	-	44,137
	<u>\$ -</u>	<u>\$ 24,433</u>	<u>\$ 44,137</u>

NOTE 4: CONCENTRATIONS

The School is economically dependent on funding received through state awards, federal awards, and private donations. During the year ended June 30, 2019, approximately 98% of total revenues were from state, federal and private sources.

NOTE 5: 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, 2018, 2017 and 2016, were \$502,721, \$469,585 and \$451,835, respectively, equal to the required contributions.

**ARKANSAS ARTS ACADEMY
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019**

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, 2018 (actuarial valuation date and measurement date) was \$4,309,623.

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 6: 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, 2019**

Years Ending June 30,	Principal	Interest	Total
2020	\$ 230,000	\$ 1,047,138	\$ 1,277,138
2021	535,000	1,040,238	1,575,238
2022	550,000	1,024,187	1,574,187
2023	570,000	1,007,688	1,577,688
2024	585,000	990,587	1,575,587
2025-2029	3,255,000	4,632,488	7,887,488
2030-2034	4,005,000	3,873,750	7,878,750
2035-2039	5,005,000	2,871,450	7,876,450
2040-2044	6,170,000	1,707,573	7,877,573
2045-2047	4,355,000	370,650	4,725,650
	<u>\$ 25,260,000</u>	<u>\$ 18,565,749</u>	<u>\$ 43,825,749</u>

Walton Family Foundation Loan

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

Years Ending June 30,	
2020	\$ -
2021	125,000
2022	125,000
2023	150,000
2024	150,000
2025-2029	850,000
2030-2034	1,000,000
2035-2039	1,000,000
2040-2044	1,000,000
2045-2047	406,246
	<u>\$ 4,806,246</u>

**ARKANSAS ARTS ACADEMY
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019**

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

	<u>Balance June 30, 2018</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2019</u>	<u>Due Within One Year</u>
Bonds payable					
Series 2017 Bonds	\$ 25,260,000	\$ -	\$ -	\$ 25,260,000	\$ 230,000
Bonds payable, net	25,260,000	-	-	25,260,000	230,000
WFF loan	150,000	4,656,246	-	4,806,246	-
Total long-term debt	<u>\$ 25,410,000</u>	<u>\$ 4,656,246</u>	<u>\$ -</u>	<u>\$ 30,066,246</u>	<u>\$ 230,000</u>

NOTE 7: ON-BEHALF PAYMENTS

During the year ended June 30, 2019, health insurance premiums of \$130,694 were paid by the ADE to the Arkansas Employee Benefits Division on-behalf of School employees. This amount is not included in revenues or expenditures in the School's consolidated financial statements.

NOTE 8: 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 9: 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, 2019. In addition, there have been no settlements in excess of the School's coverage.

**ARKANSAS ARTS ACADEMY
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 10: 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, 2019 was \$42,162.

Future minimum lease payments for operating leases are as follows:

Years ending June 30,	
2020	\$ 42,162
2021	29,562
2022	32,312
2023	31,156
2024	30,000
Thereafter	27,500



SUPPLEMENTARY INFORMATION

FOR PRELIMINARY
DISCUSSION PURPOSES
ONLY
LANDRUM & CO. PLC
CERTIFIED PUBLIC ACCOUNTANTS

**ARKANSAS ARTS ACADEMY
AND SUBSIDIARY
SCHEDULE OF CAPITAL ASSETS (UNAUDITED)
JUNE 30, 2019**

Non-depreciable capital assets		
Land		\$ 360,237
Depreciable capital assets		
Buildings	\$ 29,827,419	
Furniture and equipment	<u>2,473,635</u>	
	32,301,054	
Less accumulated depreciation	<u>(3,943,105)</u>	
Total depreciable capital assets		28,357,949
Construction in progress		<u>92,238</u>
Capital assets, net		<u><u>\$ 28,810,424</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 CONSOLIDATED 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, 2019, and the related notes to the consolidated financial statements, which collectively comprise the School's regulatory basis consolidated financial statements as listed in the table of contents, and have issued our report thereon dated **Month XX, 2020**. 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 financial statements 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, 2019, and the respective regulatory basis changes in financial position of each major governmental fund and the capital projects fund, 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 to the financial statements.

Internal Control over Financial Reporting

In planning and performing our audit of the regulatory basis consolidated financial statements, we considered the School'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 opinion on the regulatory basis 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's regulatory basis 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rogers, Arkansas
Month XX, 2020



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, 2019. 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, 2019.

Rogers, Arkansas
Month XX, 2020

March 3, 2020

LANDMARK PLC
CERTIFIED PUBLIC ACCOUNTANTS
2003 S. Horsebarn Rd., Ste 4
Rogers, Arkansas 72758

This representation letter is provided in connection with your audit of the consolidated financial statements of Arkansas Arts Academy as of June 30, 2019, which comprise the consolidated balance sheet – regulatory basis as of June 30, 2018, and the related consolidated statement of revenues, expenditures, and changes in fund balances – governmental funds – regulatory basis, and the consolidated statement of revenues, expenditures, and changes in fund balances – budget to actual – general and special revenue funds – regulatory basis, and the related notes to the financial statements, for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with the regulatory basis of accounting allowed by the State of Arkansas. We confirm that we are responsible for the fair presentation of the previous mentioned financial statements in conformity with the regulatory basis of accounting. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of March 3, 2020:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated July 30, 2019, for the preparation and fair presentation of the financial statements referred to above in accordance with the regulatory basis of accounting allowed by the State of Arkansas.

