

**UTAH ARTS ACADEMY  
(Nonprofit Organization)**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2022**

**WITH REPORT OF  
CERTIFIED PUBLIC ACCOUNTANTS**

# UTAH ARTS ACADEMY

## Table of Contents

### Financial Section

|  |    |
|--|----|
| Independent Auditors' Report.....  | 1  |
| Management's Discussion and Analysis.....  | 5  |
| Basic Financial Statements:  |    |
| Government-wide Financial Statements:  |    |
| Statement of Net Position.....   | 10 |
| Statement of Activities .....  | 11 |
| Fund Financial Statements:   |    |
| Balance Sheet – Governmental Fund .....  | 12 |
| Reconciliation of the Balance Sheet of the Governmental Fund<br>to the Statement of Net Position.....  | 13 |
| Statement of Revenues, Expenditures, and Changes in Fund Balance<br>Governmental Fund.....   | 14 |
| Reconciliation of the Statement of Revenues, Expenditures, and<br>Changes in Fund Balance of Governmental Fund to the<br>Statement of Activities ..... | 15 |
| Statement of Revenues, Expenditures, and Changes in Fund Balance<br>Budget and Actual General Fund .....   | 16 |
| Notes to the Financial Statements .....  | 17 |
| Required Supplementary Information:  |    |
| Schedule of the Proportionate Share of the Net Pension Liability .....   | 38 |
| Schedule of Contributions .....  | 39 |
| Notes to Required Supplementary Information.....   | 40 |

### Other Communications from Independent Auditors

|   |    |
|---|----|
| Report on Internal Control over Financial Reporting and on Compliance<br>and other Matters Based on an Audit of Financial Statements Performed<br>in Accordance with <i>Government Auditing Standards</i> ..... | 43 |
| Report In Accordance with the <i>State Compliance Audit Guide</i> .....   | 45 |
| Findings and Recommendations .....  | 47 |
| Response to Findings .....  | 49 |

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## **Independent Auditor's Report**

Board of Directors  
Utah Arts Academy  
St. George, Utah

### **Report on the Audit of the Financial Statements**

#### ***Opinions***

We have audited the financial statements of the governmental activities and each major fund of Utah Arts Academy (the School), as of and for the year June 30, 2022 and the related notes to the financial statements, which collectively comprise Utah Arts Academy's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Utah Arts Academy, as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Utah Arts Academy and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Responsibilities of Management for the Financial Statements***

Utah Arts Academy's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Utah Arts Academy's ability to continue as a going concern for one year after the date that the financial statements are issued or when applicable, one year after the date that the financial statements are available to be issued.

#### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a

guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Utah Arts Academy's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Utah Arts Academy's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

### ***Change in Accounting Principle***

As described in Note 1 to the financial statements, in fiscal year 2022, the School implemented the provisions of GASB Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules related to pensions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2022 on our consideration of Utah Arts Academy'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 solely 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 the effectiveness of 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 Utah Arts Academy's internal control over financial reporting and compliance.

*HintonBurdick, PLLC*

HintonBurdick, PLLC  
St. George, Utah  
September 26, 2022

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## Management's Discussion and Analysis

This section of Utah Arts Academy's (the School) financial statements presents management's discussion and analysis of the School's financial performance during the year ending June 30, 2022. This report is in conjunction with the School's financial statements.

### Financial Highlights

- The School's assets (net of depreciation) plus deferred outflows of resources exceeded liabilities plus deferred inflows of resources by \$1,479,288 at the close of the most recent fiscal year.
- During the year, governmental fund expenditures were \$7,899,149. The revenues plus prior year carry-over amounts and current year financing amounts met or exceeded the adopted budgeted amounts.
- At the close of the current year, the School's governmental fund reported a fund balance of \$1,461,579.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the School's basic financial statements. The School's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the School's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the School, with the difference being reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The *statement of activities* presents information showing how the net position of the School changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Refer to the table of contents for the location of the government-wide financial statements.

**Fund financial statements.** A *fund* is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the School can be divided into one category: governmental funds.

- **Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The School maintains one governmental fund, the general fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is a major fund.

The School adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Refer to the table of contents for the location of the basic governmental fund financial statements.

**Notes to the financial statements.** The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes are part of the basic financial statements. Refer to the table of contents for the location of the notes to the financial statements.

## Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the School, assets plus deferred outflows of resources exceeded liabilities plus deferred inflows of resources by \$1,479,288 at the close of the most recent fiscal year.

### Utah Arts Academy's Net Position

|                                   | Governmental Activities |                   |                     |
|-----------------------------------|-------------------------|-------------------|---------------------|
|                                   | 06/30/22                | 06/30/21          | Change              |
| Current and other assets          | \$ 1,920,448            | \$ 1,323,347      | \$ 597,101          |
| Capital assets                    | 4,922,034               | 77,265            | 4,844,769           |
| Total assets                      | <u>6,842,482</u>        | <u>1,400,612</u>  | <u>5,441,870</u>    |
| Deferred outflows of resources    | 412,973                 | 347,945           | 65,028              |
| Current and other liabilities     | 209,942                 | 218,007           | (8,065)             |
| Long-term liabilities outstanding | 4,519,928               | 627,834           | 3,892,094           |
| Total liabilities                 | <u>4,729,870</u>        | <u>845,841</u>    | <u>3,884,029</u>    |
| Deferred inflows of resources     | 1,046,297               | 548,085           | 498,212             |
| Net position:                     |                         |                   |                     |
| Net investment in capital assets  | 517,106                 | 77,265            | 439,841             |
| Unrestricted                      | 962,182                 | 277,366           | 684,816             |
| Total net position                | <u>\$ 1,479,288</u>     | <u>\$ 354,631</u> | <u>\$ 1,124,657</u> |

35.0% of the School's net position reflects its investment in capital assets (e.g., land, buildings and improvements, and furniture and equipment net of accumulated depreciation); less any related debt used to acquire those assets that is still outstanding. The School uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending.

- The remaining balance, unrestricted net position 65.0% may be used to meet the School's obligations to students, employees, and creditors, and to honor next year's budget.

At the end of the current fiscal year, the School is able to report positive balances in both categories of net position.

**Governmental funds.** Governmental funds report the differences between their assets plus deferred outflows of resources and liabilities plus deferred inflows of resources as fund balance, which is divided into restricted and unrestricted portions. Restrictions indicate the portion of the School's fund balances that are not available for appropriation. The unrestricted fund balance is, in turn, subdivided between committed, assigned, and unassigned portions. Committed and assigned balances reflect the School's self-imposed limitation on the use of otherwise available expendable financial resources in governmental funds. Unassigned balances in the general fund are required by state law to be appropriated in the following year's budget.

## General Fund Budgetary Highlights

The budget was revised during the year by the Board.

Revenue and expenditure variances primarily result from expenditure-driven federal and state grants that are included in the budget. Such grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met; unspent grant amounts are carried forward and included in the succeeding year's budget.

## Capital Assets

Capital Assets at June 30, 2022 are outlined below:

### Utah Arts Academy Capital Assets (net of accumulated depreciation)

|                                   | Governmental Activities |                  |                     |
|-----------------------------------|-------------------------|------------------|---------------------|
|                                   | 06/30/22                | 06/30/21         | Change              |
| Construction in progress          | \$ 1,048,584            | \$ -             | \$ 1,048,584        |
| Buildings and improvements        | 3,585,983               | -                | 3,585,983           |
| Furniture, equipment and vehicles | 287,467                 | 77,265           | 210,202             |
| Total capital assets              | <u>\$ 4,922,034</u>     | <u>\$ 77,265</u> | <u>\$ 4,844,769</u> |

Additional information on the School's capital assets can be found in the notes to the basic financial statements.

## Changing Enrollment within the School

The enrollment for the School for FY22 on October 1, 2021 was 281 students which was a decrease from FY21 of 350 students.

## Requests for Information

This financial report is designed to provide a general overview of the School's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, 1091 North Bluff Ste. 801, St. George, UT 84770.

