

**NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE**

**FINANCIAL STATEMENTS**

**June 30, 2011**

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

### INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Northern Colorado Academy of Arts and Knowledge as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements of the Northern Colorado Academy of Arts and Knowledge, as listed in the table of contents. These financial statements are the responsibility of the Northern Colorado Academy of Arts and Knowledge's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Northern Colorado Academy of Arts and Knowledge as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Northern Colorado Academy of Arts and Knowledge will continue as a going concern. As discussed in Note 9 to the financial statements, the Northern Colorado Academy of Arts and Knowledge has suffered ongoing losses from operations and has deficit net assets that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to this matter are also described in Note 9. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The management's discussion and analysis and required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Northern Colorado Academy of Arts and Knowledge's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Swanhorst & Company LLC*

December 5, 2011

# Northern Colorado Academy of Arts & Knowledge

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## Management's Discussion and Analysis For Fiscal Year Ended June 30, 2011

Northern Colorado Academy of Arts & Knowledge dba Ted Paul Academy of Arts and Knowledge is a K-7 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, 2011.

### OVERVIEW OF THE FINANCIAL STATEMENTS

U.S. generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: Government-wide Financial Statements and Fund Financial Statements.

#### **Fund Financial Statements:**

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

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

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

#### **Government-wide Financial Statements:**

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

# Northern Colorado Academy of Arts & Knowledge

## Management's Discussion and Analysis For Fiscal Year Ended June 30, 2011

### FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

#### Summary of Net Assets:

The following summarizes the net assets at fiscal year ended June 30, 2011:

#### Net Assets Summary

	Governmental Activities		Business-type Activities		Totals	
	2010	2011	2010	2011	2010	2011
<b>Assets</b>						
Current assets	\$ 433,741	\$ 308,383	\$ 149,455	\$ 149,304	\$ 583,196	\$ 457,687
Other assets	-	-	173,978	167,287	173,978	167,287
Capital assets	499,645	503,790	6,215,171	6,215,171	6,714,816	6,718,961
Less: accumulated depreciation	(183,226)	(247,522)	(427,326)	(536,644)	(610,552)	(784,166)
Capital assets, net book value	316,419	256,268	5,787,845	5,678,527	6,104,264	5,934,795
Total assets	<u>\$ 750,160</u>	<u>\$ 564,651</u>	<u>\$ 6,111,278</u>	<u>\$ 5,995,118</u>	<u>\$ 6,861,438</u>	<u>\$ 6,559,769</u>
<b>Liabilities</b>						
Current liabilities	\$ 219,718	\$ 170,608	\$ 68,775	\$ 66,967	\$ 288,493	\$ 237,575
Long-term liabilities	932,142	756,366	5,820,000	5,740,000	6,752,142	6,496,366
Total liabilities	<u>\$ 1,151,860</u>	<u>\$ 926,974</u>	<u>\$ 5,888,775</u>	<u>\$ 5,806,967</u>	<u>\$ 7,040,635</u>	<u>\$ 6,733,941</u>
<b>Net assets</b>						
Invested in capital assets, net of related debt (deficit)	\$ 239,704	\$ 239,597	\$ 141,823	\$ 105,814	\$ 381,527	\$ 345,411
Restricted	110,429	76,802	80,680	82,337	191,109	159,139
Unrestricted	(751,833)	(678,722)	-	-	(751,833)	(678,722)
Total net assets	<u>\$ (401,700)</u>	<u>\$ (362,323)</u>	<u>\$ 222,503</u>	<u>\$ 188,151</u>	<u>\$ (179,197)</u>	<u>\$ (174,172)</u>

### FINANCIAL ANALYSIS OF THE ACADEMY'S ACTIVITIES

During fiscal year ended June 30, 2011, the Academy's net assets increased by \$5,025 primarily as a result of sizeable debt service installments made during the school year by the Academy. Except for the first year of operations, there has been a positive impact on total net assets each year due to the difference between the pace capital assets are being depreciated and the pace that long term debt associated with the capital assets has been retired. In each year of the Academy's operations after the first, the straight line depreciation of the book value of capital assets (\$109,125 in 2007-08, \$109,317 in 2008-09, \$109,317 in 2009-10 and \$109,318 in 2010-11) has been outpaced by the retirement of debt (\$77,712 in 2007-08, \$257,993 in 2008-09, \$224,967 in 2009-10 and \$255,776 in 2010-11) that has been used to finance capital asset acquisitions. This is a temporary timing issue that will continue to positively support net assets as long as debt

# Northern Colorado Academy of Arts & Knowledge

## Management's Discussion and Analysis For Fiscal Year Ended June 30, 2011

service retirement outpaces depreciation. Once that is no longer the case, we will begin to experience the negative impact of this timing issue.

