

**NORTHERN COLORADO ACADEMY OF
ARTS AND KNOWLEDGE**

FINANCIAL STATEMENTS
With Independent Auditors' Report

For the Year Ended June 30, 2016

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
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JUNE 30, 2016

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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, 2016, 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, 2016, 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 23, 2016

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, 2016.

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, 2016

Net Position Summary

	Governmental Activities		Business-type Activities		Totals	
	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>
Assets						
Current assets	\$285,183	\$386,890	\$98,609	\$0	\$383,792	\$386,890
Other assets	0	0	\$0	\$0	0	0
Capital assets	353,149	303,194	6,215,171	0	6,568,320	303,194
Less: accumulated depreciation	<u>(201,559)</u>	<u>(204,139)</u>	<u>(973,916)</u>	<u>0</u>	<u>(1,175,475)</u>	<u>(204,139)</u>
Capital assets, net book value	151,590	99,055	5,241,255	0	5,392,845	99,055
Total assets	<u>\$436,773</u>	<u>\$485,945</u>	<u>\$5,339,864</u>	<u>\$0</u>	<u>\$5,776,637</u>	<u>\$485,945</u>
Liabilities						
Current liabilities	\$175,195	\$137,088	\$178,925	\$0	\$354,120	\$137,088
Long-term liabilities	35,000	60,000	5,245,000	0	5,280,000	60,000
Total liabilities	<u>\$210,195</u>	<u>\$197,088</u>	<u>\$5,423,925</u>	<u>\$0</u>	<u>\$5,634,120</u>	<u>\$197,088</u>
Net position						
Net investment (deficit) in capital assets	\$151,590	\$99,055	(\$118,746)	\$0	\$32,844	\$99,055
Restricted	59,230	55,700	129,232	0	188,462	55,700
Unrestricted	<u>15,758</u>	<u>134,102</u>	<u>(94,548)</u>	<u>0</u>	<u>(78,790)</u>	<u>134,102</u>
Total net position	<u>\$226,578</u>	<u>\$288,857</u>	<u>(\$84,062)</u>	<u>\$0</u>	<u>\$142,516</u>	<u>\$288,857</u>

Northern Colorado Academy of Art & Knowledge
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2016

FINANCIAL ANALYSIS OF THE ACADEMY'S ACTIVITIES

The Academy's net position improved materially for both the year ending June 30, 2016 and the year ending June 30, 2015. For 2016, the net position improved by \$216,341. In 2015 the net position also improved by \$1,127,223. As a note, the 2015 net position increase included \$1,029,674 in debt forgiveness by the Academy's management company. Excluding the debt forgiveness, the Academy was able to generate an improvement in its net position of \$97,156 for the year. Both 2016 and 2015 compare favorably with the \$254,787 decline in the Academy's net position for 2014.

Results of Operations:

For the fiscal year ended June 30, 2015 and 2016, the Academy wide results of operations were:

	Governmental Activities				Business-type Activities				Total			
	2015 Amount	Percent of Total	2016 Amount	Percent of Total	2015 Amount	Percent of Total	2016 Amount	Percent of Total	2015 Amount	Percent of Total	2016 Amount	Percent of Total
General revenue:												
State and District aid- all sources	\$1,528,142	50.17%	\$1,652,363	85.66%	0.00%	0.00%	\$1,528,142	43.24%	\$1,652,363	74.13%		
Other	1,022,433	33.57%	7,405	0.38%	488,222	100.00%	300,009	100.00%	1,510,655	42.74%	307,414	13.79%
Total general revenue	2,550,575	83.73%	1,659,768	86.04%	488,222	100.00%	300,009	100.00%	3,038,797	85.98%	1,959,777	87.92%
Program revenue:												
Charges for services	333,615	10.95%	143,173	7.42%	0.00%	0.00%	333,615	9.44%	143,173	6.42%		
Operating grants - federal and state	161,907	5.32%	126,026	6.53%	0.00%	0.00%	161,907	4.58%	126,026	5.65%		
Total program revenue	495,522	16.27%	269,199	13.96%	0	0.00%	0	0.00%	495,522	14.02%	269,199	12.08%
Total revenue	3,046,097	100.00%	1,928,967	100.00%	488,222	100.00%	300,009	100.00%	3,534,319	100.00%	2,228,976	100.00%
Expenses:												
Instruction and instructional services	889,056	46.56%	819,065	45.52%	0.00%	0.00%	889,056	36.93%	819,065	40.70%		
Support services	969,750	50.78%	912,243	50.70%	0.00%	0.00%	969,750	40.29%	912,243	45.33%		
Interest on long-term debt	0	0.00%	0	0.00%	0.00%	0.00%	0	0.00%	0	0.00%	0	0.00%
Food Service	50,798		62,024	3.45%								
Building Corporation	0	0.00%	5,975	0.33%	497,492	100.00%	213,328	100.00%	497,492	20.67%	219,303	10.90%
Total expenses	1,909,604	100.00%	1,799,307	100.00%	497,492	100.00%	213,328	100.00%	2,407,096	100.00%	2,012,635	100.00%
Transfers:												
Interfund Transfers	0		2,619		0		(2,619)					
Increase (decrease) in net position	\$1,136,493		\$132,279		(\$9,270)		\$84,062		\$1,127,223		\$216,341	

