

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

FINANCIAL STATEMENTS

June 30, 2014

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Board of Directors
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, 2014, 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, 2014, 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 Matters

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 10 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 10. 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.

As discussed in Note 9 to the financial statements, in the year ended June 30, 2014, the Northern Colorado Academy of Arts and Knowledge adopted new accounting guidance as required by Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. 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 with 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.



October 13, 2014

Northern Colorado Academy of Arts & Knowledge dba T.R. 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 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, 2014.

OVERVIEW OF THE FINANCIAL STATEMENTS

U.S. generally accepted accounting principles (GAAP) requires the reporting of two types of financial statements: Government-wide Financial Statements and Governmental Fund Financial Statements. For the year ending June 30, 2014, the Academy has implemented GASB 65. The intent of this change is to reclassify certain items being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. For the Academy, this was the removal of the loan issuance costs capitalized in previous years.

Fund Financial Statements:

The governmental 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 T.R. Paul Academy Foundation as a business type component unit in its fund 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 governmental fund financial statements, 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 financing source. 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 current and long term, regardless if they are "currently available" or not. For example, capital assets and long-term obligations of the Academy are reported in the Statement of Net Position of the Government-wide financial statements.

Northern Colorado Academy of Art & Knowledge
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2014

Net Position Summary

	Governmental Activities		Business-type Activities		Totals	
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
Assets						
Current assets	\$293,609	\$148,414	\$104,060	\$103,560	\$397,669	\$251,974
Capital assets	503,790	503,790	6,215,171	6,215,171	6,718,961	6,718,961
Less: accumulated depreciation	<u>(322,373)</u>	<u>(344,451)</u>	<u>(755,280)</u>	<u>(864,598)</u>	<u>(1,077,653)</u>	<u>(1,209,049)</u>
Capital assets, net book value	181,417	159,339	5,459,891	5,350,573	5,641,308	5,509,912
Total assets	<u><u>\$475,026</u></u>	<u><u>\$307,753</u></u>	<u><u>\$5,563,951</u></u>	<u><u>\$5,454,133</u></u>	<u><u>\$6,038,977</u></u>	<u><u>\$5,761,886</u></u>
Liabilities						
Current liabilities	\$212,822	\$316,142	\$164,925	\$168,925	\$377,747	\$485,067
Long-term liabilities	937,579	912,955	5,465,000	5,360,000	6,402,579	6,272,955
Total liabilities	<u><u>\$1,150,401</u></u>	<u><u>\$1,229,097</u></u>	<u><u>\$5,629,925</u></u>	<u><u>\$5,528,925</u></u>	<u><u>\$6,780,326</u></u>	<u><u>\$6,758,022</u></u>
Net position						
Net investment (deficit) in capital assets	\$181,417	\$159,339	(\$105,109)	(\$114,427)	\$76,308	\$44,912
Restricted	61,000	63,000	39,135	39,635	100,135	102,635
Unrestricted	<u>(917,792)</u>	<u>(1,143,683)</u>	<u>0</u>	<u>0</u>	<u>(917,792)</u>	<u>(1,143,683)</u>
Total net position	<u><u>(\$675,375)</u></u>	<u><u>(\$921,344)</u></u>	<u><u>(\$65,974)</u></u>	<u><u>(\$74,792)</u></u>	<u><u>(\$741,349)</u></u>	<u><u>(\$996,136)</u></u>

Northern Colorado Academy of Art & Knowledge
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2014

FINANCIAL ANALYSIS OF THE ACADEMY'S ACTIVITIES

During fiscal year ended June 30, 2014, the Academy's net position decreased by \$408,692 as compared to a decrease of \$273,148 in the prior fiscal year ending June 30, 2013. This decrease is primarily due to the change in accounting standards referred to above as well as the use of fund balance to fund operational costs. There has been a negative impact on total net position 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 and will resume in the 2014-2015 fiscal year.