### A. Results of Operations:

For the fiscal year ended June 30, 2011, the Academy wide results of operations were:

	Governmental Activities				Business-type Activities				Total			
	2010		2011		2010		2011		2010		2011	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
<b>General revenue:</b>												
State and District aid - all sources	\$ 2,477,439	89.00%	\$ 1,890,807	79.14%	\$ -	0.00%	\$ -	0.00%	\$ 2,477,439	89.00%	\$ 1,890,807	79.14%
Other	29,927	1.07%	371	0.01%	19	100.00%	23	100.00%	29,946	1.08%	394	0.02%
<b>Total general revenue</b>	<b>2,507,366</b>	<b>90.07%</b>	<b>1,891,178</b>	<b>79.15%</b>	<b>19</b>	<b>100.00%</b>	<b>23</b>	<b>100.00%</b>	<b>2,507,385</b>	<b>90.07%</b>	<b>1,891,201</b>	<b>79.15%</b>
<b>Program revenue:</b>												
Charges for services	159,161	5.72%	390,154	16.33%	-	0.00%	-	0.00%	159,161	5.72%	390,154	16.33%
Operating grants - federal and state	117,219	4.21%	107,913	4.52%	-	0.00%	-	0.00%	117,219	4.21%	107,913	4.52%
<b>Total program revenue</b>	<b>276,380</b>	<b>9.93%</b>	<b>498,067</b>	<b>20.85%</b>	<b>-</b>	<b>0.00%</b>	<b>-</b>	<b>0.00%</b>	<b>276,380</b>	<b>9.93%</b>	<b>498,067</b>	<b>20.85%</b>
<b>Total revenue</b>	<b>2,783,746</b>	<b>100.00%</b>	<b>2,389,245</b>	<b>100.00%</b>	<b>19</b>	<b>100.00%</b>	<b>23</b>	<b>100.00%</b>	<b>2,783,765</b>	<b>100.00%</b>	<b>2,389,268</b>	<b>100.00%</b>
<b>Expenses:</b>												
Instruction and instructional services	1,151,596	53.41%	962,935	51.70%	-	0.00%	-	0.00%	1,151,596	42.90%	962,935	40.39%
Support services	911,712	42.29%	830,436	44.58%	-	0.00%	-	0.00%	911,712	33.96%	830,436	34.83%
Interest on long-term debt	92,691	4.30%	69,247	3.72%	-	0.00%	-	0.00%	92,691	3.45%	69,247	2.90%
Building Corporation	-	0.00%	-	0.00%	528,676	100.00%	521,625	100.00%	528,676	19.69%	521,625	21.88%
<b>Total expenses</b>	<b>2,155,999</b>	<b>100.00%</b>	<b>1,862,618</b>	<b>100.00%</b>	<b>528,676</b>	<b>100.00%</b>	<b>521,625</b>	<b>100.00%</b>	<b>2,684,675</b>	<b>100.00%</b>	<b>2,384,243</b>	<b>100.00%</b>
<b>Transfers:</b>												
Interfund Transfers	(512,588)	100.00%	(487,250)	100.00%	512,588	100.00%	487,250	100.00%	-	100.00%	-	100.00%
<b>Increase (decrease) in net assets</b>	<b>\$ 115,159</b>		<b>\$ 39,377</b>		<b>\$ (16,069)</b>		<b>\$ (34,352)</b>		<b>\$ 99,090</b>		<b>\$ 5,025</b>	

The Academy's Board and management was able generate a surplus by identifying efficiencies that could be gained without significantly impacting programming offered to children by focusing on minimizing costs.

### B. Per Pupil Operating Revenue (PPOR), Unrestricted

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

- **Per Pupil Funding:** Annually, the State and the District set the per pupil funding based on a base funding amount as adjusted by a number of factors including a cost-of-living factor and an At-Risk demographics factor. The Northern Colorado Academy of Arts & Knowledge PPOR was \$6,379 per student for 2010-11 as compared to \$6,763 for 2009-10.
- **Student Enrollment:** The Academy's student enrollment for the fall count of 2010-11 was 309 students as compared 385 students for fall of 2009-10. To calculate total state aid to be provided by the District funded PPOR, enrollment is multiplied by the Academy's per pupil funding. It should be noted that Kindergarten students are only funded at 58% of the per pupil allocation. The funded full time equivalent (FTE) student

# Northern Colorado Academy of Arts & Knowledge

## Management's Discussion and Analysis For Fiscal Year Ended June 30, 2011

count after adjusting out .42 FTE for each kindergarten student was 289.2 students for 2010-11 and 344.2 students for 2009-10.

Subsequent to June 30, 2011, the fall 2011 FTE is approximately 242, a decrease of 47 from the 2010-2011 levels.

### C. Major Fund Budgetary Highlights

#### General Fund Operations

The Academy's only major governmental type fund is the General Fund. Revenues and other financing sources from General Fund operations were less than expenditures and other financing uses by \$57,869 for the fiscal year ended June 30, 2011. 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		
2009-2010	\$ 2,530,104	\$ 2,531,367
2010-2011	\$ 2,356,397	\$ 2,320,802
Expenditures and Other Financing Uses		
2009-2010	\$ 2,760,297	\$ 2,565,916
2010-2011	\$ 2,455,285	\$ 2,378,671

#### Original vs. Final Budget

As a matter of practice, Northern Colorado Academy of Arts & Knowledge amends its budget periodically as needed during the school year. The May 2011 budget amendment was the final budget for the fiscal year. The Northern Colorado Academy of Arts & Knowledge Board does not budget for expenditures covered by grants or for the grant revenue until an award allocation is received. The General Fund does not budget for debt financed capital outlays, if applicable, in the original budget.

