

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

FINANCIAL STATEMENTS

June 30, 2010

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	
Management's Discussion and Analysis	i - vii
Basic Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Balance Sheet - Governmental Funds	3
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	4
Statement of Net Assets - Proprietary Fund	5
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Fund	6
Statement of Cash Flows - Proprietary Fund	7
Statement of Fiduciary Assets and Liabilities - Agency Fund	8
Notes to Financial Statements	9 - 17
Required Supplementary Information	
Budgetary Comparison Schedule - General Fund	18
Notes to Required Supplementary Information	19
Supplementary Information	
Combining Balance Sheet - Nonmajor Governmental Funds	20
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	21
Budgetary Comparison Schedule - Capital Reserve Fund	22
Budgetary Comparison Schedule - Grants Fund	23
Budgetary Comparison Schedule - Food Service Fund	24
Statement of Changes in Assets and Liabilities - Student Activities Fund	25
Budgetary Comparison Schedule - Student Activities Fund	26

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, 2010, 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, 2010, 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

November 30, 2010

Northern Colorado Academy of Arts & Knowledge

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2010

Northern Colorado Academy of Arts & Knowledge dba Ted Paul Academy of Arts and Knowledge is a K-8 Public Charter School located in Fort Collins, Colorado that began operations in the fall of 2006. This Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Northern Colorado Academy of Arts & Knowledge administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2010.

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. Additional governmental activities are reported in their relevant Special Revenue Funds. 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, 2010

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

Summary of Net Assets:

The following summarizes the net assets at fiscal year ended June 30, 2010:

Net Assets Summary

	Governmental Activities		Business-type Activities		Totals	
	2009	2010	2009	2010	2009	2010
Assets						
Current assets	\$ 372,902	\$ 433,741	\$ 124,516	\$ 149,455	\$ 497,418	\$ 583,196
Other assets	-	-	180,669	173,978	180,669	173,978
Capital assets	454,182	499,645	6,215,171	6,215,171	6,669,353	6,714,816
Less: accumulated depreciation	(119,125)	(183,226)	(318,009)	(427,326)	(437,134)	(610,552)
Capital assets, net book value	335,057	316,419	5,897,162	5,787,845	6,232,219	6,104,264
Total assets	<u>\$ 707,959</u>	<u>\$ 750,160</u>	<u>\$ 6,202,347</u>	<u>\$ 6,111,278</u>	<u>\$ 6,910,306</u>	<u>\$ 6,861,438</u>
Liabilities						
Current liabilities	\$ 142,709	\$ 219,718	\$ 68,775	\$ 68,775	\$ 211,484	\$ 288,493
Long-term liabilities	1,082,109	932,142	5,895,000	5,820,000	6,977,109	6,752,142
Total liabilities	<u>\$ 1,224,818</u>	<u>\$ 1,151,860</u>	<u>\$ 5,963,775</u>	<u>\$ 5,888,775</u>	<u>\$ 7,188,593</u>	<u>\$ 7,040,635</u>
Net assets						
Invested in capital assets, net of related debt (deficit)	\$ 215,238	\$ 258,083	\$ 182,831	\$ 141,823	\$ 398,069	\$ 399,906
Restricted	125,162	110,429	55,741	80,680	180,903	191,109
Unrestricted	(857,259)	(770,212)	-	-	(857,259)	(770,212)
Total net assets	<u>\$ (516,859)</u>	<u>\$ (401,700)</u>	<u>\$ 238,572</u>	<u>\$ 222,503</u>	<u>\$ (278,287)</u>	<u>\$ (179,197)</u>

FINANCIAL ANALYSIS OF THE ACADEMY'S ACTIVITIES

During fiscal year ended June 30, 2010, the Academy's net assets increased by \$99,090 primarily as a result of sizeable debt service installments made during the school year by the Academy. Another item that has been negatively impacting total net assets is the difference between the pace capital assets are being depreciated and the pace that long term debt associated with the capital assets is being retired. Because of the sizeable installment of debt service during the year, this switched from a trend of annual decreases in net assets to a positive impact because straight line depreciation of the book value of capital assets (\$151,363 in 2007-08, \$162,619 in 2008-09 and \$173,418 in 2009-10) stopped outpacing the retirement of debt (\$77,712 in 2007-08, \$158,368 in 2008-09 and \$224,967 in 2009-10) that has been used to finance capital asset acquisitions.