A. 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 \$ 6,940 per student for the 2015-16 school year and \$ 6,666 for the 2014-15 school year.

Student Enrollment: The Academy’s student enrollment for the fall count of the 2015-16 was 254 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 229.6 students for 2015-16 and 223.6 for 2014-15.

B. 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 \$139,814 for the fiscal year ended June 30, 2016. 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		
2014-2015	2,160,851	2,030,700
2015-2016	1,963,624	1,918,965
Expenditures and Other Financing Sources		
2014-2015	2,134,351	1,898,913
2015-2016	2,126,598	1,779,151

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 2015-16, the budget was amended in October 2015 and January 2016. The January 2016 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 and Other Financing Sources

Total Revenues Original Budget	\$2,034,676
Total Revenues Final Budget	<u>1,963,624</u>
Decrease in Budgeted Revenues	<u><u>\$71,052</u></u>

The Academy's final general fund revenues were less than the final budget by \$ 44,659 a variance of 2.27%.

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 and Other Financing Sources:

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

Total Expenditures Original Budget	\$1,759,196
Total Expenditures Final Budget	<u>2,126,598</u>
Increase in Budgeted Expenditures	<u><u>(\$367,402)</u></u>

The Academy's actual expenditures were less than final budget by \$ 347,447 a variance of 16.33%. These variances were primarily a result of the school board debating the pros and cons of employing their own employees, instead of their service provider employing everyone in the 2015 – 16 school year.

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

Selling the building to Colorado Early Colleges and leasing back the portion used by the school.

CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

The Academy's net investment in capital assets is \$99,055. This can be summarized as follows:

B.

	Beginning Balance	Additions	Disposals	Ending Balance
Non-Depreciable capital assets	1,000,000		(1,000,000)	0
Depreciable capital assets	5,568,320	7,725	(5,272,851)	303,194
Less: Accumulated depreciation	<u>(1,175,475)</u>	<u>(50,349)</u>	<u>1,021,685</u>	<u>(204,139)</u>
Net investments in capital assets	<u>\$5,392,845</u>	<u>(\$42,624)</u>	<u>(\$5,251,166)</u>	<u>\$99,055</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.

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

During the 2015-16 the Academy has negotiated an agreement with Tatonka Education Services, Inc. over the outstanding debt left over from their prior management company. On June 30, 2016, \$ 10,000 was forgiven with another \$ 10,000 to be forgiven on June 30, 2017. The Academy did borrow \$ 35,000 at the end of fiscal year 2014-15. All of those funds have been repaid. A summary of long-term debt service activities is a follows.

	Balance 6/30/2015	Additions	Reductions	Balance 6/30/2016
Individual Loans	\$35,000		\$35,000	\$0
Tatonka Loan	\$70,000		\$10,000	\$60,000
Facility Bond	<u>5,360,000</u>		<u>5,360,000</u>	<u>\$0</u>
Total	<u>\$5,465,000</u>	<u>\$0</u>	<u>\$5,405,000</u>	<u>\$60,000</u>

ECONOMIC FACTORS AND NEXT’S YEAR BUDGET

The Preliminary Budget for 2016-17 Fiscal Year was adopted by the Board of Directors in May 2016. 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 2016-17 preliminary budget process include:

- The Academy’s PPR funding had been estimated to be \$ 6,940 per pupil;
- Enrollment projections of 247 students in grades K-5 with a funded FTE of 230;
- 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 2015-16.