## **BASIC FINANCIAL STATEMENTS**

**UTAH ARTS ACADEMY**  
**Statement of Net Position**  
**June 30, 2022**

|   | <b>Governmental<br/>Activities</b> |
|---|------------------------------------|
| <b>Assets</b>                                   |                                    |
| Cash and cash equivalents                       | \$ 1,624,892                       |
| Receivables                                     | 38,447                             |
| Inventory                                       | 2,584                              |
| Prepays   | 5,598                              |
| Net pension asset                               | 248,927                            |
| Capital assets not being depreciated:           |                                    |
| Construction in progress                        | 1,048,584                          |
| Capital assets net of accumulated depreciation: |                                    |
| Buildings and improvements                      | 3,585,983                          |
| Furniture, equipment, and vehicles              | 287,467                            |
| Total assets                                    | 6,842,482                          |
| <br><b>Deferred outflows of resources</b>       |                                    |
| Deferred outflows related to pensions           | 412,973                            |
| Total deferred outflows of resources            | 412,973                            |
| <br><b>Liabilities</b>                          |                                    |
| Accounts payable                                | 2,742                              |
| Accrued salaries, benefits and withholdings     | 170,800                            |
| Unearned revenue                                | 36,400                             |
| Noncurrent liabilities:                         |                                    |
| Due within one year                             | 715,126                            |
| Due in more than one year                       | 3,804,802                          |
| Total liabilities                               | 4,729,870                          |
| <br><b>Deferred inflows of resources</b>        |                                    |
| Deferred inflows related to pensions            | 1,046,297                          |
| Total deferred inflows of resources             | 1,046,297                          |
| <br><b>Net position</b>                         |                                    |
| Net investment in capital assets                | 517,106                            |
| Unrestricted                                    | 962,182                            |
| Total net position                              | \$ 1,479,288                       |

The accompanying notes are an integral part of the financial statements.

**UTAH ARTS ACADEMY**  
**Statement of Activities**  
**For the Year Ended June 30, 2022**

| Functions  | Expenses            | Program Revenues        |  |  | Net (Expense)<br>Revenue and<br>Changes in<br>Net Position |
|--|---------------------|-------------------------|--|--|--|
|  |                     | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions | Total<br>Governmental<br>Activities                        |
| <b>Governmental activities:</b>                              |                     |                         |  |  |  |
| Instructional services                                       | \$ 1,249,277        | \$ 103,274              | \$ 752,586                               | \$ 28,925                              | \$ (364,492)   |
| Supporting services:   |                     |                         |  |  |  |
| Students   | 261,060             | -                       | 42,214                                   | -                                      | (218,846)  |
| General administration                                       | 34,118              | -                       | -  | -                                      | (34,118)   |
| School administration  | 658,468             | -                       | -  | 36,550                                 | (621,918)  |
| Central services   | 135,195             | -                       | -  | -                                      | (135,195)  |
| Operation and maintenance of facilities                      | 325,928             | -                       | -  | -                                      | (325,928)  |
| Transportation   | 54,812              | 3,310                   | -  | -                                      | (51,502)   |
| Interest and fiscal charges                                  | 17,440              | -                       | -  | -                                      | (17,440)   |
|  | <u>\$ 2,736,298</u> | <u>\$ 106,584</u>       | <u>\$ 794,800</u>                        | <u>\$ 65,475</u>                       | <u>\$ (1,769,439)</u>                                      |
| <b>General revenues:</b>                                     |                     |                         |  |  |  |
| Federal and state aid not restricted<br>to specific purposes |                     |                         |  |  | 2,625,662  |
| Unrestricted investment earnings                             |                     |                         |  |  | 7,491  |
| Miscellaneous  |                     |                         |  |  | 260,943  |
| Total general revenues                                       |                     |                         |  |  | <u>2,894,096</u>   |
| Change in net position                                       |                     |                         |  |  | 1,124,657  |
| <b>Net position - beginning</b>                              |                     |                         |  |  | <u>354,631</u>   |
| <b>Net position - ending</b>                                 |                     |                         |  |  | <u>\$ 1,479,288</u>  |

The accompanying notes are an integral part of the financial statements.

**UTAH ARTS ACADEMY**  
**Balance Sheet**  
**Governmental Fund**  
**June 30, 2022**

|   | <b>General<br/>Fund</b> |
|---|-------------------------|
| <b>Assets</b>                               |                         |
| Cash and cash equivalents                   | \$ 1,624,892            |
| Due from other governments                  | 38,447                  |
| Inventory                                   | 2,584                   |
| Prepaid expenses                            | 5,598                   |
| Total assets                                | \$ 1,671,521            |
| <br><b>Liabilities and fund balances</b>    |                         |
| Liabilities:                                |                         |
| Accounts payable                            | \$ 881                  |
| Accrued salaries, benefits and withholdings | 170,800                 |
| Credit cards                                | 1,861                   |
| Unearned revenue - local                    | 6,400                   |
| Unearned revenue - state                    | 30,000                  |
| Total liabilities                           | 209,942                 |
| <br>Fund balances:                          |                         |
| Unassigned                                  | 1,461,579               |
| Total fund balances                         | 1,461,579               |
| Total liabilities and fund balances         | \$ 1,671,521            |

The accompanying notes are an integral part of the financial statements.

**UTAH ARTS ACADEMY**  
**Reconciliation of the Balance Sheet of the Governmental Fund**  
**to the Statement of Net Position**  
**June 30, 2022**

|   |                    |                            |
|---|--------------------|----------------------------|
| Total fund balance - governmental fund  |                    | \$ 1,461,579               |
| <p>Amounts reported for governmental activities in the statement of net position are different because:</p>   |                    |                            |
| <p>Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds.</p>   |                    |                            |
| Governmental capital assets   | \$ 5,275,983       |                            |
| Accumulated depreciation  | <u>(353,949)</u>   | 4,922,034                  |
| <p>Net pension asset is not an available resource and, therefore, is not reported in the funds.</p>   |                    |                            |
|   |                    | 248,927                    |
| <p>Some liabilities, including note payable and net pension liability, are not due and payable in the current period and, therefore, are not reported in the funds.</p> |                    |                            |
| Note payable  | (789,678)          |                            |
| Lease payable   | (3,730,250)        |                            |
| Net pension liability   | <u>-</u>           | (4,519,928)                |
| <p>Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.</p>         |                    |                            |
| Deferred outflows   | 412,973            |                            |
| Deferred inflows  | <u>(1,046,297)</u> | <u>(633,324)</u>           |
| Net position of governmental activities   |                    | <u><u>\$ 1,479,288</u></u> |

The accompanying notes are an integral part of the financial statements.

**UTAH ARTS ACADEMY**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Fund**  
**For the Year Ended June 30, 2022**

|  | <b>General<br/>Fund</b> |
|--|-------------------------|
| <b>Revenues</b>  |                         |
| Local  |                         |
| Student fees   | \$ 61,759               |
| Other  | 44,825                  |
| Donations  | 86,830                  |
| Earnings on investments                                      | 7,491                   |
| State  | 3,008,557               |
| Federal  | 325,075                 |
| Total revenues   | 3,534,537               |
| <b>Expenditures</b>  |                         |
| Current:   |                         |
| Instructional services                                       | 1,527,042               |
| Supporting services:   |                         |
| Students   | 303,939                 |
| General administration                                       | 34,118                  |
| School administration  | 763,440                 |
| Central services   | 158,458                 |
| Operation and maintenance of facilities                      | 201,252                 |
| Transportation   | 76,937                  |
| Facilities acquisition and construction                      | 4,833,788               |
| Debt service   | 175                     |
| Total expenditures   | 7,899,149               |
| Excess (deficiency) of revenues over<br>(under) expenditures | (4,364,612)             |
| <b>Other financing sources (uses)</b>                        |                         |
| Tuacahn separation payout                                    | 260,943                 |
| Debt proceeds  | 674,703                 |
| Leased building  | 3,785,204               |
| Total other financing sources (uses)                         | 4,720,850               |
| Net change in fund balance                                   | 356,238                 |
| <b>Fund balances - beginning</b>                             | 1,105,341               |
| <b>Fund balances - ending</b>                                | \$ 1,461,579            |

The accompanying notes are an integral part of the financial statements.

**UTAH ARTS ACADEMY**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures, and Changes in Fund Balance of the Governmental Fund**  
**To The Statement of Activities**  
**For the Year Ended June 30, 2022**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balance - governmental fund \$ 356,238

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period as shown below:

|  |                      |                  |           |
|--|----------------------|------------------|-----------|
|  | Capital outlay       | \$ 5,024,315     |           |
|  | Depreciation expense | <u>(236,906)</u> | 4,787,409 |

The issuance of long-term debt provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of principal on long-term debt is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the Statement of Net Position.

|  |                      |               |             |
|--|----------------------|---------------|-------------|
|  | Notes issued         | (674,703)     |             |
|  | Leases issued        | (3,785,204)   |             |
|  | Principal repayments | <u>54,979</u> | (4,404,928) |

Governmental funds do not report contributions of capital assets as revenue, unless the assets will be held for sale. However, in the Statement of Activities, the donation of Capital Assets is reported as revenue.