Northern Colorado Academy of Arts & Knowledge

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2010

A. Results of Operations:

For the fiscal year ended June 30, 2010, the Academy wide results of operations were:

	Governmental Activities				Business-type Activities				Total			
	2009		2010		2009		2010		2009		2010	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
General revenue:												
State and District aid - all sources	\$ 2,412,692	91.78%	\$ 2,477,439	89.00%	\$ -	0.00%	\$ -	0.00%	\$ 2,412,692	91.70%	\$ 2,477,439	89.00%
Other	32,758	1.25%	29,927	1.07%	2,132	100.00%	19	100.00%	34,890	1.33%	29,946	1.07%
Total general revenue	2,445,450	93.02%	2,507,366	90.07%	2,132	100.00%	19	100.00%	2,447,582	93.03%	2,507,385	90.07%
Program revenue:												
Charges for services	134,775	5.13%	159,161	5.72%	-	0.00%	-	0.00%	134,775	5.12%	159,161	5.72%
Operating grants - federal and state	48,684	1.85%	117,219	4.21%	-	0.00%	-	0.00%	48,684	1.85%	117,219	4.21%
Total program revenue	183,459	6.98%	276,380	9.93%	-	0.00%	-	0.00%	183,459	6.97%	276,380	9.93%
Total revenue	2,628,909	100.00%	2,783,746	100.00%	2,132	100.00%	19	100.00%	2,631,041	100.00%	2,783,765	100.00%
Expenses:												
Instruction and instructional services	1,183,876	53.44%	1,151,596	53.41%	-	0.00%	-	0.00%	1,183,876	43.08%	1,151,596	42.90%
Support services	955,691	43.14%	911,712	42.29%	-	0.00%	-	0.00%	955,691	34.77%	911,712	33.96%
Interest on long-term debt	75,671	3.42%	92,691	4.30%	-	0.00%	-	0.00%	75,671	2.75%	92,691	3.45%
Building Corporation	-	0.00%	-	0.00%	533,115	100.00%	528,676	100.00%	533,115	19.40%	528,676	19.69%
Total expenses	2,215,238	100.00%	2,155,999	100.00%	533,115	100.00%	528,676	100.00%	2,748,353	100.00%	2,684,675	100.00%
Transfers:												
Interfund Transfers	(512,575)	100.00%	(512,588)	100.00%	512,575	100.00%	512,588	100.00%	-	100.00%	-	100.00%
Increase (decrease) in net assets	\$ (98,904)		\$ 115,159		\$ (18,408)		\$ (16,069)		\$ (117,312)		\$ 99,090	

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 and reducing the carrying cost of outstanding obligations by accelerating debt service retirement.

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 \$6,763 per student for 2009-10 as compared to \$6,426 for 2008-09.
- **Student Enrollment:** The Academy's student enrollment for the fall count of 2009-10 was 385 students as compared 377 students for fall of 2008-09. To calculate total state aid to be provided by the District funded PPOR, enrollment is multiplied by the Academy's per pupil funding. It should be noted that Kindergarten students are only funded at 58% of the per pupil allocation. The funded full time equivalent (FTE) student count after adjusting out .42 FTE for each kindergarten student was 344.2 students for 2009-10 and 343 students for 2008-09.

Northern Colorado Academy of Arts & Knowledge

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2010

Subsequent to June 30, 2010, the fall 2010 FTE is approximately 294, a decrease of 50 from the 2009-2010 levels. Of that 50 FTE decline, approximately 44 were the direct result of the Board's decision to not offer 7th and 8th grade instruction during 2010-11.

