

**NORTHERN COLORADO ACADEMY OF
ARTS AND KNOWLEDGE**

FINANCIAL STATEMENTS
With Independent Auditors' Report

For the Year Ended June 30, 2015

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
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JUNE 30, 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Northern Colorado Academy of Arts & Knowledge

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 Northern Colorado Academy of Arts & Knowledge, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 of material misstatement.

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

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

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 Northern Colorado Academy of Arts &

Knowledge, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information as 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 required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Hoelting & Company Inc.

Colorado Springs, Colorado
September 30, 2015

Northern Colorado Academy of Arts & Knowledge dba Ted Paul Academy of Arts and Knowledge is a K-5 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, 2015.

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 Governmental Fund Financial Statements.

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 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 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, 2015

Net Position Summary

	Governmental Activities		Business-type Activities		Totals	
	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>
Assets						
Current assets	\$148,414	\$285,183	\$103,560	\$98,609	\$251,974	\$383,792
Other assets	0	0	0	\$0	0	0
Capital assets	503,790	353,149	6,215,171	6,215,171	6,718,961	6,568,320
Less: accumulated depreciation	<u>(344,451)</u>	<u>(201,559)</u>	<u>(864,598)</u>	<u>(973,916)</u>	<u>(1,209,049)</u>	<u>(1,175,049)</u>
Capital assets, net book value	159,339	151,590	5,350,573	5,241,255	5,509,912	5,392,845
Total assets	<u>\$307,753</u>	<u>\$436,773</u>	<u>\$5,454,133</u>	<u>\$5,339,864</u>	<u>\$5,761,886</u>	<u>\$5,776,637</u>
Liabilities						
Current liabilities	\$213,700	\$175,195	\$168,925	\$178,925	\$382,625	\$354,120
Long-term liabilities	1,015,397	35,000	5,360,000	5,245,000	6,375,397	5,280,000
Total liabilities	<u>\$1,229,097</u>	<u>\$210,195</u>	<u>\$5,528,925</u>	<u>\$5,423,925</u>	<u>\$6,758,022</u>	<u>\$5,634,120</u>
Net position						
Net investment (deficit) in capital assets	\$159,339	\$151,590	(\$114,427)	(\$118,746)	\$44,912	\$32,844
Restricted	63,000	59,230	39,635	129,232	102,635	188,462
Unrestricted	<u>(1,143,683)</u>	<u>15,758</u>	<u>0</u>	<u>(94,548)</u>	<u>(1,143,683)</u>	<u>(78,790)</u>
Total net position	<u>(\$921,344)</u>	<u>226,578</u>	<u>(\$74,792)</u>	<u>(\$84,062)</u>	<u>(\$996,136)</u>	<u>\$142,516</u>

FINANCIAL ANALYSIS OF THE ACADEMY'S ACTIVITIES

During fiscal year ended June 30, 2015, the Academy's net position increased dramatically by \$1,138,652 as compared to a decrease of \$254,787 in the prior fiscal year ending June 30, 2014. This increase comes from two primary sources. The first is the forgiveness of a substantial amount of debt from the Academy's management company. The second source is a positive change in the net balance of the general fund. The Academy diligently managing their budget in fiscal year ended June 30, 2015 resulted in the positive net change in the general fund. Along with the forgiveness of debt the Academy is well positioned to continue to grow its net position in the coming years.

A. Results of Operations:

For the fiscal year ended June 30, 2014 and 2015, the Academy wide results of operations were:

	Governmental Activities				Business-type Activities				Total			
	2014		2015		2014		2015		2014		2015	
	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	\$1,594,084	74.53%	\$1,528,142	50.17%	0.00%	0.00%	\$1,594,084	60.66%	\$1,528,142	43.24%		
Other	72,595	3.39%	1,022,433	33.57%	489,067	100.00%	488,222	100.00%	561,662	21.37%	1,510,655	42.74%
Total general revenue	1,666,679	77.92%	2,550,575	83.73%	489,067	100.00%	488,222	100.00%	2,155,746	82.03%	3,038,797	85.98%
Program revenue:												
Charges for services	324,131	15.15%	333,615	10.95%	0.00%	0.00%	324,131	12.33%	333,615	9.44%		
Operating grants - federal and state	148,100	6.92%	161,907	5.32%	0.00%	0.00%	148,100	5.64%	161,907	4.58%		
Total program revenue	472,231	22.08%	495,522	16.27%	0	0.00%	0	0.00%	472,231	17.97%	495,522	14.02%
Total revenue	2,138,910	100.00%	3,046,097	100.00%	489,067	100.00%	488,222	100.00%	2,627,977	100.00%	3,534,319	100.00%
Expenses:												
Instruction and instructional services	1,062,147	44.54%	889,056	46.56%	0.00%	0.00%	1,062,147	36.84%	889,056	36.93%		
Support services	1,184,358	49.66%	969,750	50.78%	0.00%	0.00%	1,184,358	41.08%	969,750	40.29%		
Interest on long-term debt	77,818	3.26%	0	0.00%	0.00%	0.00%	77,818	2.70%	0	0.00%		
Food Service	60,556		50,798	2.66%								
Building Corporation	0	0.00%	0	0.00%	497,885	100.00%	497,492	100.00%	497,885	17.27%	497,492	20.67%
Total expenses	2,384,879	100.00%	1,909,604	100.00%	497,885	100.00%	497,492	100.00%	2,882,764	100.00%	2,407,096	100.00%
Increase (decrease) in net position	<u>(\$245,969)</u>		<u>\$1,136,493</u>		<u>(\$8,818)</u>		<u>(\$9,270)</u>		<u>(\$254,787)</u>		<u>\$1,127,223</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 PPOR was \$ 6,204 per student for the 2013-14 school year and \$ 6,666 for the 2014-15 school year.