#### Change from Original to Final General Fund Budget

##### Revenues and Other Financing Sources:

Total Revenues Original Budget	\$ 2,522,499
Total Revenues Final Budget	<u>2,356,397</u>
Decrease in Budgeted Revenues	<u>\$ 166,102</u>

The Academy's final general fund revenues were less than the final budget by \$ 35,595, a variance of 1.5%.

# Northern Colorado Academy of Arts & Knowledge

## Management's Discussion and Analysis For Fiscal Year Ended June 30, 2011

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

- Original budget had estimated a funded FTE of 344 students and fall 2010 actual funded FTE was 289.2.
- Certain funding levels were adjusted from preliminary estimates to actual amounts announced by the Colorado Department of Education.

### Expenditures and Other Financing Uses:

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

Total Expenditures Original Budget	\$ 2,516,295
Total Expenditures Final Budget	<u>2,455,285</u>
Decrease in Budgeted Expenditures	<u>\$ 61,010</u>

The Academy's actual expenditures were less than final budget by \$76,614 a variance of 3.12%. This variance was primarily a result of savings in staffing costs and food service transfers that were captured.

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

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

### D. Non-major Fund Highlights

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

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### A. Capital Assets

The Academy's investment in capital assets decreased by \$169,469 during the fiscal year. Capital asset additions included furniture and technology for use in the instructional programs. This can be summarized as follows:



# Northern Colorado Academy of Arts & Knowledge

## Management's Discussion and Analysis For Fiscal Year Ended June 30, 2011

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital assets	\$ 6,714,816	\$ 4,145	\$ -	\$ 6,718,961
Less: accumulated depreciation	<u>(610,552)</u>	<u>(173,614)</u>	<u>-</u>	<u>(784,166)</u>
Investment in capital assets	<u>\$ 6,104,264</u>	<u>\$ (169,469)</u>	<u>\$ -</u>	<u>\$ 5,934,795</u>

For more information on capital assets, refer to Note 5 in the basic financial statements.

### B. Depreciation Expense

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

For fiscal year ended June 30, 2011, the net increase in accumulated depreciation was \$173,614.

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

### C. Debt, Principal Payments

The Academy entered into capital lease financing arrangements to fund acquisition of the furniture and equipment used in the academic program. The Academy's building company component unit issued bonds 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 2010-11 the Academy's payments on the revised payment plan on outstanding obligations to its management company resulted in a principal retirement of \$134,111.

# Northern Colorado Academy of Arts & Knowledge

## Management's Discussion and Analysis For Fiscal Year Ended June 30, 2011

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

	<u>Balance 6/30/2010</u>	<u>New Financings</u>	<u>Principal Payments</u>	<u>Balance 6/30/2011</u>
Capital leases	\$ 58,336	\$ -	\$ 41,665	\$ 16,671
Operating loan	873,806	-	134,111	739,695
Facility bond	5,820,000	-	80,000	5,740,000
Total	<u>\$ 6,752,142</u>	<u>\$ -</u>	<u>\$ 255,776</u>	<u>\$ 6,496,366</u>

For more information on outstanding debt issues, refer to Note 6 in the basic financial statements.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Preliminary Budget for the 2011-12 Fiscal Year was adopted by the Board of Directors in April 2011. The Board is working on a revision to the original budget and expects to complete that work in December 2011. Few definite factors were known as the original budget was being drafted, and others were unknown and needed to be projected with management's best estimates based on feedback from the funding sources and the community. The following assumptions have been incorporated in the Preliminary 2011-12 Board budget:

- PPOR funding had been estimated to be \$6,111 per pupil;
- Enrollment of 341 students in grades k-7 with a funded FTE of 315;
- Teaching staff, at a maximum, would provide one teacher for every 25 students;
- Benefit costs would be based on group coverage rates through same providers Academy used in FY 2010-11.