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 \$34,549 for the fiscal year ended June 30, 2010. 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		
2008-2009	\$ 2,717,418	\$ 2,822,347
2009-2010	\$ 2,530,104	\$ 2,531,367
Expenditures and Other Financing Uses		
2008-2009	\$ 2,715,223	\$ 2,670,787
2009-2010	\$ 2,529,995	\$ 2,565,916

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 April 2010 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	\$ 2,562,416
Total Revenues Final Budget	<u>2,530,104</u>
Decrease in Budgeted Revenues	<u>\$ 32,312</u>

The Academy's final general fund revenues were higher than the final budget by \$ 1,263, a variance of 0.05%.

Northern Colorado Academy of Arts & Knowledge

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2010

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

- Original budget had estimated a funded FTE of 344 students and fall 2009 actual funded FTE was 344.2.
- 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	\$ 2,560,280
Total Expenditures Final Budget	<u>2,529,995</u>
Decrease in Budgeted Expenditures	<u>\$ 30,285</u>

The Academy's actual expenditures were more than final budget by \$35,921 a variance of 1.42%. This variance was primarily a result of additional debt service and contract fees that were incurred.

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 funds 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 certain capital resources, the revenues and corresponding uses of certain grant funding, and the food service program. Summaries of these non-major funds can be found on pages 20 through 24 in the Combining and Individual Fund Statements and Schedules.

CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

The Academy's investment in capital assets decreased by \$127,955 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, 2010

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Depreciable capital assts	\$ 6,669,353	\$ 45,463	\$ -	\$ 6,714,816
Less: accumulated depreciation	<u>(437,134)</u>	<u>(173,418)</u>	<u>-</u>	<u>(610,552)</u>
Investment in capital assets	<u>\$ 6,232,219</u>	<u>\$ (127,955)</u>	<u>\$ -</u>	<u>\$ 6,104,264</u>

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

B. Depreciation Expense

GASB 34 requires Public School Academies 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 fund financial statements and has been noted as a reconciling item in the Academy's financial statements.

For fiscal year ended June 30, 2010, the net increase in accumulated depreciation was \$173,418.

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 2009-10 the Academy's payments on the revised payment plan on outstanding obligations to its management company resulted in a principal retirement of \$88,484.

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

Northern Colorado Academy of Arts & Knowledge

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2010

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

	Balance 6/30/2009	New Financings	Principal Payments	Balance 6/30/2010
Capital leases	\$ 119,819	\$ -	\$ 61,483	\$ 58,336
Operating loan	962,290	-	88,484	873,806
Facility bond	5,895,000	-	75,000	5,820,000
Total	<u>\$ 6,977,109</u>	<u>\$ -</u>	<u>\$ 224,967</u>	<u>\$ 6,752,142</u>

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Preliminary Budget for the 2010-11 Fiscal Year was adopted by the Board of Directors in April 2010. The Board is working on a revision to the original budget and expects to complete that work in December 2010. 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 2010-11 Board budget:

- PPOR funding had been estimated to be \$6,334 per pupil;
- Enrollment of 365 students in grades k-6 with a funded FTE of 344;
- 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 2009-10.