A. Results of Operations:

For the fiscal year ended June 30, 2013 and 2014, the Academy wide results of operations were:

	Governmental Activities				Business-type Activities				Total			
	2013		2014		2013		2014		2013		2014	
	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	\$1,585,989	76.82%	\$1,594,084	74.53%		0.00%		0.00%	\$1,585,989	76.82%	\$1,594,084	74.53%
Other	78,256	3.79%	72,595	3.39%	25	100.00%	17	100.00%	78,281	3.79%	72,612	3.39%
Total general revenue	1,664,245	80.61%	1,666,679	77.92%	25	100.00%	17	100.00%	1,664,270	80.61%	1,666,696	77.92%
Program revenue:												
Charges for services	303,111	14.68%	324,131	15.15%		0.00%		0.00%	303,111	14.68%	324,131	15.15%
Operating grants - federal and state	97,189	4.71%	148,100	6.92%		0.00%		0.00%	97,189	4.71%	148,100	6.92%
Total program revenue	400,300	19.39%	472,231	22.08%	0	0.00%	0	0.00%	400,300	19.39%	472,231	22.08%
Total revenue	2,064,545	100.00%	2,138,910	100.00%	25	100.00%	17	100.00%	2,064,570	100.00%	2,138,927	100.00%
Expenses:												
Instruction and instructional services	1,017,196	58.77%	1,062,147	56.03%		0.00%		0.00%	1,017,196	43.64%	1,062,147	44.37%
Support services	634,724	36.67%	695,308	36.68%		0.00%		0.00%	634,724	27.23%	695,308	29.05%
Interest on long-term debt	79,008	4.56%	77,818	4.10%		0.00%		0.00%	79,008	3.39%	77,818	3.25%
Food Service			60,556	3.19%								
Building Corporation	0	0.00%	0	0.00%	600,099	100.00%	497,885	100.00%	600,099	25.74%	497,885	20.80%
Total expenses	1,730,928	100.00%	1,895,829	100.00%	600,099	100.00%	497,885	100.00%	2,331,027	100.00%	2,393,714	100.00%
Transfers:												
Interfund Transfers	(511,775)	100.00%	(489,050)		511,775		489,050					
Increase (decrease) in net position	<u>(\$178,158)</u>		<u>(\$245,969)</u>		<u>(\$88,299)</u>		<u>(\$8,818)</u>		<u>(\$266,457)</u>		<u>(\$254,787)</u>	

B. Per Pupil Revenue (PPR)

The Academy's PPR 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 PPR was \$6,146 per student for the 2012-13 school year and \$6,201 for the 2013-14 school year.

Student Enrollment: The Academy's funded student enrollment count for the fall of 2012-13 was 289 students compared to 279 students for the fall of 2013-14. To calculate total state aid to be provided by the District funded PPR, 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 251.6 for 2013-14.

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 \$146,073 for the fiscal year ended June 30, 2014. 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		
2012-2013	2,313,491	2,062,130
2013-2014	2,139,324	2,138,910
Expenditures and Other Financing Sources		
2012-2013	2,305,524	2,081,101
2013-2014	2,515,079	2,284,983

Northern Colorado Academy of Art & Knowledge
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2014

Original vs. Final Budget

As a matter of practice, the Academy amends its budget periodically as needed during the school year. For the fiscal year 2013-14, the budget was amended January 2014. The January 2014 budget amendment was the final budget for the fiscal year. The Academy Board does not budget for expenditures covered by grants or 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.

Changes from Original to Final General Budget

Revenues:

Total Revenues Original Budget	\$2,329,270
Total Revenues Final Budget	<u>2,067,316</u>
Decrease in Budgeted Revenues	<u><u>(\$261,954)</u></u>

The Academy's final general fund revenues were greater than the final budget by \$ 71,594 a variance of 3.46%.

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

Certain funding levels were adjusted from preliminary estimates to actual amounts announced by the Colorado Department of Education.

Expenditures:

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

Total Expenditures Original Budget	\$2,368,929
Total Expenditures Final Budget	<u>2,490,079</u>
Increase in Budgeted Expenditures	<u><u>(\$121,150)</u></u>

The Academy's actual expenditures were less than final budget by \$ 205,096 a variance of 8.24%. This variance was primarily a result of budgeting for debt payments that were not required to be made.

The following was the most significant changes in expenditures from the original budget:

Adjustment in staffing costs to reflect actual enrollment.

Subtraction for debt principal payments that were not required to be made.

D. Non-major Fund Highlights

The Academy reported the Food Service Fund in past fiscal years but merged these activities with the General Fund.

CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

The Academy's net investment in capital assets decreased by \$ 131,396 during the fiscal year. This can be summarized as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Depreciable capital assets	6,718,961			6,718,961
Less: Accumulated depreciation	<u>(1,077,653)</u>	<u>(131,396)</u>		<u>(1,209,049)</u>
Net investments in capital assets	<u>\$5,641,308</u>	<u>(\$131,396)</u>	<u>\$0</u>	<u>\$5,509,912</u>

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

B. Depreciation Expense

GAAP requires governmental entities 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 governmental-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 the fiscal year ended June 30, 2014, the net increase in accumulated depreciation was \$131,396.

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.

C. Debt, Principal Payments

In prior fiscal years, the Foundation component unit 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 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 additional \$136,490 to the outstanding principal balance of the operating loan in 2012-13. New financings of \$77,818 represent the accrued interests related to the deferred note payments to the management company. A summary of long-term debt activities is as follows.

	Balance 6/30/2013	New Financings	Principal Payments	Balance 6/30/2014
Operation Loan	\$937,579	\$77,818	\$0	\$1,015,397
Facility Bond	5,565,000		100,000	\$5,465,000
Total	<u>\$6,502,579</u>	<u>\$77,818</u>	<u>\$100,000</u>	<u>\$6,480,397</u>

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

ECONOMIC FACTORS AND NEXT'S YEAR BUDGET

The Preliminary Budget for the 2014-15 Fiscal Year was adopted by the Board of Directors in May 2014. Few definite factors were known as the budget was being drafted, and others were unknown and needed to be projected with management's best estimates based on feedback from the State, the District and the community.

Northern Colorado Academy of Art & Knowledge
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2014

Some key factors and estimates used in the 2014-15 preliminary budget process include:

- The Academy's PPR funding had been estimated to be \$ 6,209 per pupil;
- Enrollment projections of 261 students in grades K-5 with a funded FTE of 232;
- Teaching staff, at maximum, would provide one teacher for every 25 students;
- Benefit costs would be based on group coverage rates through same providers the Academy used in FY 2013-14.

CONTACTING THE ACADEMY'S MANAGEMENT

This financial report is designed to provide our citizens 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 McMurry Dr., Fort Collins, Colorado.

BASIC FINANCIAL STATEMENTS

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

STATEMENT OF NET POSITION

June 30, 2014

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS
ASSETS			
Cash	\$ 87,443	\$ -	\$ 87,443
Restricted Investments	-	103,560	103,560
Accounts Receivable	21,131	-	21,131
Grants Receivable	31,356	-	31,356
Prepaid Expenses	8,484	-	8,484
Capital Assets, Not Being Depreciated	-	1,000,000	1,000,000
Capital Assets, Net of Accumulated Depreciation	159,339	4,350,573	4,509,912
TOTAL ASSETS	307,753	5,454,133	5,761,886
LIABILITIES			
Accounts Payable	122,582	-	122,582
Accrued Liabilities	32,773	-	32,773
Accrued Salaries and Benefits	54,127	-	54,127
Accrued Interest Payable	-	63,925	63,925
Unearned Revenues	4,218	-	4,218
Noncurrent Liabilities			
Due Within One Year	102,442	105,000	207,442
Due in More Than One Year	912,955	5,360,000	6,272,955
TOTAL LIABILITIES	1,229,097	5,528,925	6,758,022
NET ASSETS			
Net Investment in Capital Assets	159,339	(114,427)	44,912
Restricted for Debt Service	-	39,635	39,635
Restricted for Emergencies	63,000	-	63,000
Unrestricted	(1,143,683)	-	(1,143,683)
TOTAL NET POSITION	\$ (921,344)	\$ (74,792)	\$ (996,136)

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, 2014

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES	
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
PRIMARY GOVERNMENT			
Governmental Activities			
Instruction	\$ 1,062,147	\$ 290,355	\$ 107,523
Supporting Services	695,308	6,486	-
Food Service	60,556	27,290	40,577
Interest on Long-Term Debt	77,818	-	-
Total Governmental Activities	1,895,829	324,131	148,100
Business-Type Activities			
Foundation	497,885	-	-
Total Business-Type Activities	497,885	-	-
TOTAL PRIMARY GOVERNMENT	\$ 2,393,714	\$ 324,131	\$ 148,100