### CONTACTING THE ACADEMY'S MANAGEMENT

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

## **BASIC FINANCIAL STATEMENTS**

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

STATEMENT OF NET ASSETS

June 30, 2011

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS
<b>ASSETS</b>			
Cash	\$ 246,599	\$ -	\$ 246,599
Restricted Investments	-	153,372	153,372
Accounts Receivable	42,683	-	42,683
Grants Receivable	3,560	-	3,560
Prepaid Expenses	11,473	-	11,473
Internal Balances	4,068	(4,068)	-
Loan Issuance Costs, Net of Accumulated Amortization	-	167,287	167,287
Capital Assets, Not Being Depreciated	-	1,000,000	1,000,000
Capital Assets, Net of Accumulated Depreciation	<u>256,268</u>	<u>4,678,527</u>	<u>4,934,795</u>
<b>TOTAL ASSETS</b>	<u>564,651</u>	<u>5,995,118</u>	<u>6,559,769</u>
<b>LIABILITIES</b>			
Accounts Payable	38,021	-	38,021
Accrued Liabilities	86,621	-	86,621
Accrued Salaries and Benefits	45,966	-	45,966
Accrued Interest Payable	-	66,967	66,967
Noncurrent Liabilities			
Due Within One Year	140,644	85,000	225,644
Due in More Than One Year	<u>615,722</u>	<u>5,655,000</u>	<u>6,270,722</u>
<b>TOTAL LIABILITIES</b>	<u>926,974</u>	<u>5,806,967</u>	<u>6,733,941</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	239,597	105,814	345,411
Restricted for Debt Service	-	32,337	32,337
Restricted for Repairs and Replacement	-	50,000	50,000
Restricted for Instructional Supplies	4,802	-	4,802
Restricted for Emergencies	72,000	-	72,000
Unrestricted	<u>(678,722)</u>	<u>-</u>	<u>(678,722)</u>
<b>TOTAL NET ASSETS</b>	<u>\$ (362,323)</u>	<u>\$ 188,151</u>	<u>\$ (174,172)</u>

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

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

STATEMENT OF ACTIVITIES

Year Ended June 30, 2011

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES	
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
<b>PRIMARY GOVERNMENT</b>			
<b>Governmental Activities</b>			
Instruction	\$ 962,935	\$ 301,618	\$ 69,199
Supporting Services	830,436	88,536	38,714
Interest Expense	69,247	-	-
Total Governmental Activities	<u>1,862,618</u>	<u>390,154</u>	<u>107,913</u>
<b>Business-Type Activities</b>			
Building Corporation	<u>521,625</u>	-	-
Total Business-Type Activities	<u>521,625</u>	-	-
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$ 2,384,243</u>	<u>\$ 390,154</u>	<u>\$ 107,913</u>

GENERAL REVENUES

Per Pupil Revenue

Capital Construction

Grants and Contributions not Restricted to Specific Programs

Investment Income

Miscellaneous

TRANSFERS

TOTAL GENERAL REVENUES AND TRANSFERS

CHANGE IN NET ASSETS

NET ASSETS, Beginning

NET ASSETS, Ending

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

NET (EXPENSE) REVENUE AND CHANGE IN NET ASSETS

GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS
\$ (592,118)	\$ -	\$ (592,118)
(703,186)	-	(703,186)
<u>(69,247)</u>	<u>-</u>	<u>(69,247)</u>
 (1,364,551)	 -	 (1,364,551)
 -	 (521,625)	 (521,625)
 -	 (521,625)	 (521,625)
<u>(1,364,551)</u>	<u>(521,625)</u>	<u>(1,886,176)</u>
 1,852,093	 -	 1,852,093
26,062	-	26,062
 12,652	 -	 12,652
-	23	23
371	-	371
<u>(487,250)</u>	<u>487,250</u>	<u>-</u>
 1,403,928	 487,273	 1,891,201
 39,377	 (34,352)	 5,025
<u>(401,700)</u>	<u>222,503</u>	<u>(179,197)</u>
\$ <u><u>(362,323)</u></u>	\$ <u><u>188,151</u></u>	\$ <u><u>(174,172)</u></u>

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2011

	GENERAL	FOOD SERVICE	TOTALS
<b>ASSETS</b>			
Cash	\$ 246,599	\$ -	\$ 246,599
Accounts Receivable	42,683	-	42,683
Grants Receivable	-	3,560	3,560
Prepaid Expenditures	11,473	-	11,473
Interfund Receivables	7,628	-	7,628
<b>TOTAL ASSETS</b>	<b>\$ 308,383</b>	<b>\$ 3,560</b>	<b>\$ 311,943</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts Payable	\$ 38,021	\$ -	\$ 38,021
Accrued Liabilities	86,621	-	86,621
Accrued Salaries and Benefits	45,966	-	45,966
Interfund Payables	-	3,560	3,560
<b>TOTAL LIABILITIES</b>	<b>170,608</b>	<b>3,560</b>	<b>174,168</b>
<b>FUND BALANCES</b>			
Nonspendable Prepaid Expenditures	11,473	-	11,473
Restricted for Instructional Supplies	4,802	-	4,802
Restricted for Emergencies	72,000	-	72,000
Unrestricted, Unassigned	49,500	-	49,500
<b>TOTAL FUND BALANCES</b>	<b>137,775</b>	<b>-</b>	<b>137,775</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 308,383</b>	<b>\$ 3,560</b>	<b>\$ 311,943</b>

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

Total Fund Balances of Governmental Funds	\$ 137,775
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in governmental funds.	256,268
Long-term liabilities are not due and payable in the current year and, therefore, are not reported in governmental funds.	(756,366)
Total Net Assets of Governmental Activities	\$ (362,323)