65,475

Pension contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the Statement of Net Position because the net pension liability is measured six months before the report date. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the Statement of Activities.

|  |                       |               |         |
|--|-----------------------|---------------|---------|
|  | Pension contributions | 258,218       |         |
|  | Pension expense       | <u>70,360</u> | 328,578 |

Sale of fixed assets are revenue in fund financial statements but are offset by asset costs in Government Wide Financial Statements.

(8,115)

Change in net position of governmental activities \$ 1,124,657

The accompanying notes are an integral part of the financial statements.

**UTAH ARTS ACADEMY**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual General Fund**  
**For the Year Ended June 30, 2022**

|  | <u>Budgeted Amounts</u> |                     | <u>Actual<br/>Amounts</u> | <u>Variance with<br/>Final Budget</u> |
|--|-------------------------|---------------------|---------------------------|---------------------------------------|
|  | <u>Original</u>         | <u>Final</u>        |                           |                                       |
| <b>Revenues</b>  |                         |                     |                           |                                       |
| Local  |                         |                     |                           |                                       |
| Student fees   | \$ 82,850               | \$ 61,560           | \$ 61,759                 | \$ 199                                |
| Other  | 36,000                  | 64,668              | 44,825                    | (19,843)                              |
| Donations  | 10,000                  | 86,830              | 86,830                    | -                                     |
| Earnings on investments                                      | 7,500                   | 4,000               | 7,491                     | 3,491                                 |
| State  | 3,119,202               | 2,986,519           | 3,008,557                 | 22,038                                |
| Federal  | 144,534                 | 312,049             | 325,075                   | 13,026                                |
| Total revenues   | <u>3,400,086</u>        | <u>3,515,626</u>    | <u>3,534,537</u>          | <u>18,911</u>                         |
| <b>Expenditures</b>  |                         |                     |                           |                                       |
| Current:   |                         |                     |                           |                                       |
| Instructional services                                       | 1,573,000               | 1,530,206           | 1,527,042                 | 3,164                                 |
| Supporting services:   |                         |                     |                           |                                       |
| Students   | 288,514                 | 321,473             | 303,939                   | 17,534                                |
| General administration                                       | 114,650                 | 34,994              | 34,118                    | 876                                   |
| School administration  | 479,700                 | 774,191             | 763,440                   | 10,751                                |
| Central services   | 159,850                 | 160,081             | 158,458                   | 1,623                                 |
| Operation and maintenance of facilities                      | 687,250                 | 202,903             | 201,252                   | 1,651                                 |
| Transportation   | 54,450                  | 78,288              | 76,937                    | 1,351                                 |
| Facilities acquisition and construction                      | -                       | 5,951,500           | 4,833,788                 | 1,117,712                             |
| Debt service   | -                       | 176                 | 175                       | 1                                     |
| Total expenditures   | <u>3,357,414</u>        | <u>9,053,812</u>    | <u>7,899,149</u>          | <u>1,154,663</u>                      |
| Excess (deficiency) of revenues over<br>(under) expenditures | 42,672                  | (5,538,186)         | (4,364,612)               | 1,173,574                             |
| <b>Other financing sources (uses)</b>                        |                         |                     |                           |                                       |
| Tuacahn separation payout                                    | -                       | 260,943             | 260,943                   | -                                     |
| Debt proceeds  | -                       | 694,250             | 674,703                   | (19,547)                              |
| Leased building  | -                       | 4,882,500           | 3,785,204                 | (1,097,296)                           |
| Total other financing sources (uses)                         | <u>-</u>                | <u>5,837,693</u>    | <u>4,720,850</u>          | <u>(1,116,843)</u>                    |
| Net change in fund balance                                   | 42,672                  | 299,507             | 356,238                   | 56,731                                |
| <b>Fund balances - beginning</b>                             | <u>1,105,341</u>        | <u>1,105,341</u>    | <u>1,105,341</u>          | <u>-</u>                              |
| <b>Fund balances - ending</b>                                | <u>\$ 1,148,013</u>     | <u>\$ 1,404,848</u> | <u>\$ 1,461,579</u>       | <u>\$ 56,731</u>                      |

The accompanying notes are an integral part of the financial statements.

**UTAH ARTS ACADEMY**  
**Notes to the Financial Statements**  
**June 30, 2022**

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**NOTE 1. Summary of Significant Accounting Policies**

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**Description of government-wide financial statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support. Likewise, when applicable, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

**Reporting Entity**

Utah Arts Academy was organized under the laws of the State of Utah in April of 2021 and opened in August of 2021. Until May 2021, the School was a subsidiary of the Tuacahn Center for the Arts. The School operates as a non-profit, 501(c)(3) organization. The School's mission is to educate its students to their highest level of achievement in all areas of learning so they become responsible, productive citizens who engage in the pursuit of lifelong learning and practice democratic values. Able to teach 450 students, the School's goal is to create graduates who are proficient at critical thinking, problem solving, and communication skills through a uniquely structured environment that emphasizes student success, citizenship, and traditional values. The School's curriculum was designed to provide an accelerated academic program for high-functioning students with special interests in the performing arts. Other subject matter will include classes in English, mathematics, science, social studies, and foreign languages.

Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government. As to the School, there are no component units which are included to form the reporting entity.

**Basis of Presentation – Government-Wide Financial Statements**

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds.

As a general rule, the effect of interfund activity is eliminated from the government-wide financial statements; however, the School only has one fund.

**Basis of Presentation – Fund Financial Statements**

The fund financial statements provide information about the government's funds. Separate statements for each fund category—governmental—are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**UTAH ARTS ACADEMY**  
**Notes to the Financial Statements**  
**June 30, 2022**

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**NOTE 1. Significant Accounting Policies (Continued)**

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The School reports the following major governmental fund:

The **General Fund** is the School's primary operating fund. It is also the School's only fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. However, the School only has one fund.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. However, the School only has one fund.

**Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures on general long-term debt, including lease liabilities, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions, including entering into contracts giving the School the right to use leased assets, are reported as expenditures in governmental funds. Issuance of long-term debt and financing through leases are reported as other financing sources.

**UTAH ARTS ACADEMY**  
**Notes to the Financial Statements**  
**June 30, 2022**

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**NOTE 1. Significant Accounting Policies (Continued)**

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Intergovernmental revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

Starting July 1, 2020, statutory changes regarding the ability for the charter school authorizer to unilaterally dissolve a charter school with the net assets reverting to the authorizer now meets the criteria for governmental accounting, financial reporting, and auditing. Thus, all Utah charter schools, regardless of legal form, must follow accounting standards promulgated by the Governmental Accounting Standards Board (GASB).

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance**

***Deposits and Investments***

Cash includes cash on hand, demand deposits with banks and other financial institutions, deposits in other types of accounts or cash management pools that have the general characteristics of demand deposit accounts and short-term investments with original maturities of three months or less from the date of acquisition, including investments in the Public Treasurers' Investment Fund (PTIF). All investments are carried at fair value with changes in the fair value of investments recorded as investment earnings.

***Inventory***

The School operates a small bookstore on its facility, selling school uniforms and other miscellaneous school items. Inventories are stated at cost using the average cost method.

***Capital Assets and Depreciation***

Capital assets are tangible and intangible assets, which include land, buildings and improvements and furniture, equipment, instruments and vehicles, are reported in the government-wide financial statements. Capital assets are defined by the School as assets with an individual cost of more than \$2,500 and an estimated useful life in excess of more than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Land and construction in progress are not depreciated. Property and equipment are depreciated using the straight-line method over the following estimated useful lives; furniture, equipment, instruments and vehicles – 3 to 10 years; leasehold improvements – 40 years; right-to-use leased building – 10 years.

**UTAH ARTS ACADEMY**  
**Notes to the Financial Statements**  
**June 30, 2022**

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**NOTE 1. Significant Accounting Policies (Continued)**

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***Accrued Payroll and Liabilities***

Teachers at the School have the option of having their salary paid over twelve months, even though school is only in session for ten months. Because of this, the salary for the current school year that is paid subsequent to June 30, 2022 is recorded as accrued payroll. As of June 30, 2022, \$170,800 has been accrued for payroll and related liabilities.

***Compensated Absences***

The School has not recorded a liability for unpaid vacation or sick pay as such accrual cannot be reasonably estimated and would not have a material effect on the financial statements.

***Receivables***

The School does not have any trade accounts receivable, all other receivables are deemed collectible and an allowance for uncollectible accounts is deemed immaterial and has not been recorded. The School's receivables consist primarily of reimbursement-type revenues relating to various school programs. The latter revenues are classified as State or Federal receivables in the fund financial statements.

