

**BENTON COUNTY CHARTER SCHOOL
ORGANIZATION, INC. AND SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

**BENTON COUNTY CHARTER SCHOOL ORGANIZATION, INC.
AND SUBSIDIARY
JUNE 30, 2014 AND 2013**

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INDEPENDENT AUDITORS' REPORT

To the Board

Benton County Charter School Organization, Inc. and Subsidiary
Rogers, Arkansas

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of **Benton County Charter School Organization, Inc. and Subsidiary** (a nonprofit organization), which comprise the consolidated statements of assets, liabilities and net assets – modified cash basis as of June 30, 2014 and 2013, and the related consolidated statements of revenues, expenses, and change in net assets – modified cash basis and consolidated statements of functional expenses – modified cash basis for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash 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 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 consolidated financial statements based on our audits. We conducted our audits 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 audits 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 auditors' 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 auditors consider internal control relevant to the entity'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 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of **Benton County Charter School Organization, Inc. and Subsidiary** as of June 30, 2014 and 2013, and its revenues and expenses for the years then ended in accordance the modified cash basis of accounting described in Note 1.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated January 14, 2015, on our consideration of **Benton County Charter School Organization, Inc. 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 entity's internal control over financial reporting and compliance.

Beall Barclay & Company, PLC

BEALL BARCLAY & COMPANY, PLC
Certified Public Accountants

Rogers, Arkansas
January 14, 2015

**BENTON COUNTY CHARTER SCHOOL ORGANIZATION, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ASSETS, LIABILITIES AND
NET ASSETS – MODIFIED CASH BASIS
JUNE 30, 2014 AND 2013**

| | 2014 | 2013 |
|--|----------------------------|----------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 731,789 | \$ 683,375 |
| State funding receivable | <u>57,584</u> | <u>33,682</u> |
| Total Current Assets | <u>789,373</u> | <u>717,057</u> |
| RESTRICTED CASH | | |
| Restricted cash and cash equivalents | <u>592,003</u> | <u>591,775</u> |
| PROPERTY AND EQUIPMENT | | |
| Land | 360,237 | 360,237 |
| Buildings and improvements | 7,121,607 | 7,035,946 |
| Playground and P.E. equipment | 63,749 | 41,827 |
| Library books and textbooks | 444,592 | 395,258 |
| Furniture and fixtures | 305,156 | 290,241 |
| Computer equipment | 864,939 | 730,153 |
| Kitchen equipment | 70,802 | 70,802 |
| Musical instruments | <u>28,412</u> | <u>28,412</u> |
| | 9,259,494 | 8,952,876 |
| Less accumulated depreciation | <u>2,047,367</u> | <u>1,669,007</u> |
| | <u>7,212,127</u> | <u>7,283,869</u> |
| OTHER ASSET | | |
| Bond issuance costs, net of amortization of \$31,512 and \$23,634, respectively | <u>204,832</u> | <u>212,710</u> |
| TOTAL ASSETS | <u><u>\$ 8,798,335</u></u> | <u><u>\$ 8,805,411</u></u> |

See Independent Auditors' Report and Notes to Consolidated Financial Statements.

| | 2014 | 2013 |
|--|----------------------------|----------------------------|
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| State funding payable | \$ 44,440 | \$ 2,316 |
| Current portion of long-term debt | <u>131,983</u> | <u>115,000</u> |
| Total Current Liabilities | <u>176,423</u> | <u>117,316</u> |
| LONG-TERM LIABILITIES | | |
| Bonds payable, net of unamortized discount of \$249,123 and \$258,705, respectively | 6,860,877 | 6,976,295 |
| Equipment lease payable | <u>9,595</u> | <u>-</u> |
| Total Long-Term Liabilities | <u>6,870,472</u> | <u>6,976,295</u> |
| Total Liabilities | <u>7,046,895</u> | <u>7,093,611</u> |
| NET ASSETS | | |
| Unrestricted | <u>1,751,440</u> | <u>1,711,800</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 8,798,335</u></u> | <u><u>\$ 8,805,411</u></u> |

See Independent Auditors' Report and Notes to Consolidated Financial Statements.