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, 2016

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 302,909	\$ -	\$ 302,909
Accounts receivable	40,430	-	40,430
Prepaid expenses	43,551	-	43,551
Capital assets, net of accumulated depreciation	99,055	-	99,055
Total assets	<u>485,945</u>	<u>-</u>	<u>485,945</u>
LIABILITIES			
Accounts payable	105,257	-	105,257
Payable to agency fund	13,705	-	13,705
Unearned revenues	18,126	-	18,126
Long-term liabilities			
Due within one year			
Short term loans	60,000	-	60,000
Total liabilities	<u>197,088</u>	<u>-</u>	<u>197,088</u>
NET POSITION			
Net investment in capital assets	99,055	-	99,055
Restricted for:			
TABOR	55,700	-	55,700
Unrestricted	134,102	-	134,102
Total net position	<u>\$ 288,857</u>	<u>\$ -</u>	<u>\$ 288,857</u>

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, 2016

<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	819,065	\$ 143,173	\$ 126,026	\$ 59,350	\$ (490,516)	\$ -	\$ (490,516)
Supporting services							
Pupil services	59,495	-	-	-	(59,495)	-	(59,495)
Instructional staff	20,373	-	-	-	(20,373)	-	(20,373)
General administration	153,073	-	-	-	(153,073)	-	(153,073)
School administration	215,223	-	-	-	(215,223)	-	(215,223)
Business services	17,544	-	-	-	(17,544)	-	(17,544)
Operation and maintenance	398,501	-	-	-	(398,501)	-	(398,501)
Central support services	48,034	-	-	-	(48,034)	-	(48,034)
Food service operations	62,024	-	-	-	(62,024)	-	(62,024)
Facilities acquisition and construction	5,975	-	-	-	(5,975)	-	(5,975)
Total governmental activities	<u>1,799,307</u>	<u>143,173</u>	<u>126,026</u>	<u>59,350</u>	<u>(1,470,758)</u>		<u>(1,470,758)</u>
Business-type activities:							
Foundation	363,282	149,954	-	-		(213,328)	(213,328)
Total business-type activities	<u>\$ 2,162,589</u>	<u>\$ 293,127</u>	<u>\$ 126,026</u>	<u>\$ 59,350</u>		<u>(213,328)</u>	<u>(1,684,086)</u>
General revenues:							
Per pupil revenue					1,593,013	-	1,593,013
Earnings on investments					125	9	134
Other revenues					7,280	300,000	307,280
Transfers					2,619	(2,619)	-
Total general revenues and transfers					<u>1,603,037</u>	<u>297,390</u>	<u>1,900,427</u>
Change in net position					<u>132,279</u>	<u>84,062</u>	<u>216,341</u>
Net position - beginning (deficit)					226,578	(84,062)	142,516
Prior period adjustment					(70,000)	-	(70,000)
Net position - beginning, as restated (deficit)					<u>156,578</u>	<u>(84,062)</u>	<u>72,516</u>
Net position - ending					<u>\$ 288,857</u>	<u>\$ -</u>	<u>\$ 288,857</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, 2016

ASSETS

Cash and cash equivalents	\$ 302,909
Accounts receivable	40,430
Prepaid expenses	<u>43,551</u>
 Total assets	 <u><u>\$ 386,890</u></u>

LIABILITIES

Accounts payable and other current liabilities	\$ 105,257
Payable to agency fund	13,705
Unearned revenue	<u>18,126</u>
 Total liabilities	 <u>137,088</u>

FUND BALANCES

Nonspendable	43,551
Restricted for TABOR	55,700
Unassigned	<u>150,551</u>
 Total fund balances	 <u>249,802</u>

Total liabilities and fund balances	<u><u>\$ 386,890</u></u>
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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, 2016**

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

Total fund balances - general fund	\$ 249,802
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.	99,055
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.	<u>(60,000)</u>
Net position of governmental activities in the statement of net position	<u><u>\$ 288,857</u></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, 2016

REVENUES	
Local sources	\$ 155,469
State sources	1,702,697
Federal sources	<u>60,799</u>
 Total revenues	 <u>1,918,965</u>
 EXPENDITURES	
Instruction	763,909
Pupil services	59,495
Instructional staff	20,373
General administration	153,073
School administration	215,223
Business services	17,544
Operation and maintenance	398,501
Central support services	48,034
Food service operations	62,024
Facilities acquisition and construction	5,430
Debt service:	
Principal	35,000
Interest	<u>545</u>
 Total expenditures	 <u>1,779,151</u>
 Net change in fund balance	 <u>139,814</u>
 Fund balance - beginning	 <u>109,988</u>
 Fund balance - ending	 <u><u>\$ 249,802</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, 2016**

