

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

FINANCIAL STATEMENTS

June 30, 2013

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School Board
Northern Colorado Academy of Arts and Knowledge
Fort Collins, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Northern Colorado Academy of Arts and Knowledge as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Northern Colorado Academy of Arts and Knowledge, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Northern Colorado Academy of Arts and Knowledge as of June 30, 2013, and the respective changes in financial position and cash flows, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The accompanying financial statements have been prepared assuming that the Northern Colorado Academy of Arts and Knowledge will continue as a going concern. As discussed in Note 8 to the financial statements, the Northern Colorado Academy of Arts and Knowledge has suffered recurring losses from operations and has a deficit net position that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to this matter are also described in Note 8. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters (Required Supplementary Information)

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information, 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 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 Matters (Other Information)

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Northern Colorado Academy of Arts and Knowledge's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling the information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Swanlund & Company LLC

October 8, 2013

Northern Colorado Academy of Arts & Knowledge

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2013

Northern Colorado Academy of Arts & Knowledge dba Ted Paul Academy of Arts and Knowledge is a K-8 Public Charter School located in Fort Collins, Colorado that began operations in the fall of 2006. This Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Northern Colorado Academy of Arts & Knowledge administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2013.

OVERVIEW OF THE FINANCIAL STATEMENTS

U.S. generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: Government-wide Financial Statements and Fund Financial Statements. For the year ended June 30, 2013, the Academy has implemented GASB 63. The intent of this change is to identify and separate out any items formerly identified as assets or liabilities that are actually deferred outflow of resources or deferred inflow of resources. For the Academy, there were no items that were considered to be deferred outflow/inflow of resources so the major change was the terminology (from Net Assets to Net Position) used to identify the residual of all other elements presented in the statement of financial position.

Fund Financial Statements:

The Academy's fund level statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

Governmental activities including the Academy's major instruction and instructional support activities are reported in the General Fund. While governmental activities consist of functions that are mostly funded by intergovernmental revenues, business type activities consist of functions that are intended to recover all or most of their costs through user fees and charges. The Academy includes the TR Paul Academy Foundation as a business type component unit in its basic financial statements as the debt service requirements of the facility financing arrangement is designed to be funded by lease payments from the Academy.

In the fund financial statement, capital assets purchased are reported as expenditures in the year of acquisition. No asset is reported on the balance sheet. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded on the balance sheet.

Government-wide Financial Statements:

The Government-wide financial statements are maintained using the "full accrual" basis. They report all of the Academy's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the Academy are reported in the Statement of Net Position of the Academy-wide financial statements.

Northern Colorado Academy of Arts & Knowledge

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2013

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

Summary of Net Position:

The following summarizes the net position at fiscal year ended June 30, 2013:

Net Position Summary

	Governmental Activities		Business-type Activities		Totals	
	2012	2013	2012	2013	2012	2013
Assets						
Current assets	\$ 366,964	\$ 293,609	\$ 174,091	\$ 104,060	\$ 541,055	\$ 397,669
Other assets	-	-	160,596	153,905	160,596	153,905
Capital assets	503,790	503,790	6,215,171	6,215,171	6,718,961	6,718,961
Less: accumulated depreciation	(291,937)	(322,373)	(645,962)	(755,280)	(937,899)	(1,077,653)
Capital assets, net book value	211,853	181,417	5,569,209	5,459,891	5,781,062	5,641,308
Total assets	<u>\$ 578,817</u>	<u>\$ 475,026</u>	<u>\$ 5,903,896</u>	<u>\$ 5,717,856</u>	<u>\$ 6,482,713</u>	<u>\$ 6,192,882</u>
Liabilities						
Current liabilities	\$ 273,580	\$ 212,822	\$ 65,975	\$ 64,925	\$ 339,555	\$ 277,747
Long-term liabilities	802,454	937,579	5,655,000	5,565,000	6,457,454	6,502,579
Total liabilities	<u>\$ 1,076,034</u>	<u>\$ 1,150,401</u>	<u>\$ 5,720,975</u>	<u>\$ 5,629,925</u>	<u>\$ 6,797,009</u>	<u>\$ 6,780,326</u>
Net position						
Net investment in capital assets	\$ 210,488	\$ 181,417	\$ 74,805	\$ 48,796	\$ 285,293	\$ 230,213
Restricted	63,000	61,000	108,116	39,135	171,116	100,135
Unrestricted	(770,705)	(917,792)	-	-	(770,705)	(917,792)
Total net assets	<u>\$ (497,217)</u>	<u>\$ (675,375)</u>	<u>\$ 182,921</u>	<u>\$ 87,931</u>	<u>\$ (314,296)</u>	<u>\$ (587,444)</u>

FINANCIAL ANALYSIS OF THE ACADEMY'S ACTIVITIES

During fiscal year ended June 30, 2013, the Academy's net position decreased by \$273,148 primarily as a result of eliminating certain student fees, suspended debt service on the Academy's note with its management company and the use of debt proceeds to fund operational costs. Except for the first year of operations, there has been a positive impact on total net position each year due to the difference between the pace capital assets are being depreciated and the pace that long term debt has been retired. Debt retirement on the Academy's note with its management company was temporarily suspended for 2011-12 and 2012-13 as discussed in the notes to the financial statements. In years with regularly scheduled debt service payments being made, a temporary timing issue will positively affect net position as long as debt service retirement outpaces depreciation. In years with suspended debt service or when that is no longer the case, we will begin to experience the negative impact of this timing issue.