**BENTON COUNTY CHARTER SCHOOL ORGANIZATION, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND
CHANGE IN NET ASSETS - MODIFIED CASH BASIS
YEARS ENDED JUNE 30, 2014 AND 2013**

2014

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|---------------------|
| REVENUES | | | |
| Federal funds | \$ 307,349 | \$ - | \$ 307,349 |
| State funds | 5,205,977 | - | 5,205,977 |
| Miscellaneous | 147,240 | - | 147,240 |
| | <u>5,660,566</u> | <u>-</u> | <u>5,660,566</u> |
| EXPENSES | | | |
| Program services | | | |
| Charter school | 5,178,728 | - | 5,178,728 |
| Support services | | | |
| Management and general | 442,198 | - | 442,198 |
| | <u>5,620,926</u> | <u>-</u> | <u>5,620,926</u> |
| CHANGE IN NET ASSETS | 39,640 | - | 39,640 |
| NET ASSETS, BEGINNING OF YEAR | <u>1,711,800</u> | <u>-</u> | <u>1,711,800</u> |
| NET ASSETS, END OF YEAR | <u>\$ 1,751,440</u> | <u>\$ -</u> | <u>\$ 1,751,440</u> |

See Independent Auditors' Report and Notes to Consolidated Financial Statements.

2013

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|--|----------------------------|--|---------------------|
| REVENUES | | | |
| Federal funds | \$ 354,305 | \$ - | \$ 354,305 |
| State funds | 5,013,353 | - | 5,013,353 |
| Miscellaneous | 203,338 | - | 203,338 |
| | <u>5,570,996</u> | <u>-</u> | <u>5,570,996</u> |
| EXPENSES | | | |
| Program services | | | |
| Charter school | 5,248,314 | - | 5,248,314 |
| Support services | | | |
| Management and general | 383,950 | - | 383,950 |
| | <u>5,632,264</u> | <u>-</u> | <u>5,632,264</u> |
| CHANGE IN NET ASSETS | (61,268) | - | (61,268) |
| NET ASSETS, BEGINNING OF YEAR | <u>1,773,068</u> | <u>-</u> | <u>1,773,068</u> |
| NET ASSETS, END OF YEAR | <u>\$ 1,711,800</u> | <u>\$ -</u> | <u>\$ 1,711,800</u> |

See Independent Auditors' Report and Notes to Consolidated Financial Statements.

**BENTON COUNTY CHARTER SCHOOL ORGANIZATION, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES -
MODIFIED CASH BASIS
YEARS ENDED JUNE 30, 2014 AND 2013**

| | 2014 | 2013 |
|--------------------------------|---------------------|---------------------|
| Program Services | | |
| Contract professional services | \$ 393,340 | \$ 340,964 |
| Depreciation and amortization | 382,376 | 368,452 |
| Dues and subscriptions | 12,316 | 8,313 |
| Food | 144,496 | 163,347 |
| General supplies | 206,706 | 127,431 |
| Health benefits | 66,094 | 76,591 |
| Insurance | 62,328 | 57,295 |
| Interest expense | 431,498 | 433,998 |
| Parent coordination | 18,675 | 82,277 |
| Payroll taxes | 196,540 | 205,944 |
| Rent | 28,577 | 44,337 |
| Repairs | 38,708 | 41,257 |
| Retirement contributions | 366,137 | 388,779 |
| Salaries | 2,619,064 | 2,700,648 |
| Substitute expense | 62,933 | 53,883 |
| Telephone | 19,702 | 9,925 |
| Training | 2,233 | 40,012 |
| Travel | 29,046 | 12,157 |
| Utilities | 97,959 | 92,704 |
| | <u>5,178,728</u> | <u>5,248,314</u> |
| Management and General | | |
| Administrative supplies | 5,317 | 2,920 |
| Advertising | 9,398 | 10,190 |
| Bad debts | - | 2,768 |
| Depreciation | 3,862 | 3,722 |
| General supplies | 68,902 | 42,477 |
| Health benefits | 6,537 | 6,660 |
| Insurance | 630 | 579 |
| Interest expense | 4,359 | 4,384 |
| Payroll taxes | 19,438 | 17,908 |
| Repairs | 391 | 417 |
| Retirement contributions | 36,211 | 33,807 |
| Salaries | 247,932 | 223,908 |
| Telephone | 6,568 | 3,308 |
| Utilities | 32,653 | 30,902 |
| | <u>442,198</u> | <u>383,950</u> |
| | <u>\$ 5,620,926</u> | <u>\$ 5,632,264</u> |

See Independent Auditors' Report and Notes to Consolidated Financial Statements.