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

Net change in fund balance - general fund:	\$	139,814
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.		(11,391)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales and transfers) is to reduce net position.		(41,144)
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.		45,000
Change in net position of governmental activities	\$	132,279

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, 2016

	<u>Foundation</u>
ASSETS	
Total assets	\$ -
LIABILITIES	
Total liabilities	-
NET POSITION	
Net investment in capital assets	-
Total net position	<u>\$ -</u>

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, 2016**

	Foundation
OPERATING REVENUES	
Lease Revenue	\$ 149,954
Total operating revenues	149,954
OPERATING EXPENSES	
Interest expense	184,646
Total operating expenses	184,646
Net operating income (loss)	(34,692)
NON-OPERATING REVENUES (EXPENSES)	
Investment income	9
Bond purchase credit	300,000
Loss on sale of assets	(144,783)
Depreciation and amortization expense	(33,853)
Total non-operating revenues (expenses)	121,373
Income before transfers	86,681
Transfers out	(2,619)
Change in net position	84,062
Net position - beginning (deficit)	(84,062)
Net position - ending	\$ -

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, 2016**

	Foundation
CASH FLOWS FROM OPERATING ACTIVITIES	
Lease payments received	\$ 149,954
Loan interest paid	(248,571)
Net cash provided (used) by operating activities	(98,617)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Advances to other funds	(30,624)
Net cash provided (used) by non-capital financing activities	(30,624)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from the sale of assets	5,060,000
Bond principal payments	(5,060,000)
Net cash provided (used) by capital and related financing activities	-
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income	9
Net cash provided (used) by investing activities	9
Net increase (decrease) in cash and cash equivalents	(129,232)
Cash and cash equivalents - beginning	129,232
Cash and cash equivalents - ending	\$ -
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (34,692)
Changes in assets and liabilities:	
<i>Increase (decrease) in:</i>	
Accrued expenses	(63,925)
Net cash provided (used) by operating activities	\$ (98,617)
Schedule of non-cash capital and related activities:	
Transfer of assets to general fund	\$ (2,619)
Bond purchase credit	\$ 300,000

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, 2016

	Student Activities
ASSETS	
Cash	\$ 16,058
Receivable from General Fund	13,705
Total assets	29,763
LIABILITIES	
Due to student organizations	29,763
Total liabilities	\$ 29,763

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, 2016

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.

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.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. BASIS OF PRESENTATION – FUND FINANCIAL STATEMENTS

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.

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.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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.

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.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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

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.

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.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2016

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.

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.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

The carrying amount of the School's deposits at June 30, 2016 was \$302,909 and the bank balances were \$302,769. 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, 2016 the School had no investments.

Deposits are reported in the financial statements as follows:

Cash	\$ 302,909
Agency fund cash	<u>16,058</u>
Total	<u>\$ 318,967</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 primary government had \$13,705 due to the Agency fund at June 30, 2016.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 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	\$ 353,149	\$ 7,725	\$ (57,680)	\$ 303,194
Less accumulated depreciation for:				
Furniture and equipment	<u>(201,559)</u>	<u>(16,496)</u>	<u>13,916</u>	<u>(204,139)</u>
<i>Governmental activities capital assets, net</i>	<u>\$ 151,590</u>	<u>\$ (8,771)</u>	<u>\$ (43,764)</u>	<u>\$ 99,055</u>
<i>Business-type Activities</i>				
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>(12,487)</u>	<u>-</u>
Total depreciable assets	<u>5,215,171</u>	<u>-</u>	<u>(5,215,171)</u>	<u>-</u>
Less accumulated depreciation for:				
Building and improvements	(967,646)	(33,100)	1,000,746	-
Furniture and equipment	<u>(6,270)</u>	<u>(753)</u>	<u>7,023</u>	<u>-</u>
Total accumulated depreciation	<u>(973,916)</u>	<u>(33,853)</u>	<u>1,007,769</u>	<u>-</u>
<i>Total capital assets, being depreciated, net</i>	<u>4,241,255</u>	<u>(33,853)</u>	<u>(4,207,402)</u>	<u>-</u>
<i>Business-type activities capital assets, net</i>	<u>\$ 5,241,255</u>	<u>\$ (33,853)</u>	<u>\$ (5,207,402)</u>	<u>\$ -</u>

Depreciation expense was charged to functions/programs as follows:

<i>Governmental activities</i>	
Instruction	\$ 7,440
Support services	<u>3,591</u>
Total	<u>\$ 11,391</u>

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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. The loans were paid in full in July and August of 2015.