Northern Colorado Academy of Arts & Knowledge

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2013

A. Results of Operations:

For the fiscal year ended June 30, 2013, the Academy wide results of operations were:

	2012		2013		2012		2013		2012		2013	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
General revenue:												
State and District aid - all sources	\$ 1,440,822	67.99%	\$ 1,585,989	76.82%	\$ -	0.00%	\$ -	0.00%	\$ 1,440,822	67.99%	\$ 1,585,989	76.82%
Other	157,012	7.41%	78,256	3.79%	25	100.00%	25	100.00%	157,037	7.41%	78,281	3.79%
Total general revenue	1,597,834	75.40%	1,664,245	80.61%	25	100.00%	25	100.00%	1,597,859	75.40%	1,664,270	80.61%
Program revenue:												
Charges for services	381,622	18.01%	303,111	14.68%	-	0.00%	-	0.00%	381,622	18.01%	303,111	14.68%
Operating grants - federal and state	139,602	6.59%	97,189	4.71%	-	0.00%	-	0.00%	139,602	6.59%	97,189	4.71%
Total program revenue	521,224	24.60%	400,300	19.39%	-	0.00%	-	0.00%	521,224	24.60%	400,300	19.39%
Total revenue	2,119,058	100.00%	2,064,545	100.00%	25	100.00%	25	100.00%	2,119,083	100.00%	2,064,570	100.00%
Expenses:												
Instruction and instructional services	923,052	52.98%	1,017,196	58.77%	-	0.00%	-	0.00%	923,052	40.86%	1,017,196	43.51%
Support services	748,416	42.95%	634,724	36.67%	-	0.00%	-	0.00%	748,416	33.13%	634,724	27.15%
Interest on long-term debt	70,922	4.07%	79,008	4.56%	-	0.00%	-	0.00%	70,922	3.14%	79,008	3.38%
Building Corporation	-	0.00%	-	0.00%	516,817	100.00%	606,790	100.00%	516,817	22.88%	606,790	25.96%
Total expenses	1,742,390	100.00%	1,730,928	100.00%	516,817	100.00%	606,790	100.00%	2,259,207	100.00%	2,337,718	100.00%
Transfers:												
Interfund Transfers	(511,562)	100.00%	(511,775)	100.00%	511,562	100.00%	511,775	100.00%	-	100.00%	-	100.00%
Increase (decrease) in net position	\$ (134,894)		\$ (178,158)		\$ (5,230)		\$ (94,990)		\$ (140,124)		\$ (273,148)	

The Academy's Board and management was able minimize the decrease in net position by identifying efficiencies that could be gained without significantly impacting programming offered to children, by seeking relief from lenders on the facility obligations of the Building Corporation and operating loan obligations with the School's management company.

B. Per Pupil Operating Revenue (PPOR), Unrestricted

The Academy's PPOR funding is determined by the following variables:

- **Per Pupil Funding:** Annually, the State and the District set the per pupil funding based on a base funding amount as adjusted by a number of factors including a cost-of-living factor and an At-Risk demographics factor. The Northern Colorado Academy of Arts & Knowledge PPOR was \$6,144 per student for 2012-13 as compared to \$6,044 for 2011-12.
- **Student Enrollment:** The Academy's student enrollment for the fall count of 2012-13 was 279 students as compared 257 students for fall of 2011-12. To calculate total State aid to be provided by the District funded PPOR, enrollment is multiplied by the Academy's per pupil funding. It should be noted that Kindergarten students are only funded at 58% of the per pupil allocation. The funded full time equivalent (FTE) student count after adjusting out .42 FTE for each kindergarten student was 254.5 students for 2012-13 and 235.9 students for 2011-12.

Northern Colorado Academy of Arts & Knowledge

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2013

Subsequent to June 30, 2013, the fall 2013 FTE is approximately 250, a decrease of 4.5 FTE from the 2012-2013 levels.

C. Major Fund Budgetary Highlights

General Fund Operations

The Academy's only major governmental type fund is the General Fund. Revenues and other financing sources from General Fund operations were less than expenditures and other financing uses by \$18,971 for the fiscal year ended June 30, 2013. Some budgetary highlights are as follows:

Final Budget vs. Actual

<u>Fiscal Year</u>	<u>Final Budget</u>	<u>Final Actual</u>
Revenues and Other Financing Sources		
2011-2012	\$ 2,063,620	\$ 2,068,634
2012-2013	\$ 2,313,491	\$ 2,062,130
Expenditures and Other Financing Uses		
2011-2012	\$ 2,129,395	\$ 2,113,526
2012-2013	\$ 2,305,524	\$ 2,081,101

Original vs. Final Budget

As a matter of practice, Northern Colorado Academy of Arts & Knowledge amends its budget periodically as needed during the school year. The May 2013 budget amendment was the final budget for the fiscal year. The Northern Colorado Academy of Arts & Knowledge Board does not budget for expenditures covered by grants or for the grant revenue until an award allocation is received. The General Fund does not budget for debt financed capital outlays, if applicable, in the original budget.

Change from Original to Final General Fund Budget

Revenues and Other Financing Sources:

Total Revenues Original Budget	\$ 2,350,479
Total Revenues Final Budget	<u>2,313,491</u>
Decrease in Budgeted Revenues	<u>\$ 36,988</u>

The Academy's final General Fund revenues were less than the final budget by \$ 251,361, a variance of 10.9%. The variance was primarily related to different solutions being finalized than originally planned to overcome the shortfall of revenues compared to expenditures.

Northern Colorado Academy of Arts & Knowledge

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2013

The following are the significant changes in revenues from the original budget:

- Original budget had estimated a funded FTE of 265 students and fall 2012 actual funded FTE was 254.5.
- Certain funding levels were adjusted from preliminary estimates to actual amounts announced by the Colorado Department of Education.
- Use of replacement reserve to fund certain expenditures not included in original budget.