**BENTON COUNTY CHARTER SCHOOL ORGANIZATION, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Benton County Charter School Organization, Inc. is a nonprofit organization which was granted a charter by the Arkansas State Board of Education to operate the Benton County School of the Arts located in Rogers, Arkansas. The school's charter was renewed effective June 30, 2012 for a three-year term and is scheduled for renewal June 30, 2015. 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. Benton County Charter School Organization, Inc. is the sole member of BCCSO, LLC.

Principles of Consolidation

The consolidated financial statements include the accounts of Benton County Charter School Organization, Inc. and its wholly owned subsidiary, BCCSO, LLC, collectively referred to as "the Organization". All significant inter-organizational accounts and transactions have been eliminated.

Basis of Accounting

The consolidated financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Accordingly, revenue and the related assets are recorded when received rather than when earned and certain expenses are recognized when paid rather than when the obligations are incurred. Modifications to the cash basis of accounting include recording debt, capitalizing property and equipment, and recording depreciation. In addition, at the request of the Arkansas Department of Education, the school recorded funds receivable and payable for school year funding and grant reimbursements.

Basis of Presentation

Consolidated financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Codification Topic *Not-for-Profit Entities*. Under this Topic, the Organization is required to report information regarding its consolidated financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As of June 30, 2014 and 2013, the Organization had no temporarily or permanently restricted net assets.

Subsequent Events

Subsequent events are evaluated through the date the financial statements were available to be issued which is the date of the Independent Auditors' Report.

**BENTON COUNTY CHARTER SCHOOL ORGANIZATION, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Functional Allocation of Expenses

The Organization allocates its expenses on a functional basis among its program and support services. Expenses that can be identified with specific program and support service are allocated directly according to their natural expenditure classification.

Property and Equipment

Property and equipment is stated at cost or estimated fair value at date of donation. The Organization capitalizes all expenditures for property and equipment in excess of \$1,000. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the assets, which range from three to thirty-seven years. Fully depreciated assets still in service totaled approximately \$795,000 and \$637,000, respectively, for the years ended June 30, 2014 and 2013.

Long-Lived Assets

FASB Codification Topic *Property, Plant and Equipment*, Section *Subsequent Measurement* requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Funding Sources

The major funding source for the Organization is the State of Arkansas.

Gifts of cash and other assets are recorded as unrestricted, temporarily restricted, or permanently restricted net assets, depending on the absence or existence and nature of any donor restrictions. Contributions are presented as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions that are restricted by the donor are reported as increases in the unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

Accounts Receivable

Accounts receivable consist of amounts due to Benton County Charter School Organization, Inc. by the Arkansas Department of Education for current year funding and grant reimbursements. The entire amount is considered collectible; therefore, no allowance for uncollectible amounts is considered necessary.

Advertising

The Organization follows the policy of charging advertising to expense as paid.

**BENTON COUNTY CHARTER SCHOOL ORGANIZATION, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash and Cash Equivalents

The Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. At June 30, 2014 and 2013, the Organization had cash equivalents of \$591,864 and \$590,823, respectively.

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.

Income Taxes and Uncertain Tax Positions

The Organization 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 Organization has been classified as an organization that is not a private foundation under Section 509(a).

The Organization accounts for uncertain tax positions in accordance with the provisions of FASB Codification Topic *Income Taxes*. FASB Codification Topic *Income Taxes* clarifies the accounting for uncertainty in income taxes and requires the Organization to recognize in their consolidated financial statements the impact of a tax position taken or expected to be taken in a tax return, if that position is more likely than not to be sustained under audit, based on the technical merits of the position. Management has assessed the tax positions of the Organization and determined that no positions exist that require adjustment or disclosure under the provisions of FASB Codification Topic *Income Taxes*.

The Organization files informational “*Return of Organization Exempt from Income Tax*” (Form 990) in the U.S. Federal jurisdiction and Arkansas. With few exceptions, the Organization is no longer subject to U.S. Federal, state or local informational return examinations by tax authorities for the years before 2010.

