

**NORTHWEST ARKANSAS CLASSICAL
ACADEMY OF BENTONVILLE**

**REGULATORY BASIS FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

JUNE 30, 2014

(WITH INDEPENDENT AUDITORS' REPORTS THEREON)

NORTHWEST ARKANSAS CLASSICAL ACADEMY OF BENTONVILLE
ANNUAL FINANCIAL REPORT
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YEAR ENDED JUNE 30, 2014

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Northwest Arkansas Classical Academy of Bentonville

Report on the Financial Statements

We have audited the accompanying regulatory basis financial statements of each major governmental fund and the aggregate remaining fund information of Northwest Arkansas Classical Academy of Bentonville (the "Charter School") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Charter School's regulatory basis financial statements as listed in the table of contents.

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 Ark. Code Ann. §10-4-413(c) as provided in Act 2201 of 2005, as described in Note A, to meet the reporting requirements of the State of Arkansas. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 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 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 the entity'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 the entity'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.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the Charter School as of June 30, 2014, 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 in accordance with the financial reporting provisions of Ark. Code Ann. §10-4-413(c) as provided in Act 2201 of 2005 described in Note A.

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

As described in Note A, the financial statements are prepared by the Charter School on the basis of the financial reporting provisions of Ark. Code Ann. §10-4-413(c) as provided in Act 2201 of 2005, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of the State of Arkansas.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note A 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 financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Charter School, as of June 30, 2014, and the respective changes in financial position for the year then ended.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter School’s regulatory basis financial statements. The Schedule of Capital Assets is presented for purposes of additional analysis as required by Ark. Code Ann. §10-4-413(c) as provided in Act 2201 of 2005. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also 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. Such 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 Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the regulatory basis financial statements as a whole.

Other Matters (continued)*Other Information (continued)*

The Schedule of Capital Assets 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2015, on our consideration of the Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Charter School's internal control over financial reporting and compliance.

Handwritten signature in cursive script that reads "Thomas & Thomas LLP".

Certified Public Accountants

Texarkana, Texas
February 23, 2015

Regulatory Basis Financial Statements

NORTHWEST ARKANSAS CLASSICAL ACADEMY OF BENTONVILLE
BALANCE SHEETS - REGULATORY BASIS
JUNE 30, 2014

	Governmental Funds		
	Major		
	General	Special Revenue	Fiduciary Funds
ASSETS			
Assets			
Cash (Overdraft)	\$ 160,527	\$ (160,043)	\$ 2,928
Accounts receivable	11,679	363,053	-
Due from Responsive Education Solutions and Related Charter Schools, net	20,648	14,519	-
Deposit	20,000	50,000	-
TOTAL ASSETS	<u>212,854</u>	<u>267,529</u>	<u>2,928</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	9,143	5,392	-
Due to related parties	45,464	132,135	-
Accrued payroll and related expenditures	39,680	-	-
Total Liabilities	<u>94,287</u>	<u>137,527</u>	<u>-</u>
Fund Balances			
Restricted	-	130,002	2,928
Unassigned	118,567	-	-
Total Fund Balances	<u>118,567</u>	<u>130,002</u>	<u>2,928</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 212,854</u>	<u>\$ 267,529</u>	<u>\$ 2,928</u>

See auditors' report and accompanying notes to financial statements

NORTHWEST ARKANSAS CLASSICAL ACADEMY OF BENTONVILLE
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2014

	Governmental Funds		
	Major		
	General	Special Revenue	Fiduciary Funds
REVENUES			
State assistance	\$ 2,558,862	\$ 69,056	\$ -
Federal assistance	-	581,927	-
Meal sales	-	42,469	-
Private assistance	5,000	311,064	-
Other local revenue	24,466	-	3,123
Total Revenues	2,588,328	1,004,516	3,123
EXPENDITURES			
Instructional services	1,230,975	462,417	195
Instructional support services	63,019	56,408	-
General administration	131,548	3,182	-
School administration	303,089	3,820	-
Central services	341,426	29,668	-
Operation and maintenance of plant	347,117	250,351	-
Food services	11,832	109,423	-
Total Expenditures	2,429,006	915,269	195
REVENUES OVER EXPENDITURES	159,322	89,247	2,928
OTHER FINANCING SOURCES (USES)			
Operating transfer to food service	(40,755)	40,755	-
NET CHANGE IN FUND BALANCES	118,567	130,002	2,928
FUND BALANCES - BEGINNING OF YEAR	-	-	-
FUND BALANCES - END OF YEAR	\$ 118,567	\$ 130,002	\$ 2,928