GENERAL REVENUES

Per Pupil Revenue

At-Risk Supplemental Aid

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
\$ (664,269)	\$ -	\$ (664,269)
(688,822)	-	(688,822)
7,311	-	7,311
<u>(77,818)</u>	<u>-</u>	<u>(77,818)</u>
<u>(1,423,598)</u>	<u>-</u>	<u>(1,345,780)</u>
<u>-</u>	<u>(497,885)</u>	<u>(497,885)</u>
<u>-</u>	<u>(497,885)</u>	<u>(497,885)</u>
<u>(1,423,598)</u>	<u>(497,885)</u>	<u>(1,843,665)</u>
1,559,749	-	1,559,749
10,458	-	10,458
23,877	-	23,877
43,024	-	43,024
61	17	78
29,510	-	29,510
<u>(489,050)</u>	<u>489,050</u>	<u>-</u>
<u>1,177,629</u>	<u>489,067</u>	<u>1,666,696</u>
(245,969)	(8,818)	(254,787)
<u>(675,375)</u>	<u>(65,974)</u>	<u>(741,349)</u>
\$ <u><u>(921,344)</u></u>	\$ <u><u>(74,792)</u></u>	\$ <u><u>(996,136)</u></u>

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2014

	<u>GENERAL</u>
ASSETS	
Cash	\$ 87,443
Accounts Receivable	21,131
Grants Receivable	31,356
Prepaid Expenditures	<u>8,484</u>
TOTAL ASSETS	\$ <u>148,414</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 122,582
Accrued Liabilities	32,773
Accrued Salaries and Benefits	54,127
Unearned Revenues	<u>4,218</u>
TOTAL LIABILITIES	<u>213,700</u>
FUND BALANCE	
Nonspendable Prepaid Expenditures	8,484
Restricted for Emergencies	63,000
Unrestricted, Unassigned	<u>(136,770)</u>
TOTAL FUND BALANCE	<u>(65,286)</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ <u>148,414</u>

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

Total Fund Balance of the Governmental Fund	\$ (65,286)
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in governmental funds.	159,339
Long-term liabilities are not due and payable in the current year and, therefore, are not reported in governmental funds.	<u>(1,015,397)</u>
Total Net Position of Governmental Activities	\$ <u>(921,344)</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 BALANCE
GOVERNMENTAL FUND
 Year Ended June 30, 2014

	<u>GENERAL</u>
REVENUES	
Local Sources	\$ 1,956,373
State Sources	75,881
Federal Sources	<u>106,656</u>
TOTAL REVENUES	<u>2,138,910</u>
EXPENDITURES	
Instruction	1,055,102
Supporting Services	1,169,325
Food Service	<u>60,556</u>
TOTAL EXPENDITURES	<u>2,284,983</u>
NET CHANGE IN FUND BALANCE	(146,073)
FUND BALANCE, Beginning	<u>80,787</u>
FUND BALANCE, Ending	<u><u>\$ (65,286)</u></u>

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

Net Change in Fund Balance of the Governmental Fund	\$ (146,073)
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.	(22,078)
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 accrued interest in the current year.	<u>(77,818)</u>
Change in Net Position of Governmental Activities	<u><u>\$ (245,969)</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, 2014

	<u>FOUNDATION</u>
ASSETS	
CURRENT ASSETS	
Restricted Investments	\$ <u>103,560</u>
TOTAL CURRENT ASSETS	<u>103,560</u>
NONCURRENT ASSETS	
Capital Assets, Not Being Depreciated	1,000,000
Capital Assets, Net of Accumulated Depreciation	<u>4,350,573</u>
TOTAL NONCURRENT ASSETS	<u>5,350,573</u>
TOTAL ASSETS	<u>5,454,133</u>
LIABILITIES	
CURRENT LIABILITIES	
Accrued Interest Payable	63,925
Loan Payable, Current Portion	<u>105,000</u>
TOTAL CURRENT LIABILITIES	168,925
NONCURRENT LIABILITIES	
Loan Payable	<u>5,360,000</u>
TOTAL LIABILITIES	<u>5,528,925</u>
NET POSITION	
Net Investment in Capital Assets	(114,427)
Restricted for Debt Service	<u>39,635</u>
TOTAL NET POSITION	\$ <u><u>(74,792)</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, 2014