Amortization of Bond Discount

The bond discount is amortized over the life of the related bond issue. Net amortization expense of \$9,582 is included as a component of interest expense for each of the years ended June 30, 2014 and 2013.

**BENTON COUNTY CHARTER SCHOOL ORGANIZATION, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Bond Issuance Costs

Bond issuance costs are costs incurred in connection with the issuance of various bonds and are being amortized on the straight-line method over the lives of the related bond issues. Amortization expense amounted to \$7,878 for the years ended June 30, 2014 and 2013.

NOTE 2: CONCENTRATIONS

For each of the years ended June 30, 2014 and 2013, the State of Arkansas provided 92% and 90%, respectively, of the Organization's revenue. The loss of this revenue would have an adverse effect on the Organization's ability to continue to exist.

NOTE 3: EMPLOYEE BENEFIT PLANS

The Organization contributes to the Arkansas Teachers Retirement System ("System"), a cost-sharing multiple-employer defined benefit plan administered by the System. The System provides retirement, death and disability benefits and annual cost of living adjustments to plan members. The System issues a publicly available financial report that includes financial statements and required supplementary information. For the years ended June 30, 2014 and 2013, the Organization contributed 14% of all covered employees' salaries. The contribution by the Organization for the years ended June 30, 2014 and 2013 was \$402,348 and \$422,586, respectively.

During the year ended June 30, 2009, the Organization adopted a 403(b) plan covering all employees of the Organization. The plan is funded solely by employee contributions to the plan, 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 4: ON-BEHALF PAYMENTS

In accordance with GASB Statement 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the School is required to recognize revenue and expenditures for on-behalf payments in their financial statements. On behalf payments for fringe benefits are direct payments made by a paying entity to a third-party recipient for the employees of an employer entity. During the years ended June 30, 2014 and 2013, the Arkansas Department of Education made on-behalf payments for health insurance premiums in the amount of \$74,294 and \$49,122, respectively.

**BENTON COUNTY CHARTER SCHOOL ORGANIZATION, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 5: CONTINGENCIES

The Organization 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 Organization expects such amounts, if any, to be immaterial.

NOTE 6: RESTRICTED CASH

At June 30, 2014 and 2013, restricted cash consisted of \$592,003 and \$591,775, respectively, held in a trust as required by the bond agreements to be used for debt service.

NOTE 7: FINANCIAL INSTRUMENTS WITH RISK OF ACCOUNTING LOSS

The Organization uses financial institutions in which it maintains cash balances, which at times may exceed federally insured limits. At June 30, 2014, the Organization had no uninsured cash balances.

NOTE 8: OPERATING LEASES

The Organization leases copiers and office space under long-term operating lease agreements. The total rental expense for operating leases for the years ended June 30, 2014 and 2013 was \$23,361 and \$18,631, respectively.

Future minimum lease payments for operating leases for each of the next two years are as follows:

| | | |
|----------------------|----|--------|
| Year ending June 30, | | |
| 2015 | \$ | 16,361 |
| 2016 | | 11,361 |

**BENTON COUNTY CHARTER SCHOOL ORGANIZATION, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 9: BONDS PAYABLE AND LONG-TERM DEBT

BCCSO, LLC, through a loan agreement with the Public Facilities Board of Benton County, Arkansas, issued \$7,350,000 Series 2010A BCCSO Project Bonds and \$230,000 2010B BCCSO Project Bonds, net of an original issue discount of \$287,451. The bond discount is amortized as a component of interest expense over the life of the bonds, which is thirty years, beginning July 2010.

As part of the bond issue, BCCSO, LLC entered into a lease agreement with the Benton County Charter School Organization, whereby the Benton County Charter School Organization 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.

Series 2010A BCCSO Project Bonds

In June 2010, the Public Facilities Board of Benton County issued \$7,350,000 in Charter School Lease Revenue Bonds secured by a loan agreement with BCCSO, LLC as borrower. These bonds are tax exempt. They mature and bear interest as follows:

| <u>Term bonds</u> | <u>Maturity Date</u> | <u>Interest rate</u> |
|---------------------|----------------------|----------------------|
| \$ 1,170,000 | 6/1/2022 | 5.00% |
| 1,780,000 | 6/1/2030 | 5.75% |
| <u>4,285,000</u> | 6/1/2040 | 6.00% |
| <u>\$ 7,235,000</u> | | |

The loan agreement requires BCCSO, LLC to collect from Benton County Charter School Organization and remit to the trustee of the bonds, to be deposited in the debt service fund, monthly lease payments starting at \$34,438 and increasing up to \$45,234 by 2036 with a final balloon payment of \$587,811 due May 25, 2040.