Expenditures and Other Financing Uses:

The Academy's budget for expenditures changed as follows during the year:

Total Expenditures Original Budget	\$ 2,382,096
Total Expenditures Final Budget	<u>2,305,524</u>
Decrease in Budgeted Expenditures	<u>\$ 76,572</u>

The Academy's actual expenditures were less than final budget by \$224,423, a variance of 9.7%. This variance was primarily a result of savings in staffing costs, debt service and food service transfers that were captured and different solutions being finalized than originally planned to overcome the shortfall of revenues compared to expenditures.

The following are the significant changes in expenditures from the original budget:

- Adjustment in staffing costs to reflect actual enrollment and actual benefit premiums.
- Adjustment for purchased services costs that were a function of revenues.

D. Non-major Fund Highlights

Activities of the Academy's non-major fund include certain transactions that the Academy has either elected to or is required to account for separately from the Academy's General Fund. These activities include revenues and corresponding uses of the food service program.

CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

The Academy's investment in capital assets decreased by \$139,754 during the fiscal year. This can be summarized as follows:

Northern Colorado Academy of Arts & Knowledge

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2013

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets	\$ 6,718,961	\$ -	\$ -	\$ 6,718,961
Less: accumulated depreciation	(937,899)	(139,754)	-	(1,077,653)
Investment in capital assets	<u>\$ 5,781,062</u>	<u>\$ (139,754)</u>	<u>\$ -</u>	<u>\$ 5,641,308</u>

For more information on capital assets, refer to Note 4 in the basic financial statements.

B. Depreciation Expense

GASB 34 requires governments to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation expense is a reduction in net position in the entity wide financial statements. Depreciation is not recognized in the governmental fund financial statements and has been noted as a reconciling item in the Academy's financial statements.

For fiscal year ended June 30, 2013, the net increase in accumulated depreciation was \$139,754 and an increase in accumulated amortization of deferred acquisition costs of \$6,691.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of assets. In accordance with U.S. generally accepted accounting principles (GAAP), depreciation expense is recorded based on the original cost of the asset, less an estimated salvage value. Amortization is recorded on a straight-line basis over the life of the related asset.

C. Debt, Principal Payments

In prior fiscal years, the Academy entered into capital lease financing arrangements to fund acquisition of the furniture and equipment used in the academic program. The Academy's building company component unit also issued debt to fund the acquisition and construction of the facility being used. During the fiscal year ended June 30, 2009, the Academy and its management company agreed to amend the terms of \$592,500 of outstanding long term obligations and \$469,415 of current obligations to allow the Academy to fix a formerly variable rate of interest, extend the repayment of those obligations over a 7 year period and set aside sufficient cash flow to meet reserve requirements under TABOR. During 2012-13 the Academy negotiated a deferral of certain debt service obligations to its management company until the end of the scheduled debt service and a fee reduction in the amount of \$70,000 to provide financial relief to help weather the financial challenges that occurred in 2012-13. This resulted in the addition of \$136,490 to the outstanding principal balance of the operating loan in 2012-13.

Northern Colorado Academy of Arts & Knowledge

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2013

A summary of long-term debt service activities is as follows.

	Balance 6/30/2012	New Financings	Principal Payments	Balance 6/30/2013
Capital leases	\$ 1,365	\$ -	\$ 1,365	\$ -
Operating loan	801,089	136,490	-	937,579
Facility bond	5,655,000	-	90,000	5,565,000
Total	<u>\$ 6,496,366</u>	<u>\$ 136,490</u>	<u>\$ 91,365</u>	<u>\$ 6,541,491</u>

For more information on outstanding debt issues, refer to Note 5 in the basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Preliminary Budget for the 2013-14 Fiscal Year was adopted by the Board of Directors in May 2013. The Board is working on a revision to the original budget and expects to complete that work in November 2013. Few definite factors were known as the original budget was being drafted, and others were unknown and needed to be projected with management's best estimates based on feedback from the funding sources and the community. The following assumptions have been incorporated in the Preliminary 2013-14 Board budget:

- PPOR funding had been estimated to be \$6,329 per pupil;
- Enrollment of 307 students in grades k-8 with a funded FTE of 286.5;
- Teaching staff, at a maximum, would provide one teacher for every 25 students;
- Benefit costs would be based on group coverage rates through same providers Academy used in FY 2012-13.

CONTACTING THE ACADEMY'S MANAGEMENT

This financial report is designed to provide local residents and taxpayers with a general overview of the Academy's finances. If you have questions about this report or need additional information, contact the Administration Office, Northern Colorado Academy of Arts & Knowledge, 4512 McMurphy Dr., Fort Collins, Colorado.

BASIC FINANCIAL STATEMENTS

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

STATEMENT OF NET POSITION

June 30, 2013

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS
ASSETS			
Cash	\$ 252,943	\$ -	\$ 252,943
Restricted Investments	-	104,060	104,060
Accounts Receivable	25,698	-	25,698
Grants Receivable	5,434	-	5,434
Prepaid Expenses	9,534	-	9,534
Loan Issuance Costs, Net of Accumulated Amortization	-	153,905	153,905
Capital Assets, Not Being Depreciated	-	1,000,000	1,000,000
Capital Assets, Net of Accumulated Depreciation	181,417	4,459,891	4,641,308
 TOTAL ASSETS	 475,026	 5,717,856	 6,192,882
LIABILITIES			
Accounts Payable	124,606	-	124,606
Accrued Liabilities	34,516	-	34,516
Accrued Salaries and Benefits	53,700	-	53,700
Accrued Interest Payable	-	64,925	64,925
Noncurrent Liabilities			
Due Within One Year	-	100,000	100,000
Due in More Than One Year	937,579	5,465,000	6,402,579
 TOTAL LIABILITIES	 1,150,401	 5,629,925	 6,780,326
NET ASSETS			
Net Investment in Capital Assets	181,417	48,796	230,213
Restricted for Debt Service	-	39,135	39,135
Restricted for Emergencies	61,000	-	61,000
Unrestricted	(917,792)	-	(917,792)
 TOTAL NET POSITION	 \$ (675,375)	 \$ 87,931	 \$ (587,444)