See auditors' report and accompanying notes to financial statements

NORTHWEST ARKANSAS CLASSICAL ACADEMY OF BENTONVILLE
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – GENERAL AND SPECIAL REVENUE FUNDS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2014

	General		Variance	Special Revenue		Variance
	Budget	Actual	Favorable (Unfavorable)	Budget	Actual	Favorable (Unfavorable)
REVENUES						
State assistance	\$ 2,554,134	\$ 2,558,862	\$ 4,728	\$ 54,796	\$ 69,056	\$ 14,260
Federal assistance	-	-	-	564,927	581,927	17,000
Meal sales	-	-	-	82,221	42,469	(39,752)
Private assistance	-	5,000	5,000	250,000	311,064	61,064
Other local revenue	-	24,466	24,466	-	-	-
Total Revenues	<u>2,554,134</u>	<u>2,588,328</u>	<u>34,194</u>	<u>951,944</u>	<u>1,004,516</u>	<u>52,572</u>
EXPENDITURES						
Instructional services	1,495,881	1,230,975	264,906	457,402	462,417	(5,015)
Instructional support services	63,010	63,019	(9)	58,315	56,408	1,907
General administration	61,000	131,548	(70,548)	8,100	3,182	4,918
School administration	272,845	303,089	(30,244)	1,000	3,820	(2,820)
Central services	378,613	341,426	37,187	34,575	29,668	4,907
Operation and maintenance of plant	136,690	347,117	(210,427)	259,200	250,351	8,849
Food services	69,000	11,832	57,168	82,740	109,423	(26,683)
Total Expenditures	<u>2,477,039</u>	<u>2,429,006</u>	<u>48,033</u>	<u>901,332</u>	<u>915,269</u>	<u>(13,937)</u>
REVENUES OVER EXPENDITURES	77,095	159,322	82,227	50,612	89,247	38,635
OTHER FINANCING SOURCES (USES)						
Operating transfer to food service	-	(40,755)	(40,755)	-	40,755	40,755
NET CHANGE IN FUND BALANCES	77,095	118,567	41,472	50,612	130,002	79,390
FUND BALANCES - BEGINNING OF YEAR	-	-	-	-	-	-
FUND BALANCES - END OF YEAR	<u>\$ 77,095</u>	<u>\$ 118,567</u>	<u>\$ 41,472</u>	<u>\$ 50,612</u>	<u>\$ 130,002</u>	<u>\$ 79,390</u>

See auditors' report and accompanying notes to financial statements

NORTHWEST ARKANSAS CLASSICAL ACADEMY OF BENTONVILLE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

A. *Summary of Significant Accounting Policies*

1. Reporting Entity

Northwest Arkansas Classical Academy of Bentonville (the Charter School) is an open-enrollment public charter school established under Responsive Education Solutions, Inc., a nonprofit organization incorporated under the laws of the State of Texas. Responsive Education Solutions, Inc. (the sponsoring organization, hereinafter referred to as RES), a nonsectarian tax-exempt organization, was granted a charter by the Arkansas State Board of Education on November 1, 2012, to operate an open-enrollment charter school, with a maximum enrollment not to exceed four hundred and forty-five (445) students starting with the 2013-2014 school year. This charter expires on June 30, 2018, and continuation and renewal of the charter are contingent upon acceptable student performance and compliance with certain accountability provisions set forth in Arkansas law pertaining to charter schools. The Charter School, which is operated by the nonprofit corporation in accordance with the Arkansas Department of Education Rules and Regulations Governing Charter Schools, offers educational opportunities to students in grade levels from kindergarten through eighth grade. In the upcoming year, the Charter School will be adding a ninth grade and the maximum enrollment will be increased to five hundred and fifty students (550).

As discussed in Note G, the Charter School is a party to certain agreements and shares certain common board members with RES. In addition, the Charter School shares common board members with Premier High School and Quest Middle School hereinafter referred to as the "Related Charter Schools."