Series 2010B BCCSO Project Bonds

In June 2010, the Public Facilities Board of Benton County issued \$230,000 in Charter School Lease Revenue Bonds secured by a loan agreement with BCCSO, LLC as borrower. These bonds are taxable, bear interest at a rate of 6%, are due in annual installments with final maturity on June 1, 2013. The loan agreement requires BCCSO, LLC to collect from Benton County Charter School Organization and remit to the trustee of the bonds, to be deposited in the debt service fund, monthly lease payments starting at \$6,955 and increasing up to \$7,508 by June of 2012. The Series 2010B BCCSO Project Bonds matured June 1, 2013, and were fully repaid.

**BENTON COUNTY CHARTER SCHOOL ORGANIZATION, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 9: BONDS PAYABLE AND LONG-TERM DEBT– CONTINUED

All Bond Issues

The Organization is required to have on hand not less than \$100,000 in unrestricted cash or marketable securities and must maintain a debt service coverage ratio of greater than 1.10. The debt coverage ratio of the Organization for the years ended June 30, 2014 and 2013, calculated in accordance with the bond documents, is 1.76 and 1.53, respectively. The Organization was in compliance with all debt covenants for the years ended June 30, 2014 and 2013.

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:

| Years Ending June 30, | Principal | Interest | Total |
|----------------------------------|---------------------|---------------------|----------------------|
| 2015 | \$ 125,000 | \$ 417,950 | \$ 542,950 |
| 2016 | 130,000 | 412,264 | 542,264 |
| 2017 | 135,000 | 404,645 | 539,645 |
| 2018 | 140,000 | 398,450 | 538,450 |
| 2019 | 150,000 | 391,450 | 541,450 |
| Thereafter | <u>6,555,000</u> | <u>5,342,623</u> | <u>11,897,623</u> |
| | <u>\$ 7,235,000</u> | <u>\$ 7,367,382</u> | <u>\$ 14,602,382</u> |

**BENTON COUNTY CHARTER SCHOOL ORGANIZATION, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 9: BONDS PAYABLE AND LONG-TERM DEBT – CONTINUED

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

| | <u>Balance June 30, 2013</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance June 30, 2014</u> | <u>Due Within One Year</u> |
|----------------------|----------------------------------|------------------|-------------------|----------------------------------|--------------------------------|
| Bonds payable | | | | | |
| Series 2010A | | | | | |
| BCCSO Project Bonds | \$ 7,350,000 | \$ - | \$ 115,000 | \$ 7,235,000 | \$ 125,000 |
| Less discount | <u>(258,705)</u> | <u>-</u> | <u>(9,582)</u> | <u>(249,123)</u> | <u>-</u> |
| Bonds payable, net | 7,091,295 | - | 105,418 | 6,985,877 | 125,000 |
| Capital leases | <u>-</u> | <u>21,922</u> | <u>5,344</u> | <u>16,578</u> | <u>6,983</u> |
| Total Long-term debt | <u>\$ 7,091,295</u> | <u>\$ 21,922</u> | <u>\$ 110,762</u> | <u>\$ 7,002,455</u> | <u>\$ 131,983</u> |

| | <u>Balance June 30, 2012</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance June 30, 2013</u> | <u>Due Within One Year</u> |
|----------------------|----------------------------------|------------------|-------------------|----------------------------------|--------------------------------|
| Bonds payable | | | | | |
| Series 2010A | | | | | |
| BCCSO Project Bonds | \$ 7,350,000 | \$ - | \$ - | \$ 7,350,000 | \$ 115,000 |
| Series 2010B | | | | | |
| BCCSO Project Bonds | <u>85,000</u> | <u>-</u> | <u>85,000</u> | <u>-</u> | <u>-</u> |
| Bonds payable, gross | 7,435,000 | - | 85,000 | 7,350,000 | 115,000 |
| Less discount | <u>(268,287)</u> | <u>-</u> | <u>(9,582)</u> | <u>(258,705)</u> | <u>-</u> |
| Bonds payable, net | <u>\$ 7,166,713</u> | <u>\$ -</u> | <u>\$ 75,418</u> | <u>\$ 7,091,295</u> | <u>\$ 115,000</u> |