Student Enrollment: The Academy's student enrollment for the fall count of the 2013-14 was 279 students as compared 251 students for the fall of 2014-15. 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 pupil allocation. The funded full time equivalent (FTE) student count after adjusting out .42 FTE for each kindergarten student was 251.6 students for 2013-14 and 223.6 for 2014-15.

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 exceeded expenditures and other financing uses by \$131,787 for the fiscal year ended June 30, 2015. 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		
2013-2014	2,067,316	2,138,910
2014-2015	2,160,851	2,030,700
Expenditures and Other Financing Sources		
2013-2014	2,490,079	2,284,983
2014-2015	2,134,351	1,898,913

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 December 2014. The December 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

Northern Colorado Academy of Art & Knowledge
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2015

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 and Other Financing Sources

Total Revenues Original Budget	\$2,364,951
Total Revenues Final Budget	<u>2,160,851</u>
Decrease in Budgeted Revenues	<u><u>\$204,100</u></u>

The Academy's final general fund revenues were less than the final budget by \$ 130,151 a variance of 6.02%.

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.

Miscellaneous Revenue was reduced.

Title I funding was removed from the budget, as the school was no longer eligible.

Expenditures and Other Financing Sources:

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

Total Expenditures Original Budget	\$2,183,439
Total Expenditures Final Budget	<u>2,134,351</u>
Decreased in Budgeted Expenditures	<u><u>\$49,088</u></u>

The Academy's actual expenditures were less than final budget by \$ 235,438 a variance of 11.03%. These variances were primarily a result of reduction of management fees payment for the 2014 – 15 school year.

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

Adjustments to the Professional Contracted Services.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

The Academy's net investment in capital assets decreased by \$ 117,067 during the fiscal year. This can be summarized as follows:

B.

	Beginning Balance	Additions	Disposals	Ending Balance
Non-Depreciable capital assets	1,000,000			1,000,000
Depreciable capital assets	5,718,961		(150,641)	5,568,320
Less: Accumulated depreciation	<u>(1,209,049)</u>	<u>(117,067)</u>	<u>150,641</u>	<u>(1,175,475)</u>
Net investments in capital assets	<u>\$5,509,912</u>	<u>(\$117,067)</u>	<u>\$0</u>	<u>\$5,392,845</u>

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

C. Depreciation Expense

GASB 34 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, 2015, the net increase in accumulated depreciation was \$ 117,067.

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.

D. Debt, Principal Payments

In prior fiscal years, the Academy's building company 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 the 2014-15 the Academy negotiated debt forgiveness with its management company of \$ 1,029,674. This resulted in the reduction of their outstanding loan to \$ 70,000. The board and Tatonka Education Service are in discussion over the remaining debt and forgiveness of the debt. The Academy did borrow another \$ 35,000 at the end of fiscal year 2014-15, which has since been repaid. A summary of long-term debt service activities is as follows.

	Balance 6/30/2014	New Financings	Principal Payments	Balance 6/30/2015
Operation Loan	\$1,015,397	\$84,277	\$1,029,674	\$70,000
Individual Loans	\$0	\$35,000		\$35,000
Facility Bond	5,465,000		105,000	\$5,360,000
Total	<u>\$6,480,397</u>	<u>\$119,277</u>	<u>\$1,134,674</u>	<u>\$5,465,000</u>

ECONOMIC FACTORS AND NEXT'S YEAR BUDGET

The Preliminary Budget for 2015-16 Fiscal Year was adopted by the Board of Directors in June 2015. 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. Some key factors and estimates used in the 2015-16 preliminary budget process include:

- The Academy's PPR funding had been estimated to be \$ 6,608 per pupil;
- Enrollment projections of 284 students in grades K-5 with a funded FTE of 256;

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Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2015

- 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 2014-15.