These financial statements include only balances and transactions directly attributable to the Charter School. They do not include any balances or transactions attributable to RES or the Related Charter Schools other than amounts due from or due to these organizations.

2. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

These financial statements are prepared in accordance with a regulatory basis of accounting prescribed by Arkansas Code Annotated §10-4-413(c), as set forth in the Arkansas Department of Education Rules Governing the Regulatory Basis of Accounting (RBA), 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 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 that includes 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 accounting.

NORTHWEST ARKANSAS CLASSICAL ACADEMY OF BENTONVILLE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

A. *Summary of Significant Accounting Policies (Continued)*

2. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The RBA is not in accordance with generally accepted accounting principles (GAAP) which requires that basic financial statements present government-wide financial statements and the following: management's discussion and analysis, accrual basis of accounting for government-wide financial statements, modified accrual basis of accounting for fund financial statements, separate financial statements for fiduciary fund types, separate identification of special and extraordinary items, inclusion of capital assets and debt in the financial statements, specific procedures for the identification of major governmental funds, recording depreciation expense and specific note disclosures. The RBA does not require government-wide financial statements, nor does it incorporate the previously identified concepts.

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.

3. Fund Accounting

The Charter School's major funds are as follows:

- a. The General Fund** – The General Fund is used to account for and report all financial resources and operating expenditures, except those that are required to be reported in the special revenue fund (described below).
- b. The Special Revenue Fund** – The Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are legally restricted or committed to expenditure for specified purposes.

The remaining funds of the Charter School are the fiduciary funds, which consist of funds held on behalf of student groups and organizations. The Charter School had no other funds at or during the year ended June 30, 2014.

4. Other Accounting Policies

- a. Revenue Recognition** – Revenues are recognized when they become susceptible to accrual in accordance with the RBA.
- b. Interfund Receivables and Payables** – Receivables and payables resulting from short-term interfund loans are classified as "due to" or "due from" other funds.

NORTHWEST ARKANSAS CLASSICAL ACADEMY OF BENTONVILLE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

A. *Summary of Significant Accounting Policies (Continued)*

5. Fund Balances

Governmental fund equity is classified as fund balance. Fund balance is further classified as non-spendable, restricted, committed, assigned or unassigned. Non-spendable fund balance cannot be spent. As of June 30, 2014, there were no non-spendable, committed, or assigned fund balances. 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 the entity's governing body through the approval of resolutions. Assigned fund balance is a limitation imposed by management or another designee of the entity's governing body. Unassigned fund balance consists of the net resources in excess of amounts classified non-spendable, restricted, committed or assigned.

When both restricted and unrestricted fund balances are available for use for a specified purpose, it is the Charter School's policy to use restricted fund balances first, then unrestricted fund balances. Furthermore, when expenditures are incurred for purposes for which amounts in committed, assigned or unassigned fund balance classifications may be used, committed fund balances are reduced first, followed by assigned amounts and then unassigned amounts.

6. Budgetary Data

As required by State statutes, the Charter School prepares an annual budget that is filed with the Arkansas Department of Education (ADE). The budget is required to be approved by the Charter School'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. The Charter School's budget is prepared utilizing the regulatory basis of accounting described in Note A(2).

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

7. Estimates

The preparation of financial statements in conformity with the RBA requires management to make estimates and assumptions that affect the amounts reported in the financial statements and related note disclosures. Accordingly, actual results could differ from those estimates.

NORTHWEST ARKANSAS CLASSICAL ACADEMY OF BENTONVILLE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

B. Cash

The Charter School's cash consists of demand deposits maintained at a financial institution. State statutes require that the Charter 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. However, the Charter School received a waiver from the Department of Education stating that it could keep cash at an institution in Texas. The Charter School's bank has an agreement to hold collateral to insure bank deposit balances of all state and federal funds that exceed FDIC limits. At June 30, 2014, the bank balances of the Charter School's demand deposit account maintained at a financial institution totaled \$125,544. RES keeps all of the Texas and Arkansas charter schools' funds at one Texas financial institution, and deposit balances for state and federal funds were fully secured.