	<u>FOUNDATION</u>
OPERATING REVENUE	
Lease Revenue	\$ <u>489,050</u>
OPERATING EXPENSES	
Depreciation	109,318
Debt Service	
Interest and Fees	<u>388,567</u>
TOTAL OPERATING EXPENSES	<u>497,885</u>
NET OPERATING INCOME (LOSS)	(8,835)
NONOPERATING REVENUES	
Investment Income	<u>17</u>
CHANGE IN NET POSITION	(8,818)
NET POSITION, Beginning	<u>(65,974)</u>
NET POSITION, Ending	\$ <u><u>(74,792)</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

Increase (Decrease) in Cash and Cash Equivalents
Year Ended June 30, 2014

	<u>FOUNDATION</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Lease Payments Received	\$ 489,050
Loan Interest and Fees Paid	(389,567)
Loan Principal Paid	<u>(100,000)</u>
Net Cash Provided (Used) by Operating Activities	<u>(517)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income Received	<u>17</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(500)
CASH AND CASH EQUIVALENTS, Beginning	<u>104,060</u>
CASH AND CASH EQUIVALENTS, Ending	<u>\$ 103,560</u>
RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Net Operating Income (Loss)	\$ (8,835)
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Depreciation Expense	109,318
Changes in Assets and Liabilities	
Accrued Interest Payable	(1,000)
Loan Payable	<u>(100,000)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (517)</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, 2014

	<u>STUDENT ACTIVITIES</u>
ASSETS	
Cash	\$ <u>26,712</u>
LIABILITIES	
Due to Student Groups	\$ <u>26,712</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Northern Colorado Academy of Arts and Knowledge d/b/a/ T.R. Paul 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 the governmental fund, 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, 2014

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 a specific 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 currently used to account for all financial activities of the School.

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 Balance

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

Receivables - 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, 2014

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

Unearned Revenues - Unearned revenues include grants received before the eligibility requirements specified by the provider have been met.

Long-Term Debt - In the government-wide financial statements and the proprietary fund in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net position. 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 debt proceeds, are reported as current expenses or expenditures.

Net Position/Fund Balance - In the government-wide and fund financial statements, net position and fund balance are restricted when constraints placed on the use of resources are externally imposed. The Board of Directors 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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

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 for a specific purpose, the School uses restricted fund balances first, followed by committed, assigned, and unassigned balances.

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 purchases commercial insurance for these risks of loss.

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

At June 30, 2014, the School's governmental activities in the government-wide financial statements and the General Fund in the fund financial statements had a deficit net position and fund balance of \$921,344 and \$65,286, respectively, 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 these deficit balances are described in Note 10.

At June 30, 2014, the Foundation had a negative net position of \$74,792. Management expects this negative balance to be eliminated as the Foundation's debt is paid.

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, 2014, 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, 2014, consisted of the following:

Deposits	\$ 114,155
Investments	<u>103,560</u>
Total	<u><u>\$ 217,715</u></u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 3: CASH AND INVESTMENTS (Continued)

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

Cash	\$ 87,443
Restricted Investments	103,560
Agency Fund Cash	<u>26,712</u>
Total	<u>\$ 217,715</u>

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.

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, 2014, the Foundation had \$103,560 invested in the JP Morgan Prime Money Market Fund, which was rated Aaa-mf by Moody's Investors Service.

Restricted Cash and Investments

At June 30, 2014, investments of \$103,560 have been restricted by the Foundation for future debt service.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 4: CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2014, are summarized below:

	Balances 6/30/13	Additions	Deletions	Balances 6/30/14
Governmental Activities				
Capital Assets, Being Depreciated				
Furniture and Equipment	\$ 503,790	\$ -	\$ -	\$ 503,790
Accumulated Depreciation	<u>(322,373)</u>	<u>(22,078)</u>	<u>-</u>	<u>(344,451)</u>
Governmental Activities Capital Assets, Net	<u>\$ 181,417</u>	<u>\$ (22,078)</u>	<u>\$ -</u>	<u>\$ 159,339</u>
Business-Type Activities				
Capital Assets, Not Being Depreciated				
Land	<u>\$ 1,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,000,000</u>
Capital Assets, Being Depreciated				
Building and Improvements	5,202,684	-	-	5,202,684
Furniture and Equipment	<u>12,487</u>	<u>-</u>	<u>-</u>	<u>12,487</u>
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	(750,278)	(108,565)	-	(858,843)
Furniture and Equipment	<u>(5,002)</u>	<u>(753)</u>	<u>-</u>	<u>(5,755)</u>
Total Accumulated Depreciation	<u>(755,280)</u>	<u>(109,318)</u>	<u>-</u>	<u>(864,598)</u>
Total Capital Assets, Being Depreciated, Net	<u>4,459,891</u>	<u>(109,318)</u>	<u>-</u>	<u>4,350,573</u>
Business-Type Activities Capital Assets, Net	<u>\$ 5,459,891</u>	<u>\$ (109,318)</u>	<u>\$ -</u>	<u>\$ 5,350,573</u>

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

Instruction	\$ 7,045
Supporting Services	<u>15,033</u>
Total	<u>\$ 22,078</u>

NOTE 5: LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended June 30, 2014:

	Balances 6/30/13	Additions	Payments	Balances 6/30/14	Due Within One Year
Governmental Activities					
Mosaica Loan	<u>\$ 937,579</u>	<u>\$ 77,818</u>	<u>\$ -</u>	<u>\$ 1,015,397</u>	<u>\$ 102,442</u>
Business-Type Activities					
Building Loan	<u>\$ 5,565,000</u>	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ 5,465,000</u>	<u>\$ 105,000</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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

During the year ended June 30, 2013, the School revised its loan agreement with the management company, Mosaica Education, Inc. (MEI), whereby loan payments were deferred. Under the terms of the revised agreement, monthly payments of \$15,000 are required beginning on July 31, 2014, through January, 2022. During the year ended June 30, 2014, accrued interest of \$77,818 was added to the balance of the loan, and will be deferred to the end of the amortization schedule. 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>
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	140,928	39,072	180,000
2020 - 2022	<u>410,795</u>	<u>44,405</u>	<u>455,200</u>
Total	<u>\$ 1,015,397</u>	<u>\$ 339,803</u>	<u>\$ 1,355,200</u>

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>
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	140,000	349,650	489,650
2020 - 2024	855,000	1,587,250	2,442,250
2025 - 2029	1,205,000	1,242,500	2,447,500
2030 - 2034	1,690,000	757,400	2,447,400
2035 - 2036	<u>1,105,000</u>	<u>125,650</u>	<u>1,230,650</u>
Total	<u>\$ 5,465,000</u>	<u>\$ 5,546,100</u>	<u>\$ 11,011,100</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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, 2014, were \$165,917. At June 30, 2014, the School's balance owed to MEI, including unpaid management fees and general operating costs, totaled \$96,126. This balance is reported as a liability of the General Fund.

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, 2014, significant amounts of related expenditures have not been audited but management 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 requires state and local governments to establish an emergency reserve, representing 3% of qualifying expenditures. At June 30, 2014, the School's emergency reserve, in the amount of \$63,000, was reported as restricted fund balance in the General Fund. However, the General Fund did not have adequate fund balance to establish this reserve.

NOTE 8: FUND MERGER

Effective July 1, 2013, the School merged the Food Service Fund into the General Fund for reporting purposes. As a result of this merger, beginning fund balances were restated, as follows.

	<u>General</u>	<u>Food Service</u>
Fund Balances, June 30, 2013, as Originally Stated	\$ 73,912	\$ 6,875
Merger	<u>6,875</u>	<u>(6,875)</u>
Fund Balances, June 30, 2013, as Restated	<u><u>\$ 80,787</u></u>	<u><u>\$ -</u></u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 9: CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2014, the School adopted the standards of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. As a result, net position of the Foundation at June 30, 2013, was restated to remove loan issuance costs capitalized in previous years, as follows.

	<u>Foundation</u>
Net Position, June 30, 2013, as Originally Stated	\$ 87,931
Loan Issuance Costs, Net of Accumulated Amortization	<u>(153,905)</u>
Net Position, June 30, 2013, as Restated	<u><u>\$ (65,974)</u></u>

NOTE 10: 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 plans to stabilize enrollment and student achievement. Throughout 2012-13, the Board continued to focus on its goals and plans to adjust them for the 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 261 for 2014-15.