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, 2015

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 227,484	\$ -	\$ 227,484
Restricted cash and cash equivalents	-	129,232	129,232
Accounts receivable	23,332	-	23,332
Prepaid expenses	3,744	-	3,744
Internal balances	30,623	(30,623)	-
Capital assets, not being depreciated	-	1,000,000	1,000,000
Capital assets, net of accumulated depreciation	151,590	4,241,254	4,392,844
	<hr/>	<hr/>	<hr/>
Total assets	436,773	5,339,863	5,776,636
LIABILITIES			
Accounts payable	18,987	-	18,987
Accrued salaries and benefits	65,050	-	65,050
Payable to agency fund	15,442	-	15,442
Accrued interest payable	-	63,925	63,925
Unearned revenues	5,716	-	5,716
Long-term liabilities			
Due within one year			
Short term loans	70,000	-	70,000
Bonds payable	-	115,000	115,000
Due in more than one year			
Long term loans	35,000	-	35,000
Bonds payable	-	5,245,000	5,245,000
	<hr/>	<hr/>	<hr/>
Total liabilities	210,195	5,423,925	5,634,120
NET POSITION			
Net investment in capital assets	151,590	(118,746)	32,844
Restricted for:			
TABOR	59,230	-	59,230
Repairs and replacements	-	25,001	25,001
Debt service	-	104,231	104,231
Unrestricted	15,758	(94,548)	(78,790)
	<hr/>	<hr/>	<hr/>
Total net position (deficit)	\$ 226,578	\$ (84,062)	\$ 142,516

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

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Governmental activities:							
Instruction	\$ 889,056	\$ 333,615	\$ 161,907	\$ 37,854	\$ (355,680)	\$ -	\$ (355,680)
Supporting services							
Pupil services	55,173	-	-	-	(55,173)	-	(55,173)
Instructional staff	33,246	-	-	-	(33,246)	-	(33,246)
General administration	50,243	-	-	-	(50,243)	-	(50,243)
School administration	151,455	-	-	-	(151,455)	-	(151,455)
Business services	10,722	-	-	-	(10,722)	-	(10,722)
Operation and maintenance	613,335	-	-	-	(613,335)	-	(613,335)
Central support services	52,634	-	-	-	(52,634)	-	(52,634)
Food service	50,798	-	-	-	(50,798)	-	(50,798)
Other services	2,942	-	-	-	(2,942)	-	(2,942)
Total governmental activities	<u>1,909,604</u>	<u>333,615</u>	<u>161,907</u>	<u>37,854</u>	<u>(1,376,228)</u>		<u>(1,376,228)</u>
Business-type activities:							
Foundation	497,492	-	-	-		(497,492)	(497,492)
Total business-type activities	<u>\$ 2,407,096</u>	<u>\$ 333,615</u>	<u>\$ 161,907</u>	<u>\$ 37,854</u>		<u>(497,492)</u>	<u>(1,873,720)</u>
General revenues:							
Per pupil revenue					1,490,288	-	1,490,288
Earnings on investments					76	9	85
Other revenues					1,022,357	488,213	1,510,570
Total general revenues					<u>2,512,721</u>	<u>488,222</u>	<u>3,000,943</u>
Change in net position					<u>1,136,493</u>	<u>(9,270)</u>	<u>1,127,223</u>
Net position - beginning (deficit)					(921,344)	(74,792)	(996,136)
Prior period adjustment					11,429	-	11,429
Net position - beginning, as restated (deficit)					<u>(909,915)</u>	<u>(74,792)</u>	<u>(984,707)</u>
Net position - ending (deficit)					<u>\$ 226,578</u>	<u>\$ (84,062)</u>	<u>\$ 142,516</u>

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

**NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
BALANCE SHEET
GENERAL FUND
JUNE 30, 2015**

ASSETS

Cash and cash equivalents	\$	227,484
Accounts receivable		23,332
Due from other funds		30,623
Prepaid expenses		3,744
		37,729
 Total assets	 \$	 285,183
		285,183

LIABILITIES

Accounts payable	\$	18,987
Accrued salaries and benefits		65,050
Payable to agency fund		15,442
Short term loan payable		70,000
Unearned revenue		5,716
		175,195
 Total liabilities		 175,195
		175,195

FUND BALANCES

Nonspendable		3,744
Restricted for TABOR		59,230
Unassigned		47,014
		109,988
 Total fund balances		 109,988
		109,988