C. Accounts Receivable

The accounts receivable balance of \$374,732 at June 30, 2014, was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
Grants receivable	\$ -	\$ 363,053	\$ 363,053
Other	11,679	-	11,679
Totals	\$ 11,679	\$ 363,053	\$ 374,732

D. Lease Commitments

The Charter School conducts its administrative and school activities from a facility that is leased under a seven-year non-cancelable operating lease expiring in 2020. Future minimum rental payments due under the lease are as follows:

Year	Amount
2015	\$ 616,040
2016	616,040
2017	616,040
2018	616,040
2019	616,040
2020	616,040
	<u>\$3,696,240</u>

For 2014, rental expense amounted to \$354,513.

NORTHWEST ARKANSAS CLASSICAL ACADEMY OF BENTONVILLE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

E. Pension Plan Obligations

Plan Description - The Charter School participates in the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers all Arkansas public and charter school employees, except certain non-teachers hired prior to July 1, 1989. 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 and contribution provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201, or by calling 1-800-666-287.

ATRS has contributory and non-contributory plans. Contributory members are required by law to contribute 6% of their salary. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current employer rate is 14%.

The Charter School's contributions to ATRS for the year ended June 30, 2014, were approximately \$194,000. These contributions were equal to the required contributions for the year.

F. On Behalf Payments

During the year ended June 30, 2014, health insurance premiums of approximately \$22,500 were paid by the Arkansas Department of Education to the Arkansas Employee Benefits Division on behalf of Charter School employees. This amount is not included in revenues or expenditures in the Charter School's financial statements.

G. Academic and Business Services Agreement

RES provides personnel and certain services to the Charter School. Such services include implementing educational programs, 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 which may be agreed to in writing.

These services are provided pursuant to a management agreement and related amendments (the Agreement) executed between RES and the Charter School. The Agreement provides that RES is entitled to receive management fees equal to a percentage of the Charter School's state foundation funding, to the extent that such fees do not cause the Charter School to incur a loss in the General fund. In addition, RES will be reimbursed for all expenses incurred on behalf of the Charter School. For the year ended June 30, 2014, management fees paid to RES by the Charter School were \$325,283.

NORTHWEST ARKANSAS CLASSICAL ACADEMY OF BENTONVILLE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

G. Academic and Business Services Agreement (continued)

In addition to providing academic and business services, RES may from time-to-time make expenditures on behalf of the Charter School for computers, equipment or operating expenses. The Charter School may also provide and receive periodic advances to and from RES and Related Charter Schools. At June 30, 2014, outstanding balances are reported as a receivable from or a payable to RES and Related Charter Schools, net on the accompanying balance sheets – regulatory basis.

H. Risk Management

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

I. Income Taxes

The sponsoring organization, and by extension the Charter School, is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Charter School believes that it has appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions that are material to the financial statements.

The sponsoring organization's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending 2012, 2013, and 2014 are subject to examination by the IRS.

J. Date of Management's Review

Subsequent events were evaluated through February 23, 2015, which is the date the financial statements were available to be issued.

K. Related Party Transactions and Balances

As explained in note G, the Charter School may have outstanding receivables from or payables to RES and Related Charter Schools. See below for a breakdown of the balances:

<u>Party</u>	<u>General</u>	<u>Special Revenue</u>	<u>Total</u>
Receivables:			
Related Charter Schools	\$ 20,648	\$ 14,519	\$ 35,167
Payables:			
Responsive Education Solutions	\$ 45,464	\$ 132,135	\$ 177,599

L. Start-up Expenditures

The Charter School's fiscal year began on July 1, 2013, and school started in August 2013. Startup expenses that were incurred prior to July 1, 2013, are included in the fiscal year under audit and are not considered material to the financial statements.