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, 2010

	GOVERNMENTAL	BUSINESS-TYPE	TOTALS	
	ACTIVITIES	ACTIVITIES	2010	2009
ASSETS				
Cash	\$ 378,426	\$ -	\$ 378,426	\$ 217,930
Restricted Investments	-	153,523	153,523	128,584
Accounts Receivable	39,315	-	39,315	46
Accounts Receivable - Related Party	-	-	-	145,114
Grants Receivable	4,995	-	4,995	-
Prepaid Expenses	6,937	-	6,937	5,744
Internal Balances	4,068	(4,068)	-	-
Loan Issuance Costs, Net of Accumulated Amortization	-	173,978	173,978	180,669
Capital Assets, Not Being Depreciated	-	1,000,000	1,000,000	1,000,000
Capital Assets, Net of Accumulated Depreciation	316,419	4,787,845	5,104,264	5,232,219
TOTAL ASSETS	750,160	6,111,278	6,861,438	6,910,306
LIABILITIES				
Accounts Payable	124,194	-	124,194	6,415
Accrued Liabilities	37,228	-	37,228	38,740
Accrued Salaries and Benefits	58,296	-	58,296	59,704
Deferred Revenue	-	-	-	37,850
Accrued Interest Payable	-	68,775	68,775	68,775
Noncurrent Liabilities				
Due Within One Year	175,773	80,000	255,773	243,343
Due in More Than One Year	756,369	5,740,000	6,496,369	6,733,766
TOTAL LIABILITIES	1,151,860	5,888,775	7,040,635	7,188,593
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	258,083	141,823	399,906	398,069
Restricted for Debt Service	-	30,680	30,680	30,741
Restricted for Repairs and Replacement	-	50,000	50,000	25,000
Restricted for Instructional Supplies	32,429	-	32,429	54,574
Restricted for Emergencies	78,000	-	78,000	70,588
Unrestricted	(770,212)	-	(770,212)	(857,259)
TOTAL NET ASSETS	\$ (401,700)	\$ 222,503	\$ (179,197)	\$ (278,287)

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, 2010

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES	
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
PRIMARY GOVERNMENT			
Governmental Activities			
Instruction	\$ 1,151,596	\$ 64,777	\$ 85,559
Supporting Services	911,712	94,384	31,660
Interest Expense	92,691	-	-
Total Governmental Activities	<u>2,155,999</u>	<u>159,161</u>	<u>117,219</u>
Business-Type Activities			
Building Corporation	<u>528,676</u>	-	-
Total Business-Type Activities	<u>528,676</u>	-	-
TOTAL PRIMARY GOVERNMENT	<u>\$ 2,684,675</u>	<u>\$ 159,161</u>	<u>\$ 117,219</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	
		2010	2009
\$ (1,001,260)	\$ -	\$ (1,001,260)	\$ (1,101,121)
(785,668)	-	(785,668)	(854,987)
<u>(92,691)</u>	<u>-</u>	<u>(92,691)</u>	<u>(75,671)</u>
(1,879,619)	-	(1,879,619)	(2,031,779)
-	(528,676)	(528,676)	(533,115)
-	(528,676)	(528,676)	(533,115)
<u>(1,879,619)</u>	<u>(528,676)</u>	<u>(2,408,295)</u>	<u>(2,564,894)</u>
2,271,744	-	2,271,744	2,200,880
33,583	-	33,583	36,861
172,112	-	172,112	174,951
-	19	19	2,132
29,927	-	29,927	32,758
<u>(512,588)</u>	<u>512,588</u>	<u>-</u>	<u>-</u>
1,994,778	512,607	2,507,385	2,447,582
115,159	(16,069)	99,090	(117,312)
<u>(516,859)</u>	<u>238,572</u>	<u>(278,287)</u>	<u>(160,975)</u>
\$ <u><u>(401,700)</u></u>	\$ <u><u>222,503</u></u>	\$ <u><u>(179,197)</u></u>	\$ <u><u>(278,287)</u></u>