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

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES	
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
PRIMARY GOVERNMENT			
Governmental Activities			
Instruction	\$ 1,017,196	\$ 265,832	\$ 50,168
Supporting Services	634,724	37,279	47,021
Interest Expense	79,008	-	-
Total Governmental Activities	1,730,928	303,111	97,189
Business-Type Activities			
Building Corporation	606,790	-	-
Total Business-Type Activities	606,790	-	-
TOTAL PRIMARY GOVERNMENT	\$ 2,337,718	\$ 303,111	\$ 97,189
GENERAL REVENUES			
Per Pupil Revenue			
Capital Construction			
Grants and Contributions not Restricted to Specific Programs			
Investment Income			
Miscellaneous			
TRANSFERS			
TOTAL GENERAL REVENUES AND TRANSFERS			
CHANGE IN NET POSITION			
NET POSITION, Beginning			
NET POSITION, Ending			

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

NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION

GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS
\$ (701,196)	\$ -	\$ (701,196)
(550,424)	-	(550,424)
<u>(79,008)</u>	<u>-</u>	<u>(79,008)</u>
 (1,330,628)	 -	 (1,330,628)
 <u>-</u>	 <u>(606,790)</u>	 <u>(606,790)</u>
 -	 (606,790)	 (606,790)
 <u>(1,330,628)</u>	 <u>(606,790)</u>	 <u>(1,937,418)</u>
 1,563,677	 -	 1,563,677
22,312	-	22,312
 75,230	 -	 75,230
262	25	287
2,764	-	2,764
<u>(511,775)</u>	<u>511,775</u>	<u>-</u>
 1,152,470	 511,800	 1,664,270
 (178,158)	 (94,990)	 (273,148)
 <u>(497,217)</u>	 <u>182,921</u>	 <u>(314,296)</u>
\$ <u><u>(675,375)</u></u>	\$ <u><u>87,931</u></u>	\$ <u><u>(587,444)</u></u>

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013

	<u>GENERAL</u>	<u>FOOD SERVICE</u>	<u>TOTALS</u>
ASSETS			
Cash	\$ 250,050	\$ 2,893	\$ 252,943
Accounts Receivable	25,698	-	25,698
Grants Receivable	1,452	3,982	5,434
Prepaid Expenditures	<u>9,534</u>	<u>-</u>	<u>9,534</u>
TOTAL ASSETS	<u>\$ 286,734</u>	<u>\$ 6,875</u>	<u>\$ 293,609</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 124,606	\$ -	\$ 124,606
Accrued Liabilities	34,516	-	34,516
Accrued Salaries and Benefits	<u>53,700</u>	<u>-</u>	<u>53,700</u>
TOTAL LIABILITIES	<u>212,822</u>	<u>-</u>	<u>212,822</u>
FUND BALANCES			
Nonspendable Prepaid Expenditures	9,534	-	9,534
Restricted for Emergencies	61,000	-	61,000
Assigned to Food Service Operations	-	6,875	6,875
Unrestricted, Unassigned	<u>3,378</u>	<u>-</u>	<u>3,378</u>
TOTAL FUND BALANCES	<u>73,912</u>	<u>6,875</u>	<u>80,787</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 286,734</u>	<u>\$ 6,875</u>	<u>\$ 293,609</u>

Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:

Total Fund Balances of Governmental Funds	\$ 80,787
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in governmental funds.	181,417
Long-term liabilities are not due and payable in the current year and, therefore, are not reported in governmental funds.	<u>(937,579)</u>
Total Net Position of Governmental Activities	<u>\$ (675,375)</u>

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

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
 Year Ended June 30, 2013

	<u>GENERAL</u>	<u>FOOD SERVICE</u>	<u>TOTALS</u>
REVENUES			
Local Sources	\$ 1,916,556	\$ 26,367	\$ 1,942,923
State Sources	47,678	438	48,116
Federal Sources	<u>27,896</u>	<u>45,610</u>	<u>73,506</u>
 TOTAL REVENUES	 <u>1,992,130</u>	 <u>72,415</u>	 <u>2,064,545</u>
EXPENDITURES			
Current			
Instruction	1,001,793	-	1,001,793
Supporting Services	1,065,425	66,041	1,131,466
Debt Service			
Principal	1,365	-	1,365
Interest and Fees	<u>12,518</u>	<u>-</u>	<u>12,518</u>
 TOTAL EXPENDITURES	 <u>2,081,101</u>	 <u>66,041</u>	 <u>2,147,142</u>
 EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	 (88,971)	 6,374	 (82,597)
OTHER FINANCING SOURCES			
Debt Proceeds	<u>70,000</u>	<u>-</u>	<u>70,000</u>
 NET CHANGE IN FUND BALANCES	 (18,971)	 6,374	 (12,597)
FUND BALANCES, Beginning	<u>92,883</u>	<u>501</u>	<u>93,384</u>
FUND BALANCES, Ending	\$ <u><u>73,912</u></u>	\$ <u><u>6,875</u></u>	\$ <u><u>80,787</u></u>

Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

Net Change in Fund Balances of Governmental Funds	\$ (12,597)
Capital outlays to purchase or construct capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are capitalized in the statement of net position and are allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This amount represents depreciation expense in the current year.	(30,436)
Repayments of long-term debt are expenditures in governmental funds, but reduce long-term liabilities in the statement of net position and do not affect the statement of activities.	1,365
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This amount represents interest accrued on the Mosaica loan.	(66,490)
Debt proceeds are revenues in governmental funds, but are long-term liabilities in the statement of net position and do not affect the statement of activities. This amount represents debt proceeds in the current year.	<u>(70,000)</u>
Change in Net Position of Governmental Activities	\$ <u><u>(178,158)</u></u>

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

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

STATEMENT OF NET POSITION
PROPRIETARY FUND
 June 30, 2013

	<u>FOUNDATION</u>
ASSETS	
CURRENT ASSETS	
Restricted Investments	\$ <u>104,060</u>
TOTAL CURRENT ASSETS	<u>104,060</u>
NONCURRENT ASSETS	
Loan Issuance Costs, Net of Accumulated Amortization	153,905
Capital Assets, Not Being Depreciated	1,000,000
Capital Assets, Net of Accumulated Depreciation	<u>4,459,891</u>
TOTAL NONCURRENT ASSETS	<u>5,613,796</u>
TOTAL ASSETS	<u>5,717,856</u>
LIABILITIES	
CURRENT LIABILITIES	
Accrued Interest Payable	64,925
Loan Payable, Current Portion	<u>100,000</u>
TOTAL CURRENT LIABILITIES	164,925
NONCURRENT LIABILITIES	
Loan Payable	<u>5,465,000</u>
TOTAL LIABILITIES	<u>5,629,925</u>
NET POSITION	
Net Investment in Capital Assets	48,796
Restricted for Debt Service	<u>39,135</u>
TOTAL NET POSITION	\$ <u><u>87,931</u></u>

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

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
PROPRIETARY FUND
 Year Ended June 30, 2013

	<u>FOUNDATION</u>
OPERATING REVENUE	
Lease Revenue	\$ <u>511,775</u>
OPERATING EXPENSES	
Repairs and Maintenance	95,957
Depreciation	109,318
Amortization of Loan Issuance Costs	6,691
Debt Service	
Interest and Fees	<u>394,824</u>
TOTAL OPERATING EXPENSES	<u>606,790</u>
NET OPERATING INCOME (LOSS)	(95,015)
NONOPERATING REVENUES	
Investment Income	<u>25</u>
CHANGE IN NET POSITION	(94,990)
NET POSITION, Beginning	<u>182,921</u>
NET POSITION, Ending	\$ <u><u>87,931</u></u>

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

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

Year Ended June 30, 2013

Increase (Decrease) in Cash and Cash Equivalents

	<u>FOUNDATION</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Lease Payments Received	\$ 511,775
Cash Paid to Suppliers	(95,957)
Loan Interest and Fees Paid	(395,874)
Loan Principal Paid	<u>(90,000)</u>
Net Cash Used by Operating Activities	<u>(70,056)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Payments to Other Funds	<u>(4,044)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income Received	<u>25</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(74,075)
CASH AND CASH EQUIVALENTS, Beginning	<u>178,135</u>
CASH AND CASH EQUIVALENTS, Ending	<u><u>\$ 104,060</u></u>
RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES	
Net Operating Income (Loss)	\$ (95,015)
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Used by Operating Activities	
Depreciation Expense	109,318
Amortization of Loan Issuance Costs	6,691
Changes in Assets and Liabilities	
Accrued Interest Payable	(1,050)
Loan Payable	<u>(90,000)</u>
Net Cash Used by Operating Activities	<u><u>\$ (70,056)</u></u>

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

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

AGENCY FUND

June 30, 2013

	<u>STUDENT ACTIVITIES</u>
ASSETS	
Cash	\$ <u>32,836</u>
LIABILITIES	
Due to Student Groups	\$ <u>32,836</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Northern Colorado Academy of Arts and Knowledge (the “School”) was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school. In 2006, the School entered into a contract with the Colorado Charter School Institute (the “Institute”) to authorize the School’s charter. The current contract expires on June 30, 2016.

The accounting policies of the School conform to generally accepted accounting principles as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Following is a summary of the more significant policies.

Reporting Entity

The financial reporting entity consists of the School, organizations for which the School is financially accountable, and organizations that raise and hold economic resources for the direct benefit of the School. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the School. Legally separate organizations for which the School is financially accountable are considered part of the reporting entity. Financial accountability exists if the School appoints a voting majority of the organization’s governing board and is able to impose its will on the organization, or if the organization provides benefits to, or imposes financial burdens on, the School.

The School includes the T.R. Paul Academy Foundation (the “Foundation”), a Colorado non-profit corporation, within its reporting entity. The sole purpose of the Foundation is to assist and facilitate the School in accomplishing its educational mission. The Foundation is blended into the School’s financial statements as an enterprise fund, and does not issue separate financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all nonfiduciary activities of the School. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges for interfund services that are reasonably equivalent to the services provided. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to students or others who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Unrestricted revenues not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, the proprietary fund, and the fiduciary fund, even though the latter is excluded from the School’s government-wide financial statements. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as is the proprietary fund in the fund financial statements. 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 agency fund utilizes the accrual basis of accounting.

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. Available means collected within the current year or soon enough thereafter to pay liabilities of the current year, not to exceed 60 days. Intergovernmental revenues, grants, and interest associated with the current year are considered to be susceptible to accrual and so have been recognized as revenues of the current year. All other revenues are considered to be measurable and available only when cash is received by the School. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, and the unrestricted resources as they are needed.

The School reports the following major governmental and proprietary funds:

General Fund - This fund is the general operating fund of the School. It is used to account for all financial resources except those required to be accounted for in another fund.