Supplementary Information

NORTHWEST ARKANSAS CLASSICAL ACADEMY OF BENTONVILLE
SCHEDULE OF CAPITAL ASSETS (UNAUDITED)
JUNE 30, 2014

DEPRECIABLE CAPITAL ASSETS

Equipment	\$ 115,824
Accumulated Depreciation	<u>(19,155)</u>

TOTAL DEPRECIABLE CAPITAL ASSETS, NET	<u>\$ 96,669</u>
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NORTHWEST ARKANSAS CLASSICAL ACADEMY OF BENTONVILLE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<u>U.S. Department of Education</u>			
Grants Passed Through the Arkansas Department of Education:			
Special Education - Grants to States	84.027	0442	\$ 59,796
Charter Schools Program State Educational Agencies Grant	84.282A	0442	482,980
Improving Basic Programs Operated by Local Educational Agencies (Title I, Part A)	84.010	442700	14,796
Total Passed Through the Arkansas Department of Education			557,572
Total U.S. Department of Education			557,572
<u>CHILD NUTRITION CLUSTER</u>			
<u>U.S. Department of Agriculture</u>			
Grants Passed Through the Arkansas Department of Education:			
School Breakfast Program	10.553	0442	2,837
National School Lunch Program	10.555	0442	21,518
Total Passed Through the Arkansas Department of Education			24,355
Total U.S. Department of Agriculture			24,355
Total Child Nutrition Cluster			24,355
Total Federal Financial Assistance			\$ 581,927

The accompanying notes are an integral part of this schedule.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Northwest Arkansas Classical Academy of Bentonville (the Charter School) under programs of the federal government for the year ended June 30, 2014. The information in this Schedule is presented in accordance with the requirements of 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 the Charter School, it is not intended to and does not present the financial position or changes in financial position of the Charter School.

Note B - 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.

Federal Awards Section

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

To the Board of Trustees
Northwest Arkansas Classical Academy of Bentonville Organization

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major governmental fund and the aggregate remaining fund information of Northwest Arkansas Classical Academy of Bentonville (the "Charter School") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Charter School's regulatory basis financial statements, and have issued our report thereon dated February 23, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Charter 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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter School's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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. We did identify a certain deficiency in internal control that we consider to be a significant deficiency, described in the accompanying schedule of findings and questioned costs as item 2014-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Charter School's 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 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2014-001.

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



Certified Public Accountants

Texarkana, Texas
February 23, 2015

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

To the Board of Trustees
Northwest Arkansas Classical Academy of Bentonville

Report on Compliance for Each Major Federal Program

We have audited Northwest Arkansas Classical Academy of Bentonville's (the Charter School) 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 Charter School's major federal programs for the year ended June 30, 2014. The Charter School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Charter School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 the Charter School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Charter School, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of the Charter School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Charter School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 the Charter School's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Thomas & Thomas LLP

Certified Public Accountants

Texarkana, Texas
February 23, 2015

NORTHWEST ARKANSAS CLASSICAL ACADEMY OF BENTONVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

SECTION I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued:	GAAP Basis - Adverse Regulatory Basis - Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	None Reported
Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Noncompliance material to the financial statements noted?	None Reported

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	None Reported
Significant deficiencies identified that are not considered to be material weaknesses?	None Reported
Type of auditors’ report issued on compliance for major programs:	Unqualified
Audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	No
Identification of major programs:	

CFDA Number

84.282A

Name of Federal Program or Cluster

Charter Schools Program State Educational Agencies Grant

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low risk auditee?	No

**NORTHWEST ARKANSAS CLASSICAL ACADEMY OF BENTONVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014**

SECTION II – Findings – Financial Statement Audit

Finding 2014-001

Type of Finding: Significant Deficiency

Condition: Purchases of commodities that equaled or exceeded \$10,000 were not properly procured by soliciting bids.

Criteria: Arkansas Code Annotated §6-21-304 requires that purchases of commodities, as defined in §6-21-301, shall be procured by soliciting bids when the purchase price of such commodity shall equal or exceed \$10,000.

Cause: Procedures were not in place to review potential purchases for compliance with §6-21-304.

Effect: The entire sample of purchases of commodities tested for conformity to the procurement bidding requirement contained no evidence that bids were requested for items equal to or exceeding \$10,000.

Recommendation: Procedures should be established to review potential purchases of commodities to ascertain conformity to the bidding requirements pursuant to §6-21-304.

Views of Responsible Officials and Planned Corrective Actions: Management will establish procedures to review potential purchases for bidding requirements as recommended.

**NORTHWEST ARKANSAS CLASSICAL ACADEMY OF BENTONVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014**

SECTION III – Findings and Questioned Costs – Major Federal Award Programs Audit

None reported