***Unearned Revenue***

As of June 30, 2022, \$6,400 had been received from students for registration fees for the following school year. The \$30,000 shown as unearned revenue from the State of Utah is from a grant received for training that was postponed due to COVID-19. This revenue will be recognized when the training occurs.

***Deferred Outflows/Inflows of Resources***

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The School has one type of item that qualifies for reporting in this category. It is pension related items reported on the statement of net position. See Note 7 for more information.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School has one type of item that qualifies for reporting in this category. It is pension related items reported on the statement of net position. See Note 7 for more information.

**UTAH ARTS ACADEMY**  
**Notes to the Financial Statements**  
**June 30, 2022**

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**NOTE 1. Significant Accounting Policies (Continued)**

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*Leases*

Lessee: The School is a lessee for a noncancellable lease of a building. The School recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements.

At the commencement of a lease, the School initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the School determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The School uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the School generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the School is reasonably certain to exercise.

The School monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

*Pensions*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Utah Retirement Systems Pension Plan (URS) and additions to/deductions from URS's fiduciary net position have been determined on the same basis as they are reported by URS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

*Net Position Flow Assumption*

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

**UTAH ARTS ACADEMY**  
**Notes to the Financial Statements**  
**June 30, 2022**

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**NOTE 1. Significant Accounting Policies (Continued)**

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***Fund Balance Flow Assumptions***

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

***Fund Balance Policies***

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing board is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The School's Board is authorized to assign amounts to a specific purpose in accordance with the School's budget policy. The board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**Revenues and Expenditures/Expenses**

***Program Revenues***

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. Other internally dedicated resources are reported as general revenues rather than as program revenues.

**UTAH ARTS ACADEMY**  
**Notes to the Financial Statements**  
**June 30, 2022**

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**NOTE 1. Significant Accounting Policies (Continued)**

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The School receives most of its funding from the Utah State Office of Education based on the Weighted Pupil Units calculation. The School also receives tuition from students who are not residents of Utah.

***Advertising***

Advertising costs are charged to expense as incurred and were \$63,692 for fiscal year 2022.

***Income Taxes***

No amounts have been paid or accrued for income taxes as the School is a nonprofit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The School's Forms 990, Return of Organization Exempt from Income Tax, are subject to examination by the IRS, generally for three years after they were filed. The School has implemented accounting guidance associated with accounting for uncertainty in income taxes; however, there was no impact to the School's financial statements.

***Use of Estimates***

Generally accepted accounting principles require management to make estimates and assumptions that affect assets and liabilities, contingent assets and liabilities, and revenues and expenditures. Actual results could differ from those estimates.

***New Pronouncement***

For the year ended June 30, 2022, the School adopted the provisions of GASB Statement No. 87, *Leases*. GASB Statement No. 87 improves accounting and financial reporting for leases by governments. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The Statement also establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

**UTAH ARTS ACADEMY**  
**Notes to the Financial Statements**  
**June 30, 2022**

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**NOTE 2. Reconciliation of Government-Wide and Fund Financial Statements**

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The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net position of governmental activities as reported in the government-wide statement of net position. This difference primarily results from the long-term economic focus of the statement of net position versus the current financial resources focus of the governmental fund balance sheets. The details of these differences are reported in the reconciliation on page 13.

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between net changes in fund balances-total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. These differences are the result of converting from the current resources measurement focus and modified accrual basis for governmental fund statements to the economic resources measurement focus and full accrual basis used for government-wide statements. The details of these differences are reported in the reconciliation on page 15.

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**NOTE 3. Stewardship, Compliance and Accountability**

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**Budgets and Budgetary Accounting**

Budgets are presented on the modified accrual basis of accounting for all governmental funds. All annual appropriations lapse at fiscal year-end with the exception of those indicated as a fund balance reserve. The following procedures are used in establishing the budgetary data reflected in the financial statements.

- During June of each year, the School principal submits to the Board a proposed operating budget for the next fiscal year commencing July 1. This budget includes proposed expenditures and the means of financing them. Included also is a final budget for the current year ending June 30.
- Copies of the proposed budget are made available for public inspection and review by the patrons of the School.
- Once adopted, the budget can be amended by subsequent Board action. The Board upon recommendation of the principal can approve reductions in appropriations, but increases in appropriations by fund require a public hearing prior to amending the budget. In accordance with Utah State law, interim adjustments may be made by administrative transfer of money from one appropriation to another within any given fund.
- Certain interim adjustments in estimated revenue and expenditures during the current fiscal year have been included in the final budget approved by the Board, as presented in the financial statements.
- Expenditures may not legally exceed budgeted appropriations at the fund level.

**Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the School.

**UTAH ARTS ACADEMY**  
**Notes to the Financial Statements**  
**June 30, 2022**

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**NOTE 4. Deposits and Investments**

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The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the state and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The School follows the requirements of the Utah Money Management Act (*Utah code*, Section 51, chapter 7) in handling its depository and investment transactions. The Act requires the depositing of School funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The School's deposits at year end are shown as follows:

|                                   |                            |
|-----------------------------------|----------------------------|
| Cash in bank                      | \$ 1,603,992               |
| Cash on hand                      | 345                        |
| State Treasurer's Investment Pool | <u>20,555</u>              |
| Total cash and cash equivalents   | <u><u>\$ 1,624,892</u></u> |

**Deposits**

*Custodial Credit Risk*

For deposits this is the risk that in the event of a bank failure, the School's deposit may not be returned to it. The School does not have a formal policy for custodial credit risk. As of June 30, 2022, the School's bank balance was \$1,688,671 and of this amount \$996,511 was exposed to custodial credit risk because it was uninsured and uncollateralized. Deposits are not collateralized, nor are they required to be.

**Investments**

The Money Management Act defines the types of securities authorized as appropriate investment for the School and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

The Act authorizes investments in negotiable or nonnegotiable deposits of qualified depositories and permitted depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; obligations, other than mortgage derivative products, issued by U.S. government sponsored enterprises (U.S. Agencies) such as the Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation (Freddie Mac), and Federal National Mortgage Association (Fannie Mae); bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; the Utah Public Treasurer's Investment Fund; and reciprocal deposits subject to rules of the State Money Management Council.

**UTAH ARTS ACADEMY**  
**Notes to the Financial Statements**  
**June 30, 2022**

**NOTE 4. Deposits and Investments (Continued)**

The Utah State Treasurer’s Office operates the Public Treasurer’s Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gain or losses on investments. Financial statements for the PTIF funds can be obtained by contacting the Utah State Treasurer’s office.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees, of the PTIF are allocated based upon the participant’s average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

As of June 30, 2022 the School had the following investments, ratings, and maturities:

| <u>Investment Type</u>                           | <u>Fair Value</u> | <u>Credit Rating (1)</u> | <u>Weighted Average Maturity (2)</u> |
|--|-------------------|--------------------------|--------------------------------------|
| State of Utah Public Treasurer's Investment Fund | \$ 20,555         | N/A                      | 64.2                                 |
| Total Fair Value                                 | <u>\$ 20,555</u>  |                          |                                      |

(1) Ratings are provided where applicable to indicate associated credit risk. N/A indicated not applicable.

(2) Interest rate risk is estimated using the weighted average days to maturity.

**Interest rate risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The School’s policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State’s Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

**Credit risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The School’s policy for reducing its exposure to credit risk is to comply with the State’s Money Management Act.

**Fair value measurements**

As noted above, the School holds investments that are measured at fair value on a recurring basis. The School categorized its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The PTIF, as listed above, is valued using significant other observable inputs (Level 2 inputs).