REQUIRED SUPPLEMENTARY INFORMATION

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2014

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES				
Local Sources				
Per Pupil Revenue	\$ 1,813,462	\$ 1,560,189	\$ 1,559,749	\$ (440)
Tuition	235,598	234,517	290,659	56,142
Food Service Fees	35,495	27,730	27,290	(440)
Contributions and Donations	125,500	70,000	42,922	(27,078)
Facility Rental	5,000	5,000	6,182	1,182
Investment Income	-	-	61	61
Miscellaneous	6,000	3,000	29,510	26,510
Total Local Sources	2,221,055	1,900,436	1,956,373	55,937
State Sources				
Grants	20,909	30,376	41,546	11,170
At-Risk Supplemental Aid	-	-	10,458	10,458
Capital Construction	22,191	27,361	23,877	(3,484)
Total State Sources	43,100	57,737	75,881	18,144
Federal Sources				
Grants	65,115	109,143	106,656	(2,487)
TOTAL REVENUES	2,329,270	2,067,316	2,138,910	71,594
EXPENDITURES				
Current				
Salaries	978,001	1,038,057	1,000,033	38,024
Employee Benefits	207,331	206,139	199,530	6,609
Purchased Services	1,047,140	1,039,880	969,144	70,736
Supplies and Materials	58,743	59,145	105,585	(46,440)
Miscellaneous	5,706	4,850	10,691	(5,841)
Debt Service				
Principal	-	70,000	-	70,000
Interest	72,008	72,008	-	72,008
TOTAL EXPENDITURES	2,368,929	2,490,079	2,284,983	205,096
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(39,659)	(422,763)	(146,073)	276,690
OTHER FINANCING SOURCES (USES)				
Debt Proceeds	72,008	72,008	-	(72,008)
Transfers Out	(25,000)	(25,000)	-	25,000
TOTAL OTHER FINANCING SOURCES (USES)	47,008	47,008	-	(47,008)
NET CHANGE IN FUND BALANCE	7,349	(375,755)	(146,073)	229,682
FUND BALANCE, Beginning	-	-	80,787	80,787
FUND BALANCE, Ending	\$ 7,349	\$ (375,755)	\$ (65,286)	\$ 310,469

See the accompanying Independent Auditors' Report.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2014

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 information reflected in the financial statements.

- Management submits to the Board of Directors 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 Board of Directors.
- Expenditures may not legally exceed appropriations at the fund level. Revisions that alter the total expenditures of any fund must be approved by the Board of Directors.
- All budgets lapse at fiscal year end.

Legal Compliance

For the year ended June 30, 2014, the General Fund budget approved by the Board of Directors allowed for expenditures in excess of the resources available. This may be a violation of State statutes.

SUPPLEMENTARY INFORMATION

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
STUDENT ACTIVITIES FUND
 Year Ended June 30, 2014

	BALANCES 6/30/13	ADDITIONS	DEDUCTIONS	BALANCES 6/30/14
ASSETS				
Cash	\$ <u>32,836</u>	\$ <u>34,737</u>	\$ <u>40,861</u>	\$ <u>26,712</u>
LIABILITIES				
Due to Student Groups	\$ <u>32,836</u>	\$ <u>34,737</u>	\$ <u>40,861</u>	\$ <u>26,712</u>

See the accompanying Independent Auditors' Report.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

BUDGETARY COMPARISON SCHEDULE

STUDENT ACTIVITIES FUND

Year Ended June 30, 2014

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES				
Student Groups	\$ 42,800	\$ 42,800	\$ 34,737	\$ (8,063)
TOTAL REVENUES	42,800	42,800	34,737	(8,063)
EXPENDITURES				
Student Groups	35,800	42,800	40,861	1,939
TOTAL EXPENDITURES	35,800	42,800	40,861	1,939
NET CHANGE IN DUE TO STUDENT GROUPS	7,000	-	(6,124)	(6,124)
DUE TO STUDENT GROUPS, Beginning	-	-	32,836	32,836
DUE TO STUDENT GROUPS, Ending	\$ 7,000	\$ -	\$ 26,712	\$ 26,712

See the accompanying Independent Auditors' Report.