**BENTON COUNTY CHARTER SCHOOL ORGANIZATION, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 10: SUBSEQUENT EVENTS

New Lease Agreement

During the year ended June 30, 2015, the Organization entered into a lease agreement for administrative office space in Rogers, Arkansas. The new lease term is for a period of three years, with the option to renew the lease for an additional two years. Required monthly payments are \$1,000 per month, subject to a three percent increase should the extension clause be exercised.

School Name Change

Benton County Charter School Organization, Inc. changed the school name from Benton County School of the Arts to Arkansas Arts Academy. The change was a result of a rebranding decision of management and the board. There is no effect on the financial statements.



**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

Benton County Charter School Organization, Inc. 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 financial statements of **Benton County Charter School Organization, Inc. and Subsidiary** ("the Organization") (a nonprofit organization), which comprise the consolidated statement of assets, liabilities and net assets – modified cash basis as of June 30, 2014, and the related consolidated statements of revenues, expenses, and changes in net assets – modified cash basis and functional expenses – modified cash basis for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated January 14, 2015.

Internal Control over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Beall Barclay & Company, PLC

BEALL BARCLAY & COMPANY, PLC
Certified Public Accountants

Rogers, Arkansas
January 14, 2015



INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH ARKANSAS STATE REQUIREMENTS

To the Board
Benton County Charter School Organization, Inc.
Rogers, Arkansas

We have examined management's assertions that **Benton County Charter School Organization, Inc.** (the Organization) substantially complied with the requirements of Arkansas Code Annotated 6-1-101 during the year ended June 30, 2014. **Benton County Charter School Organization, Inc.** oversees the charter school, Benton County School of the Arts (BCSA). Management is responsible for the School's compliance with those 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, and accordingly, included examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Organization's compliance with specified requirements.

In our opinion, **Benton County Charter School Organization, Inc.** complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2014, with the exception of the following requirements:

Notice of Elections

Arkansas Statute 6-14-109 requires notice of school board elections to be given by advertisement at least once per week for three weeks before each school board election, setting out the time, place, and questions to be submitted to the electors at the election. The advertisement must begin at least twenty days before the date of the election and shall be in a newspaper either published in or having a bona fide circulation in the county or counties in which the school district is located. During our examination, we noted that the notice of school board elections was not published according to the timing and frequency requirements of Arkansas Statute 6-14-109. We recommend that the Organization ensures that future election notices satisfy all criteria established by Arkansas Statute 6-14-109.

Personnel Policy

Arkansas Statute 6-17-206 requires that each teacher or administrator employed by a school district for the first time be furnished with a copy of the organization's employment policies in place at the time of employment. Furthermore, this statute required each teacher or administrator to be furnished with a copy of any amendments to the personnel policies within thirty days after the approval of any amendments to the policy by the school board. During our examination, we noted that the personnel policies and any properly approved amendments are made available on the Organization's website, but that no physical copies were presented to employees. Furthermore, there was no record of acknowledgement by employees that this information was received. We recommend that the Organization provide physical copies of the personnel policy and any properly approved amendments to the policy, or that the Organization obtain acknowledgement from the employees noting that employees have been provided with information specifying how electronic copies of the policies and amendments may be viewed.

Background Checks

Arkansas Statute 6-17-415 requires any applicant for employment with a school district to undergo statewide and nationwide criminal records checks and checks with the child maltreatment central registry. During our examination, we noted that record of the required child maltreatment check was not present for one employee. We recommend that the Organization ensures that all required checks are performed, and that a record of such performance is maintained.

This report is intended solely for the information and use of management, the Board, the Arkansas Department of Education, and the Arkansas Department of Legislative Audit, and is not intended to be and should not be used by anyone other than these specified parties.

Beall Barclay & Company, PLC

BEALL BARCLAY & COMPANY, PLC
Certified Public Accountants

Rogers, Arkansas
January 14, 2015