Total liabilities and fund balances	\$	285,183
		285,183

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

**NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
RECONCILIATION OF THE GENERAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2015**

Amounts reported for governmental activities in the Statement of Net Position are different because:

Total fund balances - general fund	\$ 109,988
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds, but are reported in the governmental activities of the Statement of Net Position.	151,590
Long term liabilities, including loans payable, are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.	(35,000)
Net position of governmental activities in the statement of net position	<u>\$ 226,578</u>

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

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

REVENUES	
Local sources	\$ 397,717
State sources	1,577,630
Federal sources	<u>55,353</u>
Total revenues	<u>2,030,700</u>
 EXPENDITURES	
Instruction	881,307
Pupil services	55,173
Instructional staff	33,246
General administration	50,243
School administration	151,455
Business services	10,722
Operation and maintenance	613,335
Central support services	52,634
Food Services	<u>50,798</u>
Total expenditures	<u>1,898,913</u>
Excess of Revenue over Expenditures	131,787
 OTHER FINANCING USES	
Loan proceeds	35,000
Other uses	<u>(2,942)</u>
Net change in fund balance	<u>163,845</u>
Fund balance - beginning (deficit)	(65,286)
Prior period adjustment	<u>11,429</u>
Fund balance - beginning , as restated (deficit)	<u>(53,857)</u>
Fund balance - ending	<u><u>\$ 109,988</u></u>

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

**NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

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

Net change in fund balance - general fund:	\$	163,845
 Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.		 (7,749)
 The issuance of long-term debt (e.g. bonds, loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on net position. Likewise, debt forgiveness increases net position but provides no current financial resources in the governmental funds. This amount is the net effect of these differences in the treatment of long-term debt.		 980,397
 Change in net position of governmental activities	 \$	 <u>1,136,493</u>

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

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
STATEMENT OF NET POSITION
ENTERPRISE FUND
JUNE 30, 2015

	Foundation
ASSETS	
Noncurrent Assets:	
Restricted cash and cash equivalents	\$ 129,232
Capital assets, net	5,241,254
Total noncurrent assets	5,370,486
Total assets	5,370,486
LIABILITIES	
Current Liabilities:	
Due to other funds	30,623
Accrued interest	63,925
Notes payable current portion	115,000
Total current liabilities	209,548
Noncurrent Liabilities:	
Note payable	5,245,000
Total noncurrent liabilities	5,245,000
Total liabilities	5,454,548
NET POSITION	
Net investment in capital assets	(118,746)
Restricted for:	
Repairs and replacements	25,001
Debt service	104,231
Unrestricted (deficit)	(94,548)
Total net position (deficit)	\$ (84,062)

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

**NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2015**

	Foundation
OPERATING REVENUES	
Lease Revenue	\$ 488,213
Total operating revenues	488,213
OPERATING EXPENSES	
Interest expense	388,174
Total operating expenses	388,174
Net operating income (loss)	100,039
NON-OPERATING REVENUES (EXPENSES)	
Investment income	9
Depreciation and amortization expense	(109,318)
Total non-operating revenues (expenses)	(109,309)
Change in net position	(9,270)
Net position - beginning (deficit)	(74,792)
Net position - ending (deficit)	\$ (84,062)

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

**NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
STATEMENT OF CASH FLOWS
ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2015**

	Foundation
CASH FLOWS FROM OPERATING ACTIVITIES	
Lease payments received	\$ 488,213
Loan interest paid	(388,174)
	100,039
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Advances to other funds	30,623
	30,623
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Loan principal payments	(105,000)
	(105,000)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income	9
	9
Net increase (decrease) in cash and cash equivalents	25,671
Cash and cash equivalents - beginning	103,561
Cash and cash equivalents - ending	\$ 129,232
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ 100,039
Net cash provided (used) by operating activities	\$ 100,039

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

**NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUND
JUNE 30, 2015**

	<u>Student Activities</u>
ASSETS	
Cash	\$ 10,668
Due from other funds	<u>15,442</u>
Total assets	<u>26,110</u>
LIABILITIES	
Due to student organizations	<u>26,110</u>
Total liabilities	<u><u>\$ 26,110</u></u>

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

NOTES TO FINANCIAL STATEMENTS

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Northern Colorado Academy of Arts & 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 financial statements of Northern Colorado Academy of Arts & Knowledge have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the School are described below.

A. REPORTING ENTITY

The accompanying financial statements present the School and its component units, entities for which the government is considered to be financially accountable. Blended component units are, in substance, part of the primary government’s operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government.