**UTAH ARTS ACADEMY**  
**Notes to the Financial Statements**  
**June 30, 2022**

**NOTE 5. Capital Assets**

Capital assets activity for the year ended June 30, 2022 is as follows:

| <b>Governmental activities:</b>              | <b>Balance<br/>06/30/21</b> | <b>Additions</b>    | <b>Deletions</b>  | <b>Balance<br/>06/30/22</b> |
|--|-----------------------------|---------------------|-------------------|-----------------------------|
| Capital assets, not being depreciated:       |                             |                     |                   |                             |
| Construction in progress                     | \$ -                        | \$ 1,048,584        | \$ -              | \$ 1,048,584                |
| Total capital assets, not being depreciated: | <u>-</u>                    | <u>1,048,584</u>    | <u>-</u>          | <u>1,048,584</u>            |
| Capital assets, being depreciated:           |                             |                     |                   |                             |
| Buildings (leased)                           | -                           | 3,785,204           | -                 | 3,785,204                   |
| Furniture, equipment and vehicles            | 209,943                     | 256,002             | (23,750)          | 442,195                     |
| Total capital assets, being depreciated:     | <u>209,943</u>              | <u>4,041,206</u>    | <u>(23,750)</u>   | <u>4,227,399</u>            |
| Less accumulated depreciation for:           |                             |                     |                   |                             |
| Buildings (leased)                           | -                           | (199,221)           | -                 | (199,221)                   |
| Furniture, equipment and vehicles            | (132,678)                   | (37,685)            | 15,635            | (154,728)                   |
| Total accumulated depreciation               | <u>(132,678)</u>            | <u>(236,906)</u>    | <u>15,635</u>     | <u>(353,949)</u>            |
| Total capital assets, being depreciated, net | <u>77,265</u>               | <u>3,804,300</u>    | <u>(8,115)</u>    | <u>3,873,450</u>            |
| Governmental activities capital assets, net  | <u>\$ 77,265</u>            | <u>\$ 4,852,884</u> | <u>\$ (8,115)</u> | <u>\$ 4,922,034</u>         |

Depreciation expense was charged to the functions of the School as follows:

|  |                   |
|--|-------------------|
| <b>Governmental activities:</b>                      |                   |
| Instructional services                               | \$ 22,103         |
| Supporting services                                  |                   |
| School administration                                | 7,978             |
| Operation and maintenance of facilities              | 199,545           |
| Student transportation                               | 7,280             |
| Total depreciation expense - governmental activities | <u>\$ 236,906</u> |

**UTAH ARTS ACADEMY**  
**Notes to the Financial Statements**  
**June 30, 2022**

**NOTE 6. Long-Term Liabilities**

Long-term liabilities at June 30, 2022 consisted of the following:

|  | <u>Balance<br/>6/30/2021</u> | <u>Additions</u>    | <u>Retirements</u>  | <u>Balance<br/>6/30/2022</u> | <u>Current<br/>Portion</u> |
|--|------------------------------|---------------------|---------------------|------------------------------|----------------------------|
| <b>Governmental activities:</b>              |                              |                     |                     |                              |                            |
| Direct borrowings                            |                              |                     |                     |                              |                            |
| Note payable - VLW Trust                     | \$ 115,000                   | \$ -                | \$ -                | \$ 115,000                   | \$ 28,750                  |
| Note payable - State Bank of Southern Utah   | -                            | 393,703             | (25)                | 393,678                      | 393,678                    |
| Note payable - Utah State Board of Education | -                            | 281,000             | -                   | 281,000                      | 28,734                     |
| Building lease                               | -                            | 3,785,204           | (54,954)            | 3,730,250                    | 263,964                    |
| Net pension liability                        | 512,834                      | -                   | (512,834)           | -                            | -                          |
| Total long-term liabilities                  | <u>\$ 512,834</u>            | <u>\$ 4,459,907</u> | <u>\$ (512,834)</u> | <u>\$ 4,519,928</u>          | <u>\$ 715,126</u>          |

The School's outstanding note VLW Trust related to governmental activities of \$115,000 is payable in monthly principal installments of \$2,396, non-interest bearing, starting July 1, 2022 and maturing June 1, 2026. The note contains a provision that in the event of default, the note shall become immediately due and payable and interest shall accrue from that point forward at a rate of 10% per annum.

The School's outstanding construction loan from State Bank of Southern Utah related to governmental activities of up to \$750,000 has an outstanding balance at year-end of \$393,678. The loan has a variable interest rate and matures on August 8, 2022. The loan contains a provision that in the event of default, the note shall become immediately due and payable.

The School's outstanding note from the Utah State Board of Education related to governmental activities of \$281,000 is payable in monthly principal installments of \$6,204, with interest accruing at 2.0%, starting February 1, 2023 and maturing January 1, 2027.

The debt service requirement to maturity on the direct borrowing note payable is as follows:

| <b>Year Ended</b> |                   |                  |
|-------------------|-------------------|------------------|
| <b>June 30</b>    | <b>Principal</b>  | <b>Interest</b>  |
| 2023              | \$ 451,162        | \$ 2,439         |
| 2024              | 98,695            | 4,506            |
| 2025              | 100,106           | 3,094            |
| 2026              | 101,547           | 1,654            |
| 2027              | 38,168            | 288              |
|                   | <u>\$ 789,678</u> | <u>\$ 11,981</u> |

**Line of Credits**

In fiscal year 2022, the School entered into a line of credit agreement with a member of the board. The line of credit is up to \$250,000 and the balance at the end of the fiscal year was \$0.

**UTAH ARTS ACADEMY**  
**Notes to the Financial Statements**  
**June 30, 2022**

**NOTE 6. Long-Term Liabilities (Continued)**

**Leases Payable**

During fiscal year 2022, the School entered into a ten-year lease agreement (expires fiscal year 2031) as lessee for the use of Sunset Corner Building. An initial lease liability was recorded in the amount of \$3,785,204. The school is required to make yearly principal and interest payments of \$465,000 for the first five years and \$511,500 for the second five years. The lease has an interest rate of 3.25%.

| <b>Year Ended</b> |                     |                   |
|-------------------|---------------------|-------------------|
| <b>June 30</b>    | <b>Principal</b>    | <b>Interest</b>   |
| 2023              | \$ 263,964          | 89,714            |
| 2024              | 357,642             | 107,358           |
| 2025              | 369,440             | 95,560            |
| 2026              | 381,627             | 83,373            |
| 2027              | 441,415             | 70,085            |
| 2028-2031         | 1,916,162           | 129,838           |
|                   | <u>\$ 3,730,250</u> | <u>\$ 575,928</u> |

**NOTE 7. Defined Benefit Pension Plan**

***General Information about the Pension Plan***

Plan description: Eligible plan participants are provided with pensions through the Utah Retirement Systems. Utah Retirement Systems are comprised of the following Pension Trust Funds:

**Defined Benefit Plans**

- The Public Employees Noncontributory Retirement System (Noncontributory System); is a multiple employer, cost-sharing, public employee retirement system.
- Tier 2 Public Employees Contributory Retirement System (Tier 2 Public Employees System); is a multiple employer, cost-sharing, public employee retirement system.

The Tier 2 Public Employees System became effective July 1, 2011. All eligible employees beginning on or after July 1, 2011, who have no previous service credit with any of the Utah Retirement Systems, are members of the Tier 2 Retirement System.

The Utah Retirement Systems (Systems) are established and governed by the respective sections of Title 49 of the Utah Code Annotated 1953, as amended. The Systems' defined benefit plans are amended statutorily by the State Legislature. The Utah State Retirement Office Act in Title 49 provides for the administration of the Systems under the direction of the Utah State Retirement Board, whose members are appointed by the Governor. The Systems are fiduciary funds defined as pension (and other employee benefit) trust funds. URS is a component unit of the State of Utah. Title 49 of the Utah Code grants the authority to establish and amend the benefit terms.

**UTAH ARTS ACADEMY**  
**Notes to the Financial Statements**  
**June 30, 2022**

**NOTE 7. Defined Benefit Pension Plan (Continued)**

URS issues a publicly available financial report that can be obtained by writing Utah Retirement Systems, 560 E. 200 S, Salt Lake City, Utah 84102 or visiting the website: [www.urs.org/general/publications](http://www.urs.org/general/publications).

Benefits provided: URS provides retirement, disability, and death benefits. Retirement benefits are as follows:

**Summary of Benefits by System**

| <b>System</b>                  | <b>Final average salary</b> | <b>Years of service required and/or age eligible for benefit</b>                                | <b>Benefit percent per year of service</b> | <b>COLA**</b> |
|--------------------------------|-----------------------------|---|--|---------------|
| Noncontributory System         | Highest 3 years             | 30 years any age<br>25 years any age*<br>20 years age 60*<br>10 years age 62*<br>4 years age 65 | 2.0% per year all years                    | Up to 4%      |
| Tier 2 Public Employees System | Highest 5 years             | 35 years any age<br>20 years age 60*<br>10 years age 62*<br>4 years age 65                      | 1.5% per year all years                    | Up to 2.5%    |

\* Actuarial reductions are applied

\*\* All post-retirement cost-of-living adjustments are non-compounding and are based on the original benefit except for Judges, which is a compounding benefit. The cost-of-living adjustments are also limited to the actual Consumer Price Index (CPI) increase for the year, although unused CPI increases not met may be carried forward to subsequent years.

Contribution rate summary: As a condition of participation in the Systems, employers and/or employees are required to contribute certain percentages of salary and wages as authorized by statute and specified by the Utah State Retirement Board. Contributions are actuarially determined as an amount that, when combined with employee contributions (where applicable) is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded actuarial accrued liability.