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

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2011

	GENERAL	FOOD SERVICE	TOTALS
REVENUES			
Local Sources	\$ 2,225,541	\$ 29,729	\$ 2,255,270
State Sources	49,682	462	50,144
Federal Sources	45,579	38,252	83,831
 TOTAL REVENUES	 2,320,802	 68,443	 2,389,245
EXPENDITURES			
Current			
Instruction	951,677	-	951,677
Supporting Services	1,183,838	84,955	1,268,793
Debt Service			
Principal	157,397	-	157,397
Interest and Fees	69,247	-	69,247
 TOTAL EXPENDITURES	 2,362,159	 84,955	 2,447,114
 EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	 (41,357)	 (16,512)	 (57,869)
OTHER FINANCING SOURCES (USES)			
Transfers In	-	16,512	16,512
Transfers Out	(16,512)	-	(16,512)
 TOTAL OTHER FINANCING SOURCES (USES)	 (16,512)	 16,512	 -
 NET CHANGE IN FUND BALANCES	 (57,869)	 -	 (57,869)
FUND BALANCES, Beginning	195,644	-	195,644
FUND BALANCES, Ending	\$ 137,775	\$ -	\$ 137,775

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

Net Change in Fund Balances of Governmental Funds		\$	(57,869)
Capital outlays to purchase or construct capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are capitalized in the statement of net assets and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which depreciation expense (\$64,296) exceeded capital outlay \$4,145 in the current year.			(60,151)
Repayments of long-term debt are expenditures in the governmental funds, but reduce long-term liabilities in the statement of net assets and do not affect the statement of activities.			157,397
Change in Net Assets of Governmental Activities		\$	39,377

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



NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

STATEMENT OF NET ASSETS

PROPRIETARY FUND

June 30, 2011

	<u>BUILDING CORPORATION</u>
ASSETS	
CURRENT ASSETS	
Restricted Investments	\$ <u>153,372</u>
TOTAL CURRENT ASSETS	<u>153,372</u>
NONCURRENT ASSETS	
Loan Issuance Costs, Net of Accumulated Amortization	167,287
Capital Assets, Not Being Depreciated	1,000,000
Capital Assets, Net of Accumulated Depreciation	<u>4,678,527</u>
TOTAL NONCURRENT ASSETS	<u>5,845,814</u>
TOTAL ASSETS	<u>5,999,186</u>
LIABILITIES	
CURRENT LIABILITIES	
Interfund Payables	4,068
Accrued Interest Payable	66,967
Loan Payable, Current Portion	<u>85,000</u>
TOTAL CURRENT LIABILITIES	156,035
NONCURRENT LIABILITIES	
Loan Payable	<u>5,655,000</u>
TOTAL LIABILITIES	<u>5,811,035</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	105,814
Restricted for Debt Service	32,337
Restricted for Repairs and Replacement	<u>50,000</u>
TOTAL NET ASSETS	<u>\$ <u>188,151</u></u>

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

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
 Year Ended June 30, 2011

	<u>BUILDING CORPORATION</u>
OPERATING REVENUE	
Lease Revenue	\$ <u>487,250</u>
OPERATING EXPENSES	
Depreciation	109,318
Amortization of Loan Issuance Costs	6,691
Debt Service	
Interest and Fees	<u>405,616</u>
TOTAL OPERATING EXPENSES	<u>521,625</u>
NET OPERATING INCOME (LOSS)	(34,375)
NONOPERATING INCOME	
Investment Income	<u>23</u>
CHANGE IN NET ASSETS	(34,352)
NET ASSETS, Beginning	<u>222,503</u>
NET ASSETS, Ending	<u>\$ 188,151</u>

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

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

Year Ended June 30, 2011

Increase (Decrease) in Cash and Cash Equivalents

	<u>BUILDING CORPORATION</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Lease Payments Received	\$ 487,250
Loan Interest and Fees Paid	(407,424)
Loan Principal Paid	<u>(80,000)</u>
Net Cash Used for Operating Activities	<u>(174)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Investment Income Received	<u>23</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	(151)
<b>CASH AND CASH EQUIVALENTS, Beginning</b>	<u>153,523</u>
<b>CASH AND CASH EQUIVALENTS, Ending</b>	<u>\$ 153,372</u>
<b>RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH USED FOR OPERATING ACTIVITIES</b>	
Net Operating Income (Loss)	\$ (34,375)
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Used for Operating Activities	
Depreciation Expense	109,318
Amortization of Loan Issuance Costs	6,691
Changes in Assets and Liabilities	
Accrued Interest Payable	(1,808)
Loan Payable	<u>(80,000)</u>
Net Cash Used for Operating Activities	<u>\$ (174)</u>

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

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

AGENCY FUND

June 30, 2011

	<u>STUDENT ACTIVITIES</u>
ASSETS	
Cash	\$ <u>22,208</u>
LIABILITIES	
Due to Student Groups	\$ <u>22,208</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

**Reporting Entity**

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

The School includes the Colorado School Resource Center, a Colorado nonprofit corporation (the “Building Corporation”) within its reporting entity. The Building Corporation was formed for charitable and educational purposes, and provides financing exclusively for the School’s facilities. The Building Corporation is blended into the School’s financial statements as an enterprise fund.

**Government-wide and Fund Financial Statements**

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

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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

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

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

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

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

The School reports the following major governmental and proprietary funds:

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

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

In addition, the School reports the following fund type:

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

**Assets, Liabilities and Net Assets/Fund Balances**

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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

*Prepaid Expenses* - Payments made to vendors for services that will benefit periods beyond the current year are reported as prepaid expenses.