Blended component unit. T.R. Paul Academy Foundation (the “Foundation”) was organized for the sole purpose to assist and facilitate the School in accomplishing its educational mission. The Foundation has no financial balances or transactions outside of those reported by the School, and therefore, are not reported separately in the financial statements. The Foundation is blended into the School’s financial statements as an enterprise fund, and does not issue separate financial statements.

B. BASIS OF PRESENTATION – GOVERNMENT-WIDE FINANCIAL STATEMENTS

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the government’s enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the government. *Governmental activities* are normally supported by per pupil revenue and intergovernmental revenues. *Business-type activities* rely to a significant extent on fees and charges to external customers for support. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. BASIS OF PRESENTATION – FUND FINANCIAL STATEMENTS

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds maintained by the District is consistent with legal and managerial requirements.

The emphasis of fund financial statements is on major governmental and enterprise funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The School reports the following major governmental fund:

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

The School reports the following major proprietary fund:

Enterprise Funds are used to account for those operations financed and operated in a manner similar to a private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The Foundation is accounted for as an enterprise fund.

Additionally, the School reports the following fund type:

Fiduciary Funds account for assets held by the government in a trustee capacity or as an agent on behalf of others. The School has one fiduciary fund:

The *Agency Fund* is custodial in nature and does not present results of operations or a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the government holds for others in an agency capacity.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. BASIS OF PRESENTATION – FUND FINANCIAL STATEMENTS (CONTINUED)

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

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

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

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

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

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

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

The proprietary fund is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE

Cash and cash equivalents

Cash and cash equivalents include cash on hand and in the bank and short-term investments with original maturities of three months or less from the date of acquisition. 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.

Prepaid expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include buildings, improvements, and furniture and equipment, are reported in the government-wide financial statements and the proprietary fund in the fund financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. The capitalization level for equipment is \$1,500. Donated capital assets are valued at their estimated fair market value on the date received. Major outlays for capital assets and improvements are capitalized as projects are constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset, or materially extend asset lives, are not capitalized. Improvements are capitalized and are depreciated over the remaining useful lives of the related capital assets or remaining period of the lease, as applicable.

Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE (CONTINUED)

Capital assets (continued)

Capital assets of the government are depreciated using the straight-line method over the following estimated useful lives:

Building	50 years
Building Improvements	15 to 50 years
Furniture and equipment	5 to 20 years

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

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 liabilities

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND
NET POSITION/FUND BALANCE (CONTINUED)*

Long-term liabilities (continued)

In the fund financial statements, governmental fund types recognize premiums and discounts, as well as issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net position flow assumption

The School may fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted—net position and unrestricted—net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the School’s policy to consider restricted—net position to have been depleted before unrestricted—net position is applied.

Fund balance classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the School is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications available to be used in the governmental fund financial statements are as follows:

Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.

Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action that was used when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned – This classification includes amounts that are constrained by the School’s intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Directors or through the Board of Directors delegating this responsibility to management through the budgetary process. This classification also includes the remaining positive fund balance for any governmental funds except for the General Fund.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE (CONTINUED)

Fund balance classification (continued)

Unassigned – This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The School would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

F. REVENUES AND EXPENDITURES/EXPENSES

Program revenues

Amounts reported as *program revenues* include 1) charges to customers for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as programs revenues. Likewise, general revenues include all state equalization.

Proprietary funds operating and non-operating revenues and expenses

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the School's enterprise fund is rental income. Operating expenses for the enterprise fund includes interest expense. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Unearned Revenues

Unearned revenues could include grants received before the eligibility requirements specified by the provider have been met. They also could include fees received for future period services.

G. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGET INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all funds. All annual appropriations lapse at fiscal year end. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the preceding year.

Budgets are required by Colorado State Statute for all funds. During April, management submits to the Board of Directors a proposed budget for all funds for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. Public hearings are conducted by the Board of Directors to obtain taxpayer comments. Prior to June 30, the budget is adopted by formal resolution.

Formal budgetary integration is employed as a management control device during the year for the Governmental funds. The appropriated budget is prepared by fund. The legal level of control is the fund level.

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.

Appropriations are based on total funds expected to be available in each budget year, including beginning fund balances and reserves as established by the Board of Directors. Variances between budget and actual result from the non-expenditure of reserves, nonoccurrence of anticipated events, and normal operating variances. The Board of Directors may authorize supplemental appropriations during the year. For budgetary management purposes, funds are appropriated for capital outlays.

B. DEFICIT NET POSITION

As of June 30, 2015, the Enterprise fund had a deficit net position balance of \$84,062. Management expects this negative balance to be eliminated as the Foundation's debt is paid.