Foundation - This fund is used to account for the financial transactions of the Foundation, primarily for capital purposes and the related debt service.

In addition, the School reports the following fund type:

Agency Fund - The Student Activities Fund is used to account for resources collected to support student activities. The School holds all resources in a purely custodial capacity.

Assets, Liabilities and Net Position/Fund Balances

Cash and Investments - Cash equivalents include investments with an original maturity of three months or less. Investments are reported at fair value.

Accounts Receivable - All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Assets, Liabilities and Net Position/Fund Balances** (Continued)

Prepaid Expenses - Certain payments to vendors reflect costs applicable to future years and are reported as prepaid expenses.

Capital Assets - Capital assets, which include property and equipment, are reported in the government-wide financial statements and the proprietary fund in the fund financial statements. Capital assets are defined by the School as assets with an initial, individual cost of \$1,500 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported on the statement of net position in the government-wide financial statements and the proprietary fund in the fund financial statements. Capital assets are depreciated using the straight-line method over the following estimated useful lives.

Building	50 years
Improvements	15 - 50 years
Furniture and Equipment	5 - 20 years

Accrued Salaries and Benefits - Salaries and retirement benefits of certain contracted instructional personnel are paid over a twelve month period from August to July, but are earned during a school year of approximately nine to ten months. The salaries and benefits earned, but unpaid, are reported as a liability of the General Fund.

Compensated Absences - Contracted personnel are allowed to accumulate unused vacation time. However, contracted personnel are not paid for the accrued vacation time upon termination of employment. Therefore, no liability has been reported in the financial statements for the accrued compensated absences.

Long-Term Debt - In the government-wide financial statements and the proprietary fund in the fund financial statements, long-term debt is reported as a liability. Debt issuance costs are deferred and amortized over the life of the debt using the straight-line method.

In the fund financial statements, governmental funds recognize the face amount of debt issued as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current expenditures.

Net Position/Fund Balances - In the government-wide and fund financial statements, net position and fund balances are restricted when constraints placed on the use of resources are externally imposed. The School Board is authorized to establish a fund balance commitment through passage of a resolution, and may assign fund balances to a specific purpose through an informal action. The School has not established a formal policy for its use of restricted and unrestricted fund balances. However, if both restricted and unrestricted fund balances are available, the School uses restricted fund balances first, followed by committed, assigned, and unassigned balances.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Risk Management**

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School carries commercial insurance for these risks of loss.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**Accountability**

At June 30, 2013, the School's governmental activities in the government-wide financial statements had a deficit net position of \$675,375, primarily as a result of recurring operating losses. The School has received operating loans from the management company to cover these losses. Management's plans to eliminate this deficit balance are described in Note 8.

Building Lease Compliance

The School is required by its building lease agreement to maintain an unrestricted working capital balance in its operating fund equal to 5% of operating expenses. At June 30, 2013, the School did not meet this requirement, which may constitute an event of default as defined in the lease agreement. In addition, the School has not deposited the required annual amount of \$25,000 to a repair and replacement account until the balance of the account equals \$200,000.

NOTE 3: CASH AND INVESTMENTS

Cash and investments at June 30, 2013, consisted of the following:

Deposits	\$ 285,779
Investments	<u>104,060</u>
Total	<u><u>\$ 389,839</u></u>

Cash and investments are reported in the financial statements as follows:

Cash	\$ 252,943
Restricted Investments	104,060
Agency Fund Cash	<u>32,836</u>
Total	<u><u>\$ 389,839</u></u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 3: CASH AND INVESTMENTS (Continued)**Deposits**

The Colorado Public Deposit Protection Act (PDPA) requires local government entities to deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. The PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At June 30, 2013, the School had bank deposits of \$72,532 collateralized with securities held by the financial institution's agent but not in the School's name.

Investments

The School is required to comply with State statutes which specify investment instruments meeting defined rating, maturity and concentration risk criteria in which local governments may invest, which include the following. State statutes do not address custodial risk.

- Obligations of the United States and certain U.S. Agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

Interest Rate Risk - State statutes generally limit investment securities to an original maturity of five years, unless the governing board authorizes the investment for a period in excess of five years.

Credit Risk - At June 30, 2013, the Foundation had \$104,060 invested in the JP Morgan Prime Money Market Fund, which was rated Aaa-mf by Moody's Investors Service.

Restricted Cash and Investments

Investments of \$104,060 have been restricted by the Foundation for future debt service.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 4: CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2013, are summarized below:

	Balances 6/30/12	Additions	Deletions	Balances 6/30/13
Governmental Activities				
Capital Assets, Being Depreciated				
Furniture and Equipment	\$ 503,790	\$ -	\$ -	\$ 503,790
Less Accumulated Depreciation				
Furniture and Equipment	(291,937)	(30,436)	-	(322,373)
Governmental Activities Capital Assets, Net	<u>\$ 211,853</u>	<u>\$ (30,436)</u>	<u>\$ -</u>	<u>\$ 181,417</u>
Business-Type Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000
Capital Assets, Being Depreciated				
Building and Improvements	5,202,684	-	-	5,202,684
Furniture and Equipment	12,487	-	-	12,487
Total Capital Assets, Being Depreciated	<u>5,215,171</u>	<u>-</u>	<u>-</u>	<u>5,215,171</u>
Less Accumulated Depreciation				
Building and Improvements	(641,713)	(108,565)	-	(750,278)
Furniture and Equipment	(4,249)	(753)	-	(5,002)
Total Accumulated Depreciation	<u>(645,962)</u>	<u>(109,318)</u>	<u>-</u>	<u>(755,280)</u>
Total Capital Assets, Being Depreciated, Net	<u>4,569,209</u>	<u>(109,318)</u>	<u>-</u>	<u>4,459,891</u>
Business-Type Activities Capital Assets, Net	<u>\$ 5,569,209</u>	<u>\$ (109,318)</u>	<u>\$ -</u>	<u>\$ 5,459,891</u>