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010

	<u>GENERAL</u>	<u>NONMAJOR FUNDS</u>	<u>TOTALS</u>	
			<u>2010</u>	<u>2009</u>
ASSETS				
Cash	\$ 378,426	\$ -	\$ 378,426	\$ 217,930
Accounts Receivable	39,315	-	39,315	46
Accounts Receivable - Related Party	-	-	-	145,114
Grants Receivable	-	4,995	4,995	-
Prepaid Expenditures	6,937	-	6,937	5,744
Interfund Receivables	9,063	-	9,063	4,068
	<u>433,741</u>	<u>4,995</u>	<u>438,736</u>	<u>372,902</u>
TOTAL ASSETS	\$ <u>433,741</u>	\$ <u>4,995</u>	\$ <u>438,736</u>	\$ <u>372,902</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 142,573	\$ -	\$ 142,573	\$ 6,415
Accrued Liabilities	37,228	-	37,228	38,740
Accrued Salaries and Benefits	58,296	-	58,296	59,704
Deferred Revenue	-	-	-	37,850
Interfund Payables	-	4,995	4,995	-
	<u>238,097</u>	<u>4,995</u>	<u>243,092</u>	<u>142,709</u>
TOTAL LIABILITIES	<u>238,097</u>	<u>4,995</u>	<u>243,092</u>	<u>142,709</u>
FUND BALANCES				
Reserved for Prepaid Expenditures	6,937	-	6,937	5,744
Reserved for Instructional Supplies	32,429	-	32,429	54,574
Reserved for Emergencies	78,000	-	78,000	70,588
Unreserved, Reported in General Fund	78,278	-	78,278	99,287
	<u>195,644</u>	<u>-</u>	<u>195,644</u>	<u>230,193</u>
TOTAL FUND BALANCES	<u>195,644</u>	<u>-</u>	<u>195,644</u>	<u>230,193</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>433,741</u>	\$ <u>4,995</u>	\$ <u>438,736</u>	\$ <u>372,902</u>

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

Total Fund Balances of Governmental Funds		\$ 195,644	\$ 230,193
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.		316,419	335,057
Long-term liabilities are not due and payable in the current year and, therefore, are not reported in the governmental funds.		<u>(913,763)</u>	<u>(1,082,109)</u>
Total Net Assets of Governmental Activities		\$ <u>(401,700)</u>	\$ <u>(516,859)</u>

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

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2010

	<u>GENERAL</u>	<u>NONMAJOR FUNDS</u>	<u>TOTALS</u>	
			<u>2010</u>	<u>2009</u>
REVENUES				
Local Sources	\$ 2,445,808	\$ 33,814	\$ 2,479,622	\$ 2,368,413
State Sources	28,260	34,127	62,387	55,674
Federal Sources	<u>57,299</u>	<u>184,438</u>	<u>241,737</u>	<u>204,822</u>
 TOTAL REVENUES	 <u>2,531,367</u>	 <u>252,379</u>	 <u>2,783,746</u>	 <u>2,628,909</u>
EXPENDITURES				
Current				
Instruction	982,871	153,322	1,136,193	1,177,856
Supporting Services	1,292,021	129,044	1,421,065	1,505,244
Debt Service				
Principal	168,346	-	168,346	187,993
Interest and Fees	<u>92,691</u>	<u>-</u>	<u>92,691</u>	<u>75,671</u>
 TOTAL EXPENDITURES	 <u>2,535,929</u>	 <u>282,366</u>	 <u>2,818,295</u>	 <u>2,946,764</u>
 EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	 <u>(4,562)</u>	 <u>(29,987)</u>	 <u>(34,549)</u>	 <u>(317,855)</u>
OTHER FINANCING SOURCES (USES)				
Loan Proceeds	-	-	-	469,415
Transfers In	-	29,987	29,987	148,062
Transfers Out	<u>(29,987)</u>	<u>-</u>	<u>(29,987)</u>	<u>(148,062)</u>
 TOTAL OTHER FINANCING SOURCES (USES)	 <u>(29,987)</u>	 <u>29,987</u>	 <u>-</u>	 <u>469,415</u>
 NET CHANGE IN FUND BALANCES	 (34,549)	 -	 (34,549)	 151,560
FUND BALANCES, Beginning	<u>230,193</u>	<u>-</u>	<u>230,193</u>	<u>78,633</u>
FUND BALANCES, Ending	<u>\$ 195,644</u>	<u>\$ -</u>	<u>\$ 195,644</u>	<u>\$ 230,193</u>

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

Net Change in Fund Balances of Governmental Funds		\$ (34,549)		\$ 151,560
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 (\$64,101) exceeded capital outlay \$45,463 in the current year.		(18,638)		30,958
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.		168,346		187,993
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets and does not affect the statement of activities.		-		(469,415)
Change in Net Assets of Governmental Activities		<u>\$ 115,159</u>		<u>\$ (98,904)</u>