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

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

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

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

*Deferred Revenues* - Deferred revenues arise when resources are received by the School before it has a legal claim to them, or when assets are not available as current financial resources in the governmental funds.

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

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

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

*Net Assets/Fund Balances* - In the government-wide and fund financial statements, net assets and fund balances are restricted when constraints placed on the use of resources are externally imposed. The School has not established a formal policy for its use of restricted and unrestricted fund balances. However, if both restricted and unrestricted fund balances are available, the School uses restricted fund balance first.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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

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

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

At June 30, 2011, the School's governmental activities in the government-wide financial statements had deficit net assets of \$362,323, primarily as a result of ongoing operating losses. The School has received operating loans from the management company to cover these losses. Management's plans to eliminate this deficit balance are described in Note 9.

**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, 2011, the School did not meet this requirement, which may constitute an event of default as defined in the lease agreement. In addition, the School is required to deposit \$25,000 on an annual basis to a repair and replacement fund until the amount equals \$200,000. This deposit was made subsequent to year end.

**NOTE 3: CASH AND INVESTMENTS**

Cash and investments at June 30, 2011, consisted of the following:

Deposits	\$ 268,807
Investments	<u>153,372</u>
Total	<u><u>\$ 422,179</u></u>

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

Cash	\$ 246,599
Restricted Investments	153,372
Agency Fund Cash	<u>22,208</u>
Total	<u><u>\$ 422,179</u></u>



NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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

The Colorado Public Deposit Protection Act (PDPA) requires local government entities to deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. The PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

**Investments**

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

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

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

*Credit Risk* - State statutes limit investments in money market funds to those that maintain a constant share price, with a maximum remaining maturity in accordance with Rule 2a-7, and either have assets of one billion dollars or the highest rating issued by a nationally recognized statistical rating organization ("NRSRO"). At June 30, 2011, the Building Corporation had \$153,372 invested in a money market fund rated Aaa by Moody's Investors Service.

**Restricted Cash and Investments**

Investments of \$153,372 have been restricted by the Building Corporation for future debt service and repairs and replacement.

**NOTE 4: INTERFUND BALANCES AND TRANSACTIONS**

At June 30, 2011, the General Fund covered the negative cash balances of the Food Service Fund until grants were received, in the amount of \$3,560. The Building Corporation owed the General Fund \$4,068 for expenses paid by the General Fund in prior years.

During the year ended June 30, 2011, the General Fund subsidized the operations of the Food Service Fund with a transfer of \$16,512.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**NOTE 5: CAPITAL ASSETS**

Changes in capital assets for the year ended June 30, 2011, are summarized below:

	<u>Balances</u> 6/30/10	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> 6/30/11
<b>Governmental Activities</b>				
Capital Assets, Being Depreciated				
Furniture and Equipment	\$ 499,645	\$ 4,145	\$ -	\$ 503,790
Less Accumulated Depreciation				
Furniture and Equipment	<u>(183,226)</u>	<u>(64,296)</u>	<u>-</u>	<u>(247,522)</u>
Governmental Activities Capital Assets, Net	<u><b>\$ 316,419</b></u>	<u><b>\$ (60,151)</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 256,268</b></u>
<b>Business-Type Activities</b>				
Capital Assets, Not Being Depreciated				
Land	<u>\$ 1,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,000,000</u>
Capital Assets, Being Depreciated				
Building and Improvements	5,202,684	-	-	5,202,684
Furniture and Equipment	<u>12,487</u>	<u>-</u>	<u>-</u>	<u>12,487</u>
Total Capital Assets, Being Depreciated	<u>5,215,171</u>	<u>-</u>	<u>-</u>	<u>5,215,171</u>
Less Accumulated Depreciation				
Building and Improvements	(424,107)	(108,803)	-	(532,910)
Furniture and Equipment	<u>(3,219)</u>	<u>(515)</u>	<u>-</u>	<u>(3,734)</u>
Total Accumulated Depreciation	<u>(427,326)</u>	<u>(109,318)</u>	<u>-</u>	<u>(536,644)</u>
Total Capital Assets, Being Depreciated, Net	<u>4,787,845</u>	<u>(109,318)</u>	<u>-</u>	<u>4,678,527</u>
Business-Type Activities Capital Assets, Net	<u><b>\$ 5,787,845</b></u>	<u><b>\$ (109,318)</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 5,678,527</b></u>

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

Instruction	\$ 15,403
Supporting Services	<u>48,893</u>
Total	<u><b>\$ 64,296</b></u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**NOTE 6: LONG-TERM DEBT**

Following is a summary of long-term debt transactions for the year ended June 30, 2011:

	Balances <u>6/30/10</u>	<u>Additions</u>	<u>Payments</u>	Balances <u>6/30/11</u>	Due Within <u>One Year</u>
<b>Governmental Activities</b>					
Capital Leases	\$ 58,336	\$ -	\$ 41,665	\$ 16,671	\$ 15,306
Mosaica Loan	<u>873,806</u>	<u>-</u>	<u>134,111</u>	<u>739,695</u>	<u>125,338</u>
Total	<u><b>\$ 932,142</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 175,776</b></u>	<u><b>\$ 756,366</b></u>	<u><b>\$ 140,644</b></u>
<b>Business-Type Activities</b>					
Building Loan	<u><b>\$ 5,820,000</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 80,000</b></u>	<u><b>\$ 5,740,000</b></u>	<u><b>\$ 85,000</b></u>

**Capital Leases**

In August 2006, the School entered into a lease agreement to purchase furniture. Terms of the agreement require monthly payments of \$3,241, through October 2011. Interest accrues at 10.6% per annum. Assets of \$150,364 have been capitalized under this lease agreement.