C. 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, 2015, the School did not meet this requirement, which may constitute an event of default as defined in the lease agreement. The school is required to deposit an annual amount of \$25,000 to a repair and replacement account until the balance of the account equals \$200,000. The balance at June 30, 2015 in the repair and replacement account was \$25,001.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 3 – DEPOSITS AND INVESTMENTS

Cash deposits with financial institutions

Custodial credit risk—deposits. Custodial credit risk is the risk that, in the event of a bank failure, the School’s deposits might not be recovered. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government 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. 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 the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

The carrying amount of the School’s deposits at June 30, 2015 was \$227,484 and the bank balances were \$237,716. Of the bank balances, the total balance was covered by federal deposit insurance. The collateral is pooled and held in trust for all uninsured deposits as a group.

Investments

Credit Risk

The School is authorized by Colorado statutes to invest in the following:

- ◆ Obligations of the United States and certain U.S. government agencies’ securities;
- ◆ Certain international agencies’ securities;
- ◆ General obligation and revenue bonds of U.S. local government entities;
- ◆ Bankers’ acceptances of certain banks;
- ◆ Certain commercial paper;
- ◆ Local government investment pools;
- ◆ Written repurchase agreements collateralized by certain authorized securities;
- ◆ Certain money market fund;
- ◆ Guaranteed investment contracts.

State law limits investments to those described above. The School does not have an investment policy that would further limit its investment choices.

At June 30, 2015 the School’s investment balances were as follows:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
BNY Mellon	Less than 60 days	<u>\$ 129,232</u>

The Foundation is invested in the JP Morgan Prime Money Market Fund, which was rated Aaa-mf by Moody’s Investor Service.

All of the investment balances were restricted for debt service and building repairs and replacements.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk: State law limits maturities for US Treasuries and US Agencies to no more than five years from the date of purchase. The School does not have a formal investment policy that would further limit investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.

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

Cash	\$ 227,484
Restricted cash	129,232
Agency fund cash	<u>10,668</u>
Total	<u>\$ 367,384</u>

NOTE 4 – INTERFUND RECEIVABLES AND PAYABLES

All interfund receivables and payables are created in conjunction with the School’s pooled cash account. Balances are routinely cleared as a matter of practice.

The composition of interfund balances at June 30, 2015 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Foundation	<u>\$ 30,623</u>

The primary government had \$15,442 due to the Agency fund at June 30, 2015.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<i>Governmental Activities</i>				
Depreciable assets:				
Furniture and equipment	\$ 503,790	\$ -	\$ (150,641)	\$ 353,149
Less accumulated depreciation for:				
Furniture and equipment	<u>(344,451)</u>	<u>(7,749)</u>	<u>150,641</u>	<u>(201,559)</u>
<i>Governmental activities capital assets, net</i>	<u>\$ 159,339</u>	<u>\$ (7,749)</u>	<u>\$ -</u>	<u>\$ 151,590</u>

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 5 - CAPITAL ASSETS (CONTINUED)

Business-type Activities

Non-Depreciable assets:				
Land	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000
Depreciable assets:				
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 depreciable assets	<u>5,215,171</u>	<u>-</u>	<u>-</u>	<u>5,215,171</u>
Less accumulated depreciation for:				
Building and improvements	(858,843)	(108,803)	-	(967,646)
Furniture and equipment	<u>(5,755)</u>	<u>(515)</u>	<u>-</u>	<u>(6,270)</u>
Total accumulated depreciation	<u>(864,598)</u>	<u>(109,318)</u>	<u>-</u>	<u>(973,916)</u>
<i>Total capital assets, being depreciated, net</i>	<u>4,350,573</u>	<u>(109,318)</u>	<u>-</u>	<u>4,241,255</u>
<i>Business-type activities capital assets, net</i>	<u>\$ 5,350,573</u>	<u>\$ (109,318)</u>	<u>\$ -</u>	<u>\$ 5,241,255</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities

Instruction	\$ 7,440
Support services	<u>309</u>
Total	<u>\$ 7,749</u>

NOTE 6 – LONG-TERM LIABILITIES

Individual Loans

In order for the school to carry out its educational mission, the School's board of directors approved entering into loans with three individuals in the amounts of \$15,000, \$10,000, and \$10,000 respectively. The School received the funds on June 30, 2015. The terms stipulate that the borrowed funds need not be repaid until July 31, 2016. The School will pay interest in the amount of Point Zero One Dollars (\$.01). There is no penalty for early repayment.