Tatonka Loan

On December 22, 2015 the School entered into the new management agreement with Tatonka Education Services, Inc (TES). A loan modification agreement was executed to modify the outstanding \$70,000 debt that remained from the forgiveness of debt from the prior management company, Mosaica Education, Inc. \$10,000 was deducted from the outstanding principal on June 30, 2016. An additional principal sum of \$10,000 will be deducted from the outstanding principal on June 30, 2017, so long as a management agreement is in place and there is no default under that agreement. The current outstanding short term debt as of June 30, 2016 is \$60,000.

Revenue Bonds

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. On December 22, 2015 the Bonds were paid off with the proceeds from the sale of the Building located at 4512 McMurry Avenue, Fort Collins, CO 80525.

Principal
Balance

\$ -

Long-term liability activity for the year ended June 30, 2016 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	\$ -	\$ -
Tatonka loan	<u>70,000</u>	<u>-</u>	<u>10,000</u>	<u>60,000</u>	<u>60,000</u>
Total governmental	<u>\$ 105,000</u>	<u>\$ -</u>	<u>\$ 45,000</u>	<u>\$ 60,000</u>	<u>\$ 60,000</u>
<u>Business-type activities:</u>					
Revenue bonds	<u>\$ 5,360,000</u>	<u>\$ -</u>	<u>\$ 5,360,000</u>	<u>\$ -</u>	<u>\$ -</u>

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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, 2016 was \$13,020.

On December 1, 2015 the School entered into a lease agreement with Colorado Springs Early Colleges to lease the building located at 4512 McMurry Ave., Fort Collins, CO 80525. The Lease Term shall be comprised of the Initial Term and five successive one-year Renewal Terms with the last term ending on June 30, 2021. The lease requires payments of \$21,026 per month. The lease expense for the year ended June 30, 2016 was \$132,262.

NOTE 8 – MANAGEMENT AGREEMENT

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. (“MEI”) 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.

On December 22, 2015 the School entered into the new Agreement with TES. The Agreement shall continue through June 30th 2016. Upon renewal of the School’s Charter by the Authorizer for the 2016-2017 school year, both parties will meet to discuss the continuation of the Agreement for the 2016-17 school year. The teachers and staff are employees of TES. Under the terms of the agreement, the School is required to pay TES an annual fee for services performed. The administrative fees earned by TES for the year ended June 30, 2016 were \$102,693. For the remaining term of the Agreement, including each and every Renewal Term, the School will pay TES a fee of \$8,000 monthly for the duration of the Agreement up to a Full-Time Enrollment count of 250 pupils. If the School’s Full-Time Enrollment count exceeds 250 pupils the monthly fee shall increase by \$2,000 to \$10,000 monthly.

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, 2016, this funding along with pass-through grant funding accounted for approximately 92% of the School’s revenues.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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 – COMPLIANCE

The School has complied with the requirements of the Financial Policies and Procedures Handbook for the 2016 audit period as required by Colorado Statute CRS 22-44-204(3).

NOTE 13 - 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, 2016 there is a \$55,700 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.

NOTE 14 – PRIOR PERIOD ADJUSTMENT

During the year, it was determined that long-term debt totaling \$70,000 was not recorded in the statement of net position. To correct this error, the beginning net position of governmental activities was restated as follows.