In July 2007, the School entered into a lease agreement to purchase furniture and equipment. Terms of the agreement require monthly payments of \$600, through September 2012. Interest accrues at 8.5% per annum. Assets of \$29,277 have been capitalized under this lease agreement.

Following is a schedule of the future minimum lease payments required under the capital lease obligations.

Year Ending June 30,

2012	\$ 20,170
2013	<u>1,800</u>
Total Minimum Lease Payments	21,970
Less: Interest	<u>(5,299)</u>
Present Value of Future Minimum Lease Payments	<u><b>\$ 16,671</b></u>

**Mosaica Loan**

On June 30, 2009, the School revised its loan agreement with the management company, Mosaica Education, Inc. (See Note 7). The agreement increased the loan amount to \$962,290. This amount refinanced the outstanding balance of the existing loans of \$492,875 and provided an additional \$469,415, all for the purpose of financing operations. Under the terms of the agreement, monthly payments of \$15,001 are required beginning on July 31, 2009, through June 30, 2016. The loan accrues interest at 8% per annum. At June 30, 2011, the School was delinquent on monthly payments totaling \$15,001. This amount was reported in the financial statements as a liability of the General Fund.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**NOTE 6: LONG-TERM DEBT (Continued)**

Future loan payments are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 125,338	\$ 54,674	\$ 180,012
2013	135,741	44,271	180,012
2014	147,008	33,004	180,012
2015	159,196	20,816	180,012
2016	<u>172,412</u>	<u>7,600</u>	<u>180,012</u>
Total	<u><b>\$ 739,695</b></u>	<u><b>\$ 160,365</b></u>	<u><b>\$ 900,060</b></u>

**Building Loan**

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

Future debt service requirements for the bonds are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 85,000	\$ 401,800	\$ 486,800
2013	90,000	395,850	485,850
2014	100,000	389,550	489,550
2015	105,000	382,550	487,550
2016	115,000	375,200	490,200
2017 - 2021	700,000	1,744,750	2,444,750
2022 - 2026	980,000	1,463,350	2,443,350
2027 - 2031	1,380,000	1,067,850	2,447,850
2032 - 2036	<u>2,185,000</u>	<u>512,400</u>	<u>2,697,400</u>
Total	<u><b>\$ 5,740,000</b></u>	<u><b>\$ 6,733,300</b></u>	<u><b>\$ 12,473,300</b></u>

**NOTE 7: MANAGEMENT AGREEMENT**

The School entered into a management agreement with Mosaica Education, Inc. (MEI), to provide educational and administrative services to the School through June 30, 2016, with automatic annual renewals thereafter. The teachers and staff are employees of MEI, but these costs are reported in functional categories in the financial statements for better reporting purposes. Under the terms of the agreement, the School will pay to MEI an annual fee for services performed. The fees earned and paid for the year ended June 30, 2011, were \$194,812.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**NOTE 8: COMMITMENTS AND CONTINGENCIES**

**Claims and Judgments**

The School participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental entities. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the School may be required to reimburse the grantor government. At June 30, 2011, significant amounts of grant expenditures have not been audited but the School believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the School.

**Tabor Amendment**

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments. The Amendment is complex and subject to judicial interpretation. However, the School believes it is in substantial compliance with the Amendment. The Amendment requires state and local governments to establish an emergency reserve, representing 3% of qualifying expenditures. At June 30, 2011, the School's emergency reserve, in the amount of \$72,000, was reported as restricted fund balance in the General Fund.

**NOTE 9: GOING CONCERN**

The School has incurred ongoing losses from prior years' operations and has deficit net assets that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to this matter are to achieve break even operations for the 2011/2012 fiscal year.