Contribution rates as of June 30, 2022 are as follows:

**Utah Retirement Systems**

|                                    | <b>Employee</b> | <b>Employer</b> | <b>Employer 401(k)</b> |
|------------------------------------|-----------------|-----------------|------------------------|
| <b>Contributory System</b>         |                 |                 |                        |
| 112 – State School Division Tier 2 | N/A             | 19.40 %         | 0.62 %                 |
| <b>Noncontributory System</b>      |                 |                 |                        |
| 16 – State School Division Tier 1  | N/A             | 22.19 %         | 1.50 %                 |
| <b>Tier 2 DC Only</b>              |                 |                 |                        |
| 212 – State and School             | N/A             | 10.02 %         | 10.00 %                |

Tier 2 rates include a statutory required contribution to finance the unfunded actuarial accrued liability of the Tier 1 plans.

**UTAH ARTS ACADEMY**  
**Notes to the Financial Statements**  
**June 30, 2022**

**NOTE 7. Defined Benefit Pension Plan (Continued)**

For the fiscal year ended June 30, 2022, the employer and employee contributions to the Systems were as follows:

| <b>System</b>                  | <b>Employer<br/>Contributions</b> | <b>Employee<br/>Contributions</b> |
|--------------------------------|-----------------------------------|-----------------------------------|
| Noncontributory System         | \$ 114,171                        | N/A                               |
| Tier 2 Public Employees System | 131,397                           | -                                 |
| Tier 2 DC Only System          | 12,932                            | N/A                               |
| Total Contributions            | \$ 258,500                        | \$ -                              |

Contributions reported are the URS Board approved required contributions by System. Contributions in the Tier 2 Systems are used to finance the unfunded liabilities in the Tier 1 Systems.

**Pension Assets, Liabilities, Expense, and Deferred Outflows and Inflows of Resources Relating to Pensions**

At June 30, 2022, the School reported a net pension asset of \$248,927 and a net pension liability of \$0.

|                                | <b>(Measurement Date): December 31, 2021</b> |                                  |                                | <b>Proportionate<br/>Share<br/>December 31, 2020</b> | <b>Change<br/>(Decrease)</b> |
|--------------------------------|--|----------------------------------|--------------------------------|--|------------------------------|
|                                | <b>Net Pension<br/>Asset</b>                 | <b>Net Pension<br/>Liability</b> | <b>Proportionate<br/>Share</b> |  |                              |
| Noncontributory System         | \$ 233,484                                   | \$ -                             | 0.0341728%                     | 0.0380279%   | (0.0038551)%                 |
| Tier 2 Public Employees System | \$ 15,443                                    | \$ -                             | 0.0364881%                     | 0.0408541%   | (0.0043660)%                 |
|                                | \$ 248,927                                   | \$ -                             |                                |  |                              |

The net pension asset and liability was measured as of December 31, 2020, and the total pension liability used to calculate the net pension asset and liability was determined by an actuarial valuation as of January 1, 2020 and rolled-forward using generally accepted actuarial procedures. The proportion of the net pension asset and liability is equal to the ratio of the employer's actual contributions to the Systems during the plan year over the total of all employer contributions to the System during the plan year.

For the year ended June 30, 2022, the School recognized pension expense of (\$70,360).

**UTAH ARTS ACADEMY**  
**Notes to the Financial Statements**  
**June 30, 2022**

**NOTE 7. Defined Benefit Pension Plan (Continued)**

At June 30, 2022, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|  | <u>Deferred<br/>Outflows of<br/>Resources</u> | <u>Deferred<br/>Inflows of<br/>Resources</u> |
|--|---|--|
| Differences between expected and actual experience   | \$ 147,556                                    | \$ 1,990                                     |
| Changes in assumptions   | 105,442                                       | 146  |
| Net difference between projected and actual earnings on pension plan investments                     | -   | 979,822                                      |
| Changes in proportion and differences between contributions and proportionate share of contributions | 31,340  | 64,339                                       |
| Contributions subsequent to the measurement date   | <u>128,636</u>                                | <u>-</u>                                     |
| Total  | <u>\$ 412,973</u>                             | <u>\$ 1,046,297</u>                          |

\$128,636 reported as deferred outflows of resources related to pension results from contributions made by the School prior to our fiscal year end, but subsequent to the measurement date of December 31, 2021.

These contributions will be recognized as a reduction of the net pension liability in the upcoming fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ended<br/>December 31</u> | <u>Net Deferred<br/>Outflows<br/>(Inflows) of<br/>Resources</u> |
|-----------------------------------|---|
| 2022                              | \$(125,228)   |
| 2023                              | (263,450)   |
| 2024                              | (228,389)   |
| 2025                              | (160,475)   |
| 2026                              | 2,901   |
| Thereafter                        | 12,681  |

Actuarial assumptions: The total pension liability in the December 31, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                           |   |
|---------------------------|---|
| Inflation                 | 2.50 Percent  |
| Salary increases          | 3.25- 9.75 percent, average, including inflation                          |
| Investment rate of return | 6.95 percent, net of pension plan investment expense, including inflation |

**UTAH ARTS ACADEMY**  
**Notes to the Financial Statements**  
**June 30, 2022**

**NOTE 7. Defined Benefit Pension Plan (Continued)**

Mortality rates were adopted from an actual experience study dated January 1, 2020. The retired mortality tables are developed using URS retiree experience and are based upon gender, occupation, and age as appropriate with projected improvement using 80% of the ultimate rates from the MP-2019 improvement assumption using a base year of 2020. The mortality assumption for active members is the PUB-2010 Employees Mortality Table for public employees, teachers, and public safety members, respectively.

The actuarial assumptions used in the January 1, 2020, valuation were based on the results of an actuarial experience study for the five year period ending December 31, 2019.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class and is applied consistently to each defined benefit pension plan. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

|                           | <b>Expected Return Arithmetic Basis</b> |                                     |   |
|---------------------------|---|-------------------------------------|---|
| <b>Asset Class</b>        | <b>Target Asset Allocation</b>          | <b>Real Return Arithmetic Basis</b> | <b>Long-Term Expected Portfolio Real Rate of Return</b> |
| Equity securities         | 37%                                     | 6.30%                               | 2.33%   |
| Debt securities           | 20%                                     | 0.00%                               | 0.00%   |
| Real assets               | 15%                                     | 6.19%                               | 0.93%   |
| Private equity            | 12%                                     | 9.50%                               | 1.14%   |
| Absolute return           | 16%                                     | 2.75%                               | 0.44%   |
| Cash and cash equivalents | 0%                                      | 0.00%                               | 0.00%   |
| Totals                    | 100%                                    |                                     | 4.84%   |
|                           | Inflation                               |                                     | 2.50%   |
|                           | Expected arithmetic nominal return      |                                     | 7.34%   |

The 6.95% assumed investment rate of return is comprised of an inflation rate of 2.50%, a real return of 4.45% that is net of investment expense.

Discount rate: The discount rate used to measure the total pension liability was 6.95 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate, and that contributions from all participating employers will be made at contractually required rates that are actuarially determined and certified by the URS Board. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current, active, and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments, to determine the total

**UTAH ARTS ACADEMY**  
**Notes to the Financial Statements**  
**June 30, 2022**

**NOTE 7. Defined Benefit Pension Plan (Continued)**

pension liability. The discount rate does not use the Municipal Bond Index Rate. The discount rate remained unchanged at 6.95 percent.

Sensitivity of the proportionate share of the net pension asset and liability to changes in the discount rate: The following presents the proportionate share of the net pension liability calculated using the discount rate of 6.95 percent, as well as what the proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (5.95 percent) or 1 percentage point higher (7.95 percent) than the current rate:

|                                | 1% Decrease<br>(5.95%) | Discount<br>Rate<br>(6.95%) | 1% Increase<br>(7.95%) |
|--------------------------------|------------------------|-----------------------------|------------------------|
| <b>System</b>                  |                        |                             |                        |
| Noncontributory System         | \$ 838,521             | \$ (233,484)                | \$ (1,129,687)         |
| Tier 2 Public Employees System | <u>92,014</u>          | <u>(15,443)</u>             | <u>(97,948)</u>        |
| Total                          | <u>\$ 930,535</u>      | <u>\$ (248,927)</u>         | <u>\$ (1,227,635)</u>  |

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued URS financial report.