Depreciation expense of the governmental activities was charged to programs as follows:

Instruction	\$ 15,403
Supporting Services	<u>15,033</u>
Total	<u>\$ 30,436</u>

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 5: LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended June 30, 2013:

	<u>Balances</u> <u>6/30/12</u>	<u>Additions</u>	<u>Payments</u>	<u>Balances</u> <u>6/30/13</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities					
Capital Leases	\$ 1,365	\$ -	\$ 1,365	\$ -	\$ -
Mosaica Loan	<u>801,089</u>	<u>136,490</u>	<u>-</u>	<u>937,579</u>	<u>-</u>
Total	<u>\$ 802,454</u>	<u>\$ 136,490</u>	<u>\$ 1,365</u>	<u>\$ 937,579</u>	<u>\$ 1,365</u>
Business-Type Activities					
Building Loan	<u>\$ 5,655,000</u>	<u>\$ -</u>	<u>\$ 90,000</u>	<u>\$ 5,565,000</u>	<u>\$ 100,000</u>

Capital Leases

In July 2007, the School entered into a lease agreement to purchase furniture and equipment. Terms of the agreement required monthly payments of \$600, through September 2012. Interest accrued at 8.5% per annum. Assets of \$29,277 were capitalized under this lease agreement. The lease was paid in full during the year ended June 30, 2013.

Mosaica Loan

During the year ended June 30, 2013, the School revised its loan agreement with the management company, Mosaica Education, Inc. (MEI) (See Note 6), whereby loan payments were deferred. Under the terms of the revised agreement, monthly payments of \$15,000 are required beginning on July 31, 2015, through January, 2022. During the year ended June 30, 2013, MEI loaned the School an additional \$70,000. In addition, compounding interest of \$66,490 was added to the balance of the loan. The loan accrues interest at 8% per annum, compounded monthly.

Future loan payments, including compounded interest, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ -	\$ -	\$ -
2015	102,442	77,558	180,000
2016	110,948	69,052	180,000
2017	120,155	59,845	180,000
2018	130,129	49,871	180,000
2019 - 2022	<u>551,723</u>	<u>78,277</u>	<u>630,000</u>
Total	<u>\$ 1,015,397</u>	<u>\$ 334,603</u>	<u>\$ 1,350,000</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 5: LONG-TERM DEBT (Continued)**Building Loan**

In May, 2006, the Colorado Educational and Cultural Facilities Authority (CECFA) issued \$5,965,000 Charter School Revenue Bonds, Series 2006. Bond proceeds were loaned to the Foundation under a mortgage and loan agreement to finance the purchase and finishing of the School's facilities. The School is obligated under a lease agreement to make monthly lease payments to the Foundation for using the facilities. The Foundation is required to make equal loan payments to the Trustee, for payment of the bonds. Interest accrues at 7% per annum. Interest payments are due semi-annually on May 1 and November 1. Principal payments are due annually on May 1, through 2036.

Future debt service requirements for the bonds are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 100,000	\$ 389,550	\$ 489,550
2015	105,000	382,550	487,550
2016	115,000	375,200	490,200
2017	120,000	367,150	487,150
2018	130,000	358,750	488,750
2019 - 2023	800,000	1,643,250	2,443,250
2024 - 2028	1,125,000	1,321,250	2,446,250
2029 - 2033	1,580,000	868,000	2,448,000
2034 - 2036	<u>1,490,000</u>	<u>229,950</u>	<u>1,719,950</u>
Total	<u>\$ 5,565,000</u>	<u>\$ 5,935,650</u>	<u>\$ 11,500,650</u>

NOTE 6: MANAGEMENT AGREEMENT

The School entered into a management agreement with Mosaica Education, Inc. (MEI), to provide educational and administrative services to the School through June 30, 2021, with automatic annual renewals thereafter. The teachers and staff are employees of MEI, but these costs are reported in functional categories in the financial statements for better reporting purposes. Under the terms of the agreement, the School will pay to MEI an annual fee for services performed. The fees earned for the year ended June 30, 2013, were \$94,400. These fees are net of a concession from MEI of \$70,000, which was added to the balance of the School's loan to MEI (See Note 5). At June 30, 2013, the School's balance owed to MEI, including unpaid management fees and general operating costs, totaled \$119,148. This balance is reported as a liability of the General Fund.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 7: COMMITMENTS AND CONTINGENCIES**Claims and Judgments**

The School participates in a number of federal and state programs that are fully or partially funded by revenues received from other governmental entities. Expenditures financed by these revenues are subject to audit by the appropriate government. If expenditures are disallowed due to noncompliance with program regulations, the School may be required to reimburse the other government. At June 30, 2013, significant amounts of related expenditures have not been audited but the School believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the School.

Tabor Amendment

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments. The Amendment is complex and subject to judicial interpretation. However, the School believes it is in substantial compliance with the Amendment. The Amendment requires state and local governments to establish an emergency reserve, representing 3% of qualifying expenditures. At June 30, 2013, the School's emergency reserve, in the amount of \$61,000, was reported as restricted fund balance in the General Fund.