**REQUIRED SUPPLEMENTARY INFORMATION**

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2011

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE Positive (Negative)</u>
<b>REVENUES</b>				
Local Sources				
Per Pupil Revenue	\$ 2,178,851	\$ 1,846,152	\$ 1,852,093	\$ 5,941
Tuition	230,977	387,774	352,334	(35,440)
Contributions and Donations	20,000	20,000	12,652	(7,348)
Facility Rental	2,000	6,000	8,091	2,091
Miscellaneous	1,841	1,841	371	(1,470)
Total Local Sources	<u>2,433,669</u>	<u>2,261,767</u>	<u>2,225,541</u>	<u>(36,226)</u>
State Sources				
Grants	<u>30,000</u>	<u>49,761</u>	<u>49,682</u>	<u>(79)</u>
Federal Sources				
Grants	<u>58,830</u>	<u>44,869</u>	<u>45,579</u>	<u>710</u>
TOTAL REVENUES	<u>2,522,499</u>	<u>2,356,397</u>	<u>2,320,802</u>	<u>(35,595)</u>
<b>EXPENDITURES</b>				
Current				
Salaries	874,686	949,656	912,072	37,584
Employee Benefits	188,469	194,048	187,813	6,235
Purchased Services	1,052,350	952,089	951,442	647
Supplies and Materials	144,082	90,034	83,076	6,958
Miscellaneous	5,600	3,350	1,112	2,238
Debt Service				
Principal	157,182	157,182	157,397	(215)
Interest and Fees	68,926	68,926	69,247	(321)
TOTAL EXPENDITURES	<u>2,491,295</u>	<u>2,415,285</u>	<u>2,362,159</u>	<u>53,126</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	31,204	(58,888)	(41,357)	17,531
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers Out	<u>(25,000)</u>	<u>(40,000)</u>	<u>(16,512)</u>	<u>23,488</u>
NET CHANGE IN FUND BALANCE	6,204	(98,888)	(57,869)	41,019
FUND BALANCE, Beginning	<u>356</u>	<u>105,830</u>	<u>195,644</u>	<u>89,814</u>
FUND BALANCE, Ending	<u>\$ 6,560</u>	<u>\$ 6,942</u>	<u>\$ 137,775</u>	<u>\$ 130,833</u>

See the accompanying Independent Auditors' Report.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

**NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information**

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

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

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

**Legal Compliance**

For the year ended June 30, 2011, expenditures of the Food Service Fund exceeded the amounts budgeted by \$6,820. This may be a violation of State statutes.



**SUPPLEMENTARY INFORMATION**

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

BUDGETARY COMPARISON SCHEDULE

FOOD SERVICE FUND

Year Ended June 30, 2011

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE Positive (Negative)</u>
REVENUES				
Local Sources				
Lunch Charges	\$ 34,756	\$ 37,715	\$ 29,729	\$ (7,986)
State Sources				
Grants	-	300	462	162
Federal Sources				
Grants	<u>28,414</u>	<u>27,795</u>	<u>38,252</u>	<u>10,457</u>
TOTAL REVENUES	<u>63,170</u>	<u>65,810</u>	<u>68,443</u>	<u>2,633</u>
EXPENDITURES				
Supporting Services				
Salaries	12,600	7,000	9,338	(2,338)
Employee Benefits	1,061	555	714	(159)
Purchased Services	41,800	69,380	73,829	(4,449)
Supplies and Materials	<u>1,200</u>	<u>1,200</u>	<u>1,074</u>	<u>126</u>
TOTAL EXPENDITURES	<u>56,661</u>	<u>78,135</u>	<u>84,955</u>	<u>(6,820)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	6,509	(12,325)	(16,512)	(4,187)
OTHER FINANCING SOURCES				
Transfers In	<u>-</u>	<u>15,000</u>	<u>16,512</u>	<u>1,512</u>
NET CHANGE IN FUND BALANCE	6,509	2,675	-	(2,675)
FUND BALANCE, Beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, Ending	<u>\$ 6,509</u>	<u>\$ 2,675</u>	<u>\$ -</u>	<u>\$ (2,675)</u>

See the accompanying Independent Auditors' Report.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
STUDENT ACTIVITIES FUND  
 Year Ended June 30, 2011

	<u>BALANCE</u> 6/30/10	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> 6/30/11
<b>ASSETS</b>				
Cash	\$ <u>12,271</u>	\$ <u>35,246</u>	\$ <u>25,309</u>	\$ <u>22,208</u>
<b>LIABILITIES</b>				
Due to Student Groups	\$ <u>12,271</u>	\$ <u>35,246</u>	\$ <u>25,309</u>	\$ <u>22,208</u>

See the accompanying Independent Auditors' Report.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

BUDGETARY COMPARISON SCHEDULE

STUDENT ACTIVITIES FUND

Year Ended June 30, 2011

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE Positive (Negative)</u>
REVENUES				
Student Groups	\$ 33,000	\$ 35,800	\$ 35,246	\$ (554)
TOTAL REVENUES	<u>33,000</u>	<u>35,800</u>	<u>35,246</u>	<u>(554)</u>
EXPENDITURES				
Student Groups	<u>30,078</u>	<u>35,800</u>	<u>25,309</u>	<u>10,491</u>
TOTAL EXPENDITURES	<u>30,078</u>	<u>35,800</u>	<u>25,309</u>	<u>10,491</u>
NET CHANGE IN DUE TO STUDENT GROUPS	2,922	-	9,937	9,937
DUE TO STUDENT GROUPS, Beginning	<u>-</u>	<u>-</u>	<u>12,271</u>	<u>12,271</u>
DUE TO STUDENT GROUPS, Ending	<u>\$ 2,922</u>	<u>\$ -</u>	<u>\$ 22,208</u>	<u>\$ 22,208</u>

See the accompanying Independent Auditors' Report.