**UTAH ARTS ACADEMY**  
**Notes to the Financial Statements**  
**June 30, 2022**

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**NOTE 8. Defined Contribution Plan**

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**Defined Contributions Savings Plans**

The Defined Contributions Savings Plans are administered by the Utah Retirement Systems Board and are generally supplemental plans to the basic retirement benefits of the Retirement Systems, but may also be used as a primary retirement plan. These plans are voluntary tax-advantaged retirement savings programs authorized under sections 401(k), 457(b) and 408 of the Internal Revenue code. Detailed information regarding plan provisions is available in the separately issued URS financial report.

The School participates in the following Defined Contribution Savings Plans with Utah Retirement Systems:

- 401(k) Plan
- Roth IRA Plan

Employee and employer contributions to the Utah Retirement Defined Contribution Savings Plans for fiscal year ended June 30th, were as follows:

|                        | <u>2022</u> | <u>2021</u> | <u>2020</u> |
|------------------------|-------------|-------------|-------------|
| <b>401(k) Plan</b>     |             |             |             |
| Employer Contributions | \$ 25,107   | \$ 41,212   | \$ 34,943   |
| Employee Contributions | \$ 44,772   | \$ 42,133   | \$ 36,253   |
| <br>                   |             |             |             |
| <b>Roth IRA Plan</b>   |             |             |             |
| Employer Contributions | N/A         | N/A         | N/A         |
| Employee Contributions | \$ 9,600    | \$ 10,400   | \$ 4,350    |

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**NOTE 9. Risk Management**

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The School is exposed to various risks of loss to torts; theft of, damage to and destruction of assets; errors and omissions; violations of civil rights; and natural disasters. The School has procured State of Utah Risk Management insurance coverage and Workman's Compensation Insurance, which in the School's estimation, is adequate to reduce the risk of loss to manageable level.

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**NOTE 10. Related Party Transactions**

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In fiscal year 2021, the School entered into a loan agreement with a member of the board. This loan is a zero percent interest loan and has a balance of \$115,000 at the end of the fiscal year. See note 6 for more details on this loan.

In fiscal year 2022, the School entered into a line of credit agreement with a member of the board. The line of credit is up to \$250,000 and the balance at the end of the fiscal year was \$0.

**UTAH ARTS ACADEMY**  
**Notes to the Financial Statements**  
**June 30, 2022**

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**NOTE 11.      Related Organization**

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In fiscal year 2022, Utah Arts Academy Foundation, Inc. was established. The foundation was organized to be a charitable organization – organized exclusively for exempt purposes set forth in Section 501(c)(3) of the Internal Revenue Code, to operate exclusively for the benefit of, to perform the functions of, or to carry out the purposes of the Utah Arts Academy and its various education and other activities, programs, and services.

The treatment of the Foundation is yet to be determined.

**REQUIRED SUPPLEMENTARY INFORMATION**

**UTAH ARTS ACADEMY**  
**Required Supplementary Information**  
**Schedule of the Proportionate Share of the Net Pension Liability**  
**Utah Retirement Systems**  
**Last 10 Fiscal Years**

| <b>As of<br/>fiscal year<br/>ended<br/>December 31,</b> | <b>Proportion of the<br/>net pension<br/>liability (asset)</b> | <b>Proportionate<br/>share of the net<br/>pension liability<br/>(asset)</b> | <b>Covered<br/>payroll</b> | <b>Proportionate<br/>share of the net<br/>pension liability<br/>(asset) as a<br/>percentage of its<br/>covered payroll</b> | <b>Plan fiduciary<br/>net position as a<br/>percentage of<br/>the total<br/>pension liability</b> |
|---|--|---|----------------------------|--|---|
| <b>Noncontributory System</b>                           |  |   |                            |  |   |
| 2015  | 0.0377748%   | \$ 1,186,615  | \$ 1,009,990               | 117.49%  | 84.50%  |
| 2016  | 0.0379749%   | \$ 1,230,735  | \$ 1,012,243               | 121.58%  | 84.90%  |
| 2017  | 0.0358436%   | \$ 876,506  | \$ 856,622                 | 102.32%  | 89.20%  |
| 2018  | 0.0319121%   | \$ 1,187,295  | \$ 668,999                 | 177.47%  | 84.10%  |
| 2019  | 0.0363067%   | \$ 806,627  | \$ 738,736                 | 109.19%  | 90.10%  |
| 2020  | 0.0380279%   | \$ 506,958  | \$ 798,783                 | 63.47%   | 94.30%  |
| 2021  | 0.0341728%   | \$ (233,484)  | \$ 692,382                 | -33.72%  | 102.70%   |
| <b>Tier 2 Public Employees System</b>                   |  |   |                            |  |   |
| 2015  | 0.0310138%   | \$ (68)   | \$ 200,315                 | -0.03%   | 100.20%   |
| 2016  | 0.0399704%   | \$ 4,459  | \$ 327,786                 | 1.36%  | 95.10%  |
| 2017  | 0.0460885%   | \$ 4,063  | \$ 451,743                 | 0.90%  | 97.40%  |
| 2018  | 0.0557468%   | \$ 23,875   | \$ 656,484                 | 3.64%  | 90.80%  |
| 2019  | 0.0484167%   | \$ 10,889   | \$ 674,569                 | 1.61%  | 96.50%  |
| 2020  | 0.0408541%   | \$ 5,876  | \$ 655,023                 | 0.90%  | 98.30%  |
| 2021  | 0.0364881%   | \$ (15,443)   | \$ 680,941                 | -2.27%   | 103.80%   |

**UTAH ARTS ACADEMY**  
**Required Supplementary Information**  
**Schedule of Contributions**  
**Utah Retirement Systems**  
**Last 10 Fiscal Years**

|   | As of fiscal year<br>ended June 30, | Actuarial<br>Determined<br>Contributions | Contributions in<br>relation to the<br>contractually<br>required<br>contribution | Contribution<br>deficiency<br>(excess) | Covered payroll | Contributions as a<br>percentage of<br>covered payroll |
|---|-------------------------------------|--|--|--|-----------------|--|
| <b>Noncontributory System</b>                   | 2014                                | \$ 174,506                               | \$ 174,506   | \$ -                                   | \$ 963,320      | 18.12%   |
|   | 2015                                | 225,555                                  | 225,555  | -                                      | 1,044,485       | 21.59%   |
|   | 2016                                | 200,684                                  | 200,684  | -                                      | 944,930         | 21.24%   |
|   | 2017                                | 213,335                                  | 213,335  | -                                      | 984,609         | 21.67%   |
|   | 2018                                | 163,085                                  | 163,085  | -                                      | 742,602         | 21.96%   |
|   | 2019                                | 144,164                                  | 144,164  | -                                      | 679,158         | 21.23%   |
|   | 2020                                | 170,312                                  | 170,312  | -                                      | 797,006         | 21.37%   |
|   | 2021                                | 179,919                                  | 179,919  | -                                      | 827,527         | 21.74%   |
|   | 2022                                | 114,171                                  | 114,171  | -                                      | 514,514         | 22.19%   |
| <b>Tier 2 Public Employees System *</b>         | 2014                                | \$ 18,648                                | \$ 18,648  | \$ -                                   | \$ 112,882      | 16.52%   |
|   | 2015                                | 27,444                                   | 27,444   | -                                      | 152,256         | 18.02%   |
|   | 2016                                | 51,480                                   | 51,480   | -                                      | 282,175         | 18.24%   |
|   | 2017                                | 61,017                                   | 61,017   | -                                      | 334,520         | 18.24%   |
|   | 2018                                | 115,471                                  | 115,471  | -                                      | 627,101         | 18.41%   |
|   | 2019                                | 126,506                                  | 126,506  | -                                      | 672,597         | 18.81%   |
|   | 2020                                | 125,843                                  | 125,843  | -                                      | 663,330         | 18.97%   |
|   | 2021                                | 128,133                                  | 128,133  | -                                      | 670,570         | 19.11%   |
|   | 2022                                | 131,397                                  | 131,397  | -                                      | 678,719         | 19.36%   |
| <b>Tier 2 Public Employees DC Only System *</b> | 2014                                | \$ 2,078                                 | \$ 2,078   | \$ -                                   | \$ 25,906       | 8.02%  |
|   | 2015                                | 2,451                                    | 2,451  | -                                      | 25,251          | 9.71%  |
|   | 2016                                | -  | -  | -                                      | -               | 0.00%  |
|   | 2017                                | 3,980                                    | 3,980  | -                                      | 39,725          | 10.02%   |
|   | 2018                                | 5,162                                    | 5,162  | -                                      | 51,515          | 10.02%   |
|   | 2019                                | 8,481                                    | 8,481  | -                                      | 84,646          | 10.02%   |
|   | 2020                                | 16,867                                   | 16,867   | -                                      | 168,330         | 10.02%   |
|   | 2021                                | 23,019                                   | 23,019   | -                                      | 229,727         | 10.02%   |
|   | 2022                                | 12,932                                   | 12,932   | -                                      | 129,064         | 10.02%   |

\* Contributions in Tier 2 include an amortization rate to help fund the unfunded liabilities in the Tier 1 systems. Tier 2 systems were created effective July 1, 2011.