Net Position, June 30, 2015, as Originally Stated	\$ 226,578
Restatement for long term debt	<u>(70,000)</u>
Net Position, June 30, 2015, as Restated	<u>\$ 156,578</u>

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, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget -
	<u>Original</u>	<u>Final</u>		Positive (Negative)
REVENUES				
Local sources:				
Other local sources	\$ 197,392	\$ 199,143	\$ 155,344	\$ (43,799)
Interest on investments	53	100	125	25
Total local sources	<u>197,445</u>	<u>199,243</u>	<u>155,469</u>	<u>(43,774)</u>
State sources:				
State equalization	1,691,680	1,593,711	1,593,013	(698)
Capital construction grant	57,569	57,410	59,350	1,940
Other state sources	40,276	51,047	50,334	(713)
Total state sources	<u>1,789,525</u>	<u>1,702,168</u>	<u>1,702,697</u>	<u>529</u>
Federal sources				
Other federal sources	47,706	62,213	60,799	(1,414)
Total federal sources	<u>47,706</u>	<u>62,213</u>	<u>60,799</u>	<u>(1,414)</u>
Total revenues	<u>2,034,676</u>	<u>1,963,624</u>	<u>1,918,965</u>	<u>(44,659)</u>
EXPENDITURES				
Instruction	829,679	929,890	763,909	165,981
Pupil services	80,461	62,712	59,495	3,217
Instructional staff	23,311	17,858	20,373	(2,515)
General administration	68,921	173,906	153,073	20,833
School administration	184,049	215,157	215,223	(66)
Business services	22,847	18,100	17,544	556
Operation and maintenance	437,895	481,471	398,501	82,970
Central support services	61,938	64,694	48,034	16,660
Food services operations	47,095	62,995	62,024	971
Facilities acquisition and construction	-	3,500	5,430	(1,930)
Debt Service	3,000	35,000	35,545	(545)
Appropriated reserves	-	61,315	-	61,315
Total expenditures	<u>1,759,196</u>	<u>2,126,598</u>	<u>1,779,151</u>	<u>347,447</u>
Excess of revenues over expenditures	<u>\$ 275,480</u>	<u>\$ (162,974)</u>	<u>\$ 139,814</u>	<u>\$ 302,788</u>

See the accompanying Independent Auditors' Report.

**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, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ 133,587	\$ -	\$ (133,587)
Net change in fund balances	275,480	(29,387)	139,814	169,201
Fund balance - beginning	43,028	109,988	109,988	-
Fund balance - ending	<u>\$ 318,508</u>	<u>\$ 80,601</u>	<u>\$ 249,802</u>	<u>\$ 169,201</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, 2016

	Actual	Final Budget	Variance Favorable (Unfavorable)
REVENUES			
Beginning fund balance	\$ 34,683	\$ (87,975)	\$ 122,658
Rental income	149,954	277,100	(127,146)
Sale of building	5,060,000	5,060,000	-
Investment income	9	100	(91)
	<u>5,244,646</u>	<u>5,249,225</u>	<u>(4,579)</u>
EXPENDITURES			
Operation expense	-	66,125	66,125
Debt service - principal	5,060,000	5,360,000	300,000
Debt service - interest	184,646	249,000	64,354
	<u>5,244,646</u>	<u>5,675,125</u>	<u>430,479</u>
Operating income (loss)	<u>-</u>	<u>(425,900)</u>	<u>425,900</u>
Transfers out	<u>-</u>	<u>(133,587)</u>	<u>(133,587)</u>
EXCESS OF REVENUE OVER EXPENDITURES			
	-	<u>\$ (559,487)</u>	<u>\$ (435,058)</u>
Add:			
Bond principal payment	5,060,000		
Bond purchase credit	300,000		
Less:			
Transfers out	(2,619)		
Proceeds from building sale	(5,060,000)		
Depreciation	(33,853)		
Loss on sale of assets	(144,783)		
Beginning fund balance	(34,683)		
	<u>\$ 84,062</u>		
CHANGE IN NET POSITION			
Ending fund balance is calculated as follows:			
Restricted cash and cash equivalents	\$ -		
Current liabilities	-		
	<u>\$ -</u>		

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, 2016**

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
ASSETS				
Cash	\$ 10,668	\$ 32,654	\$ 27,264	\$ 16,058
Receivable from General Fund	15,442	-	1,737	13,705
Total assets	<u>\$ 26,110</u>	<u>\$ 32,654</u>	<u>\$ 29,001</u>	<u>\$ 29,763</u>
LIABILITIES				
Payable to student organizations	<u>\$ 26,110</u>	<u>\$ 32,654</u>	<u>\$ 29,001</u>	<u>\$ 29,763</u>
Total liabilities	<u>\$ 26,110</u>	<u>\$ 32,654</u>	<u>\$ 29,001</u>	<u>\$ 29,763</u>

See the accompanying Independent Auditors' Report.