2. We acknowledge our responsibility 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.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. We acknowledge our responsibility for compliance with the laws, regulations, and provisions of contracts and grant agreements.
5. We have reviewed, approved, and taken responsibility for the financial statements and related notes.
6. We have a process to track the status of audit findings and recommendations.
7. Significant assumptions used by us in making accounting estimates are reasonable.
8. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the regulatory basis of accounting allowed by the State of Arkansas.
9. All events subsequent to the date of the financial statements and for which the regulatory basis of accounting allowed by the State of Arkansas requires adjustment or disclosure have been adjusted or disclosed.
10. The effects of uncorrected misstatements summarized in the attached schedule and aggregated by you during the current engagement are immaterial, both individually and in the aggregate, to the applicable opinion units and to the financial statements as a whole.
11. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with the regulatory basis of accounting allowed by the State of Arkansas, if any.
12. All funds and activities are properly classified.
13. All components of net position, nonspendable fund balance, and restricted, committed, assigned, and unassigned fund balance are properly classified and, if applicable, approved.
14. All expenses have been properly classified in or allocated to functions and programs in the statement of revenues, expenditures, and changes in fund balances, and allocations, if any, have been made on a reasonable basis.
15. All interfund and intra-entity transactions and balances have been properly classified and reported.
16. All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
17. Special items and extraordinary items have been properly classified and reported.
18. Deposit and investment risks have been properly and fully disclosed.
19. Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
20. All required supplementary information is measured and presented within the prescribed guidelines.

21. We have evaluated the entity's ability to continue as a going concern for a period of one year from March 3, 2020 and have determined that there is not a substantial doubt that the entity will be able to meet its obligations as they come due.

Information Provided

22. We have provided you with:

- a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
- b. Additional information that you have requested from us for the purpose of the audit; and
- c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

23. All transactions have been recorded in the accounting records and are reflected in the financial statements.

24. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

25. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:

- a. Management;
- b. Employees who have significant roles in internal control; or
- c. Others where the fraud could have a material effect on the financial statements.

26. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.

27. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.

28. We have no knowledge of any instances that have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that has a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.

29. We have no knowledge of any instances that have occurred or are likely to have occurred of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.

30. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

31. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.

32. Arkansas Arts Academy has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

33. We have disclosed to you all guarantees, whether written or oral, under which Arkansas Arts Academy is contingently liable.
34. We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
35. There are no:
 - a. Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
 - b. Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.
36. Arkansas Arts Academy has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
37. We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
38. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB-62. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

Other Matters

39. The Arkansas Arts Academy has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or fund balances.
40. As part of your audit, you prepared the draft financial statements and related notes. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved and accept responsibility for those financial statements and related notes.
41. We have reviewed and approved the various adjusting journal entries that were proposed by you for recording in our books and records and reflected in the financial statements.
42. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
43. Provisions for uncollectible receivables have been properly identified and recorded.
44. We have appropriately disclosed the entity's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for

which both restricted and unrestricted net assets are available and have determined that net assets were properly recognized under the policy.

45. We have appropriately disclosed the entity's accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.
46. Tax-exempt bonds issued have retained their tax-exempt status.
47. We understand that you prepared the trial balance for use during the audit and that your preparation of the trial balance was limited to formatting information into a working trial balance based on management's chart of accounts.
48. With respect to the required supplementary information accompanying the financial statements:
 - a. We acknowledge our responsibility for the presentation of the required supplementary information in accordance with the regulatory basis of accounting.
 - b. We believe the required supplementary information, including its form and content, is fairly presented in accordance with regulatory basis of accounting.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.
 - d. We believe the significant assumptions or interpretations underlying the measurement or presentation of the supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.
 - e. We acknowledge our responsibility to include the auditors' report on the supplementary information in any document containing the supplementary information and that indicates the auditor reported on such supplementary information.
 - f. We acknowledge our responsibility to present the supplementary information with the audited financial statements or, if the supplementary information will not be presented with the audited financial statements, to make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance by the entity of the supplementary information and the auditor's report thereon.
49. In regards to the nonattest services performed by you, we have:
 - a. Made all management decisions and performed all management functions.
 - b. Designated an individual with suitable skill, knowledge, or experience to oversee the services.
 - c. Evaluated the adequacy and results of the services performed.
 - d. Accepted responsibility for the results of the services.

50. We have reviewed long-lived assets and certain identifiable intangibles to be held and used for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable and have appropriately recorded the adjustment.
51. We understand that you have maintained our depreciation schedules, but we have determined the items to be capitalized, the method and rate of depreciation and any salvage value and acknowledge our responsibility for these items.
52. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, lines of credit, or similar arrangements have been properly disclosed.
53. We believe that the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances.

Mary Ley, CEO



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