**UTAH ARTS ACADEMY**  
**Notes to Required Supplementary Information**  
**For the Year Ended June 30, 2022**

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**NOTE 1.      Changes in Assumptions**

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The investment return assumption was decreased by 0.10% to 6.85% for use in the January 1, 2021 actuarial valuation. This assumption change was based on analysis performed by the actuary and adopted by the Utah State Retirement Board. In aggregate, this assumption change resulted in a \$509 million increase in the Total Pension Liability, which is about 1.3% of the Total Pension Liability as of December 31, 2020 for all systems combined. The demographic assumptions were reviewed and updated in the January 1, 2020 actuarial valuation and are currently scheduled to be reviewed in the year 2023.

**OTHER COMMUNICATIONS FROM INDEPENDENT AUDITORS**

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**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***

Board of Directors  
Utah Arts Academy  
St. George, Utah

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 the governmental activities and each major fund of Utah Arts Academy (a nonprofit organization), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Utah Arts Academy's basic financial statements, and have issued our report thereon dated September 26, 2022.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Utah Arts Academy's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the 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 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 Utah Arts Academy’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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## 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.

*HintonBurdick, PLLC*

HintonBurdick, PLLC  
St. George, Utah  
September 26, 2022



**Independent Auditor’s Report on Compliance and  
Report on Internal control over Compliance  
As Required by the *State Compliance Audit Guide***

Board of Directors  
Utah Arts Academy  
St. George, Utah

**Report On Compliance**

We have audited Utah Arts Academy’s compliance with the applicable state compliance requirements described in the *State Compliance Audit Guide*, issued by the Office of the State Auditor, for the year ended June 30, 2022.

State compliance requirements were tested for the year ended June 30, 2022 in the following areas:

- Budgetary Compliance
- Fund Balance
- Restricted Taxes and Related Revenues
- Fraud Risk Assessment
- Government Fees
- Cash Management
- Utah Retirement Systems
- Public Treasurer’s Bond
- Internal Control Systems
- Public Education Programs

***Management’s Responsibility***

Management is responsible for compliance with the state requirements referred to above.

***Auditor’s Responsibility***

Our responsibility is to express an opinion on Utah Arts Academy’s compliance based on our audit of the state 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 the *State Compliance Audit Guide*. Those standards and the *State Compliance Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the state compliance requirements referred to above that could have a direct and material effect on a state compliance requirement occurred. An audit includes examining, on a test basis, evidence about Utah Arts Academy’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 state compliance requirement referred to above. However, our audit does not provide a legal determination of Utah Arts Academy’s compliance with those requirements.

### ***Opinion on Compliance***

In our opinion, Utah Arts Academy complied, in all material respects, with the state compliance requirements referred to above for the year ended June 30, 2022.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the *State Compliance Audit Guide* and which are described in the findings and recommendations letter as items 2022-001 and 2021-001. Our opinion on compliance is not modified with respect to these matters.

The School's response to the noncompliance findings identified in our audit is described in the accompanying response to findings letter. The School's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report On Internal Control over Compliance**

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the state compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the state compliance requirements referred to above to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance with those state compliance requirements and to test and report on internal control over compliance in accordance with the *State Compliance Audit Guide*, 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 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 to detect and correct noncompliance with a state compliance requirement 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 state compliance requirement 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 state compliance requirement 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 and compliance and the results of that testing based on the requirements of the *State Compliance Audit Guide*. Accordingly, this report is not suitable for any other purpose.

*HintonBurdick, PLLC*

HintonBurdick, PLLC  
St. George, Utah  
September 26, 2022





**Findings and Recommendations  
For the Fiscal Year Ended June 30, 2022**

Board of Directors  
Utah Arts Academy  
St. George, UT

Professional standards require that we communicate, in writing; deficiencies in internal control over financial reporting that are considered significant deficiencies or material weaknesses that are identified during the audit of the financial statements. During our audit of Utah Arts Academy for the fiscal year ended June 30, 2022, we noted a few areas that, if improved, would strengthen the School's accounting system and control over its assets. These items are discussed below for your consideration.

**INTERNAL CONTROL OVER FINANCIAL REPORTING:**

**Material Weaknesses:**

None noted

**Significant Deficiencies:**

None noted

**COMPLIANCE AND OTHER MATTERS:**

**Compliance:**

2022-001      Fund Balance

*Criteria:* Per the Utah Code 11-13-512, the maximum unrestricted general fund balance may not exceed 35% of the total general fund revenues.

*Condition:* The ending unrestricted fund balance exceeded this maximum limit.

*Cause:* The School has not designed and implemented controls to ensure the unrestricted fund balance stays bellowed the maximum limit.

*Effect:* The School has excess unrestricted fund balance.

*Recommendation:* We recommend that the School design and implement controls to ensure the unrestricted fund balance stays bellowed the maximum limit.

2021-001      Cash Management

*Criteria:* Per the State Money Management Act, cash and check receipts should be deposited within 3 business days of being received.

*Condition:* Receipts were not being made within 3 business days of being received.

*Cause:* The School has not designed and implemented controls to ensure deposits are being made within 3 business days in accordance with the Money Management Act.

*Effect:* Holding cash and checks allows for greater opportunity for theft or misplacement.

*Recommendation:* We recommend that the School design and implement controls to ensure receipts are being deposited within 3 business days of being received.

**Other Matters:**

None noted

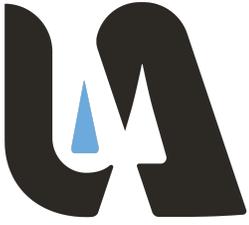
This report is intended solely for the information and use of management and various state and federal agencies, and is not intended to be and should not be used by anyone other than these specified parties.

It has been a pleasure to be of service to the School. We invite you to ask questions of us throughout the year as you feel necessary. We look forward to a continued professional relationship.

Sincerely,

*HintonBurdick, PLLC*

HintonBurdick, PLLC  
September 26, 2022



October 10, 2022

SUBJECT: Response to FY22 Audit Findings

We acknowledge the audit findings of Utah Arts Academy's audited financial statements for fiscal year 2022. The findings were not material weaknesses or significant deficiencies, but rather compliance issues for improving our accounting functions.

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**UTAH ARTS ACADEMY**

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435.414.4535

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Dean of Students  
[nkeith@utahartsacademy.org](mailto:nkeith@utahartsacademy.org)

**Compliance:**

**2022-001 Fund Balance**

*Criteria:* Per the Utah Code 11-13-512, the maximum unrestricted general fund balance may not exceed 35% of the total general fund revenues.

*Condition:* The ending unrestricted fund balance exceeded this maximum limit.

*Cause:* The School has not designed and implemented controls to ensure the unrestricted fund balance stays below the maximum limit.

*Effect:* The School has excess unrestricted fund balance.

*Recommendation:* We recommend that the School design and implement controls to ensure the unrestricted fund balance stays below the maximum limit.

**UAA Response:**

We will appropriate more funds to spend down our fund balance to stay in compliance. This past fiscal year we secured funding in the form of loans to assist us in paying construction costs for our new facility. We will use additional funds for construction costs, as well as pay down the principal and interest on those loans.

**2021 – 001 Cash Management**

*Criteria:* Per the State Money Management Act, cash and check receipts should be deposited within 3 business days of being received.

*Condition:* Receipts were not being made within 3 business days of being received.

*Cause:* The School has not designed and implemented controls to ensure deposits are being made within 3 business days in accordance with the Money Management Act.

*Effect:* Holding cash and checks allows for greater opportunity for theft or

misplacement.

*Recommendation:* We recommend that the School design and implement controls to ensure receipts are being deposited within 3 business days of being received.

**UAA Response:**

We have implemented the following plan to ensure cash deposits are made within three business days of being received. Every Tuesday and Thursday, regardless of the amount of cash on hand, we will make a deposit at the bank. We will create a Google calendar event for Tuesdays and Thursdays for our admin assistant and Director of Support Services, who will make the deposits. Additionally, we will create a spreadsheet with weekly updates that will be presented at each board meeting.

Sincerely,

A handwritten signature in black ink, appearing to read 'Drew Williams', with a long horizontal line extending to the right.

Drew Williams  
Executive Director