Mosaica Loan

During the year ended June 30, 2015, the School revised its loan agreement with the management company, Mosaica Education, Inc. (MEI), whereby the outstanding debt of \$1,029,674 would be forgiven. MEI agreed to forgive all but \$70,000 of the debt. The remaining \$70,000 is considered short term debt and is anticipated to be forgiven by the new management company, Tatonka Education Services, Inc (TES). It was agreed on August 12, 2015 that the School would enter into a new management agreement prior to November 1, 2015 with TES.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 6 – LONG-TERM LIABILITIES (CONTINUED)

Revenue Bonds

Principal
Balance

In May, 2006 the Colorado Educational and Cultural Facilities Corporation (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 use of the facilities. The Foundation is required to make loan payments to the Trustee, for payment of the bonds. Interest payments are made in semi-annual installments on May 1 and November 1. Interest accrues at 7% per annum. Principal payments are due annually on May 1, through 2036.

\$ 5,360,000

Annual debt service requirements to maturity for the bonds are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$ 115,000	\$ 375,200
2017	120,000	367,150
2018	130,000	358,750
2019	140,000	349,650
2020	150,000	339,850
2021 – 2025	915,000	1,527,400
2026 – 2030	1,290,000	1,158,150
2031 – 2035	1,810,000	639,100
2036	690,000	48,300
Total	<u>\$ 5,360,000</u>	<u>\$ 5,163,550</u>

Long-term liability activity for the year ended June 30, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental activities:</u>					
Individual loans	\$ -	\$ 35,000	\$ -	\$ 35,000	\$ -
Mosaica loan	<u>1,015,397</u>	<u>84,277</u>	<u>1,029,674</u>	<u>70,000</u>	<u>70,000</u>
Total governmental	<u>\$ 1,015,397</u>	<u>\$ 119,277</u>	<u>\$ 1,029,674</u>	<u>\$ 105,000</u>	<u>\$ 70,000</u>
<u>Business-type activities:</u>					
Revenue bonds	<u>\$ 5,465,000</u>	<u>\$ -</u>	<u>\$ 105,000</u>	<u>\$ 5,360,000</u>	<u>\$ 115,000</u>

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 7 – OPERATING LEASE

On December 17, 2014 the School entered into a lease for copiers which qualifies as an operating lease. The term of the lease is 60 months. The lease requires payments of \$1,085 per month. The rental expense for the year ended June 30, 2015 was \$6,573.

NOTE 8 – MANAGEMENT AGREEMENT

The School entered into a Management Agreement (the “Agreement”) with Mosaica Education, Inc. (MEI), which is an educational consulting and management company. The Agreement was scheduled to terminate on June 30, 2021. The teachers and staff are employees of MEI. The salaries and benefits are reported in functional categories in the financial statements for better reporting purposes. Under the terms of the agreement, the School is required to pay MEI an annual fee for services performed. The fee is 9.25% of total state equalization and state and federal grants received for the year. The administrative fees earned by MEI for the year ended June 30, 2015 were \$154,162. MEI agreed to reduce the FY15 management fee by \$130,000 by issuing a credit memo on June 17, 2015. The administrative fees received by MEI for the year ended June 30, 2015 were \$24,162.

On August 12, 2015 the Board of Directors of the School executed the consent to transfer the Management Agreement dated July 1, 2009, by and between Mosaica Education, Inc. and Northern Colorado Academy of Arts and Knowledge (the “School”) to Tatonka Education Services, Inc. (TES). TES will assume all of MEI’s duties and obligations under the Agreement accruing on and after the closing of the Acquisition. The new Agreement will be agreed to prior to November 1, 2015.

NOTE 9 - RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The School carries commercial insurance for these risks of loss, including worker’s compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage during the last year.

NOTE 10 – CONCENTRATION OF RISK

The School is funded directly by Colorado Charter School Institute (CSI) based on the Institute’s per pupil funding. For the fiscal year ended June 30, 2015, this funding along with pass-through grant funding accounted for approximately 80% of the School’s revenues.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 11 - COMMITMENTS AND CONTINGENCIES

GRANTS

The School has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to a request for reimbursement to grantor agencies for expenditures disallowed under terms of the grant. However, in the opinion of the School, any such adjustments will not have a material adverse affect on the financial position of the School.

NOTE 12 – PRIOR PERIOD ADJUSTMENT

For the year ended June 30, 2014, certain revenues and expenses were not recorded. As a result, net position of the General Fund at June 30, 2015, was restated to record the outstanding items as follows:

Net Position, beginning (deficit)	\$ (65,286)
Outstanding checks	8,336
Grant funds received in 2015 for prior year expenses	<u>3,093</u>
Net Position, beginning, as restated (deficit)	<u>\$ (53,857)</u>

NOTE 13 – COMPLIANCE

The School has complied with the requirements of the Financial Policies and Procedures Handbook for the 2015 audit period as required by Colorado Statute CRS 22-44-204(3).