NOTE 8: GOING CONCERN

The School has suffered recurring losses from operations and has a deficit net position that raise substantial doubt about its ability to continue as a going concern. In 2011-12, the Board and management spent considerable time and energy in re-evaluating goals and objectives, reworking the strategic planning for the School in light of declining enrollment and building action plans to stabilize enrollment and student achievement. Those action plans were put into place during 2011-12 and have resulted in a reversal of the declining enrollment trends. Throughout 2012-13, the Board has continued to focus on its goals and plans to adjust them for changing market conditions. Stability and consistency will be key to returning the School to a place of operating above breakeven levels so the Board can meet its obligations to its students, their families and the lenders that have partnered with the School to help weather the economic downturn that has dramatically affected per student funding levels from the State and the trend for parents to relocate from Fort Collins in search of work. Those partnerships have offered the School the opportunity to make progress on turning the corner and beginning to rebuild the academic programs that parents and students want and need. The current plan projects enrollment of 307 for 2013-14.

REQUIRED SUPPLEMENTARY INFORMATION

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2013

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES				
Local Sources				
Per Pupil Revenue	\$ 1,600,576	\$ 1,560,231	\$ 1,563,677	\$ 3,446
Tuition	446,443	236,202	267,802	31,600
Contributions and Donations	90,000	266,000	73,109	(192,891)
Facility Rental	5,000	5,000	8,945	3,945
Investment Income	-	120	259	139
Miscellaneous	6,000	6,000	2,764	(3,236)
Total Local Sources	2,148,019	2,073,553	1,916,556	(156,997)
State Sources				
Grants	68,418	41,710	47,678	5,968
Federal Sources				
Grants	57,149	29,760	27,896	(1,864)
TOTAL REVENUES	2,273,586	2,145,023	1,992,130	(152,893)
EXPENDITURES				
Current				
Salaries	904,913	875,012	909,145	(34,133)
Employee Benefits	200,919	197,039	205,682	(8,643)
Purchased Services	1,129,235	1,109,747	866,642	243,105
Supplies and Materials	44,884	49,084	79,303	(30,219)
Miscellaneous	7,852	8,152	6,446	1,706
Debt Service				
Principal	-	-	1,365	(1,365)
Interest and Fees	76,893	66,490	12,518	53,972
TOTAL EXPENDITURES	2,364,696	2,305,524	2,081,101	224,423
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(91,110)	(160,501)	(88,971)	71,530
OTHER FINANCING SOURCES (USES)				
Debt Proceeds	76,893	66,490	70,000	3,510
Transfers In	-	101,978	-	(101,978)
Transfers Out	(17,400)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	59,493	168,468	70,000	(98,468)
NET CHANGE IN FUND BALANCE	(31,617)	7,967	(18,971)	(26,938)
FUND BALANCE, Beginning	31,617	-	92,883	92,883
FUND BALANCE, Ending	\$ -	\$ 7,967	\$ 73,912	\$ 65,945

See the accompanying Independent Auditors' Report.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2013

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Budgets are required by State statutes for all funds and are adopted on a basis consistent with generally accepted accounting principles.

The School adheres to the following procedures in establishing the budgetary data reflected in the financial statements.

- Management submits to the School Board a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
- Prior to June 30, the budget is adopted by the School Board.
- Expenditures may not legally exceed appropriations at the fund level. Revisions that alter the total expenditures of any fund must be approved by the School Board.
- All budgets lapse at fiscal year end.

SUPPLEMENTARY INFORMATION

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

BUDGETARY COMPARISON SCHEDULE

FOOD SERVICE FUND

Year Ended June 30, 2013

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES				
Local Sources				
Lunch Charges	\$ 34,770	\$ 33,414	\$ 26,364	\$ (7,050)
Investment Income	-	1	3	2
State Sources				
Grants	300	90	438	348
Federal Sources				
Grants	25,898	36,549	45,610	9,061
TOTAL REVENUES	60,968	70,054	72,415	2,361
EXPENDITURES				
Supporting Services				
Salaries	5,700	7,125	7,390	(265)
Employee Benefits	451	564	603	(39)
Purchased Services	66,175	54,587	52,521	2,066
Supplies and Materials	6,000	6,000	5,527	473
TOTAL EXPENDITURES	78,326	68,276	66,041	2,235
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(17,358)	1,778	6,374	4,596
OTHER FINANCING SOURCES				
Transfers In	17,400	-	-	-
NET CHANGE IN FUND BALANCE	42	1,778	6,374	4,596
FUND BALANCE, Beginning	-	-	501	501
FUND BALANCE, Ending	\$ 42	\$ 1,778	\$ 6,875	\$ 5,097

See the accompanying Independent Auditors' Report.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
STUDENT ACTIVITIES FUND
 Year Ended June 30, 2013

	BALANCES 6/30/12	ADDITIONS	DEDUCTIONS	BALANCES 6/30/13
ASSETS				
Cash	\$ <u>26,340</u>	\$ <u>34,743</u>	\$ <u>28,247</u>	\$ <u>32,836</u>
LIABILITIES				
Due to Student Groups	\$ <u>26,340</u>	\$ <u>34,743</u>	\$ <u>28,247</u>	\$ <u>32,836</u>

See the accompanying Independent Auditors' Report.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

BUDGETARY COMPARISON SCHEDULE

STUDENT ACTIVITIES FUND

Year Ended June 30, 2013

	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES			
Student Groups	\$ 42,800	\$ 34,743	\$ (8,057)
TOTAL REVENUES	42,800	34,743	(8,057)
EXPENDITURES			
Student Groups	35,800	28,247	7,553
TOTAL EXPENDITURES	35,800	28,247	7,553
NET CHANGE IN DUE TO STUDENT GROUPS	7,000	6,496	(504)
DUE TO STUDENT GROUPS, Beginning	-	26,340	26,340
DUE TO STUDENT GROUPS, Ending	\$ 7,000	\$ 32,836	\$ 25,836

See the accompanying Independent Auditors' Report.