NOTE 14 - AMENDMENT TO COLORADO CONSTITUTION

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 emergency reserves be established. These reserves must be at least 3% of fiscal year spending. The School is not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls or salary and benefit increases. At June 30, 2015 there is a \$59,230 reservation of fund balance in the General Fund for the amendment.

The Amendment is complex and subject to judicial interpretation. The School believes it is in compliance with the requirements of the amendment. However, the School has made certain interpretations of the amendment’s language in order to determine its compliance.

REQUIRED SUPPLEMENTARY INFORMATION

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Local sources:				
Other local sources	\$ 780,182	\$ 511,448	\$ 397,642	\$ (113,806)
Interest on investments	-	-	75	75
Total local sources	780,182	511,448	397,717	(113,731)
State sources:				
State equalization	1,440,509	1,484,215	1,490,288	6,073
Capital construction grant	18,866	54,393	37,854	(16,539)
Other state sources	28,011	32,201	49,488	17,287
Total state sources	1,487,386	1,570,809	1,577,630	6,821
Federal sources				
Other federal sources	97,383	78,594	55,353	(23,241)
Total federal sources	97,383	78,594	55,353	(23,241)
Total revenues	2,364,951	2,160,851	2,030,700	(130,151)
EXPENDITURES				
Instruction	915,180	935,514	881,307	54,207
Pupil services	38,200	27,300	55,173	(27,873)
Instructional staff	120,770	98,054	33,246	64,808
General administration	147,009	146,616	50,243	96,373
School administration	186,208	154,296	151,455	2,841
Business services	12,350	15,972	10,722	5,250
Operation and maintenance	631,337	627,688	613,335	14,353
Central support services	70,181	62,993	52,634	10,359
Food services operations	62,204	65,918	50,798	15,120
Total expenditures	2,183,439	2,134,351	1,898,913	235,438
Excess of revenues over expenditures	181,512	26,500	131,787	105,287

See the accompanying Independent Auditors' Report.

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015**

OTHER FINANCING SOURCES (USES)

Operating loan proceeds	-	-	35,000	35,000
Other sources (uses)	(181,512)	(1,500)	(2,942)	(1,442)
Transfers out	-	(25,000)	-	25,000
	<u>-</u>	<u>(25,000)</u>	<u>-</u>	<u>25,000</u>
Net change in fund balances	-	-	163,845	163,845
Fund balance - beginning	-	-	(53,857)	(53,857)
	<u>-</u>	<u>-</u>	<u>(53,857)</u>	<u>(53,857)</u>
Fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 109,988</u>	<u>\$ 109,988</u>

See the accompanying Independent Auditors' Report.

OTHER SUPPLEMENTAL INFORMATION

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2015

	Actual	Final Budget	Variance Favorable (Unfavorable)
REVENUES			
Beginning fund balance	39,636	-	39,636
Rental income	488,213	512,992	(24,779)
Investment income	9	100	(91)
Total revenues	527,858	513,092	14,766
EXPENDITURES			
Operation expense	-	115,816	115,816
Debt service - principal	105,000	-	(105,000)
Debt service - interest	388,174	385,460	(2,714)
Total expenditures	493,174	501,276	8,102
Operating income (loss)	34,684	11,816	22,868
EXCESS OF REVENUE OVER EXPENDITURES	34,684	\$ 11,816	\$ 6,664
Add:			
Bond principal payment	105,000		
Less:			
Depreciation	(109,318)		
Beginning fund balance	(39,636)		
CHANGE IN NET POSITION	\$ (9,270)		
Ending fund balance is calculated as follows:			
Restricted cash and cash equivalents	\$ 129,232		
Current liabilities	(209,548)		
Bonds payable current portion	115,000		
	\$ 34,684		

See the accompanying Independent Auditors' Report.

**NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED JUNE 30, 2015**

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
ASSETS				
Cash	\$ 15,372	\$ 40,715	\$ 45,419	\$ 10,668
Due from other funds	11,340	7,604	3,502	15,442
Total assets	<u>\$ 26,712</u>	<u>\$ 48,319</u>	<u>\$ 48,921</u>	<u>\$ 26,110</u>
LIABILITIES				
Deposits	\$ 3,502	\$ -	\$ 3,502	\$ -
Payable to student organizations	23,210	48,319	45,419	26,110
Total liabilities	<u>\$ 26,712</u>	<u>\$ 48,319</u>	<u>\$ 48,921</u>	<u>\$ 26,110</u>

See the accompanying Independent Auditors' Report.