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, 2010

	<u>BUILDING CORPORATION</u>	
	<u>2010</u>	<u>2009</u>
ASSETS		
CURRENT ASSETS		
Restricted Investments	\$ 153,523	\$ 128,584
TOTAL CURRENT ASSETS	<u>153,523</u>	<u>128,584</u>
NONCURRENT ASSETS		
Loan Issuance Costs, Net of Accumulated Amortization	173,978	180,669
Capital Assets, Not Being Depreciated	1,000,000	1,000,000
Capital Assets, Net of Accumulated Depreciation	<u>4,787,845</u>	<u>4,897,162</u>
TOTAL NONCURRENT ASSETS	<u>5,961,823</u>	<u>6,077,831</u>
TOTAL ASSETS	<u>6,115,346</u>	<u>6,206,415</u>
LIABILITIES		
CURRENT LIABILITIES		
Interfund Payables	4,068	4,068
Accrued Interest Payable	68,775	68,775
Loan Payable, Current Portion	<u>80,000</u>	<u>75,000</u>
TOTAL CURRENT LIABILITIES	152,843	147,843
NONCURRENT LIABILITIES		
Loan Payable	<u>5,740,000</u>	<u>5,820,000</u>
TOTAL LIABILITIES	<u>5,892,843</u>	<u>5,967,843</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	141,823	182,831
Restricted for Debt Service	30,680	30,741
Restricted for Repairs and Replacement	<u>50,000</u>	<u>25,000</u>
TOTAL NET ASSETS	<u>\$ 222,503</u>	<u>\$ 238,572</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, 2010

	<u>BUILDING CORPORATION</u>	
	<u>2010</u>	<u>2009</u>
OPERATING REVENUE		
Lease Revenue	\$ 512,588	\$ 512,575
OPERATING EXPENSES		
Depreciation	109,317	109,317
Amortization of Loan Issuance Costs	6,691	6,691
Debt Service		
Interest and Fees	<u>412,668</u>	<u>417,107</u>
TOTAL OPERATING EXPENSES	<u>528,676</u>	<u>533,115</u>
OPERATING INCOME (LOSS)	(16,088)	(20,540)
NONOPERATING INCOME		
Investment Income	<u>19</u>	<u>2,132</u>
CHANGE IN NET ASSETS	(16,069)	(18,408)
NET ASSETS, Beginning	<u>238,572</u>	<u>256,980</u>
NET ASSETS, Ending	<u>\$ 222,503</u>	<u>\$ 238,572</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, 2010

Increase (Decrease) in Cash and Cash Equivalents

	<u>BUILDING CORPORATION</u>	
	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Lease Payments Received	\$ 512,588	\$ 512,575
Loan Interest and Fees Paid	(412,668)	(417,924)
Loan Principal Paid	<u>(75,000)</u>	<u>(70,000)</u>
Net Cash Provided by Operating Activities	<u>24,920</u>	<u>24,651</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income Received	<u>19</u>	<u>2,132</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	24,939	26,783
CASH AND CASH EQUIVALENTS, Beginning	<u>128,584</u>	<u>101,801</u>
CASH AND CASH EQUIVALENTS, Ending	<u>\$ 153,523</u>	<u>\$ 128,584</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (16,088)	\$ (20,540)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities		
Depreciation Expense	109,317	109,317
Amortization of Loan Issuance Costs	6,691	6,691
Changes in Assets and Liabilities		
Accrued Interest Payable	-	(817)
Loan Payable	<u>(75,000)</u>	<u>(70,000)</u>
Net Cash Provided by Operating Activities	<u>\$ 24,920</u>	<u>\$ 24,651</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, 2010

	<u>STUDENT ACTIVITIES</u>	
	<u>2010</u>	<u>2009</u>
ASSETS		
Cash	\$ <u>12,271</u>	\$ <u>4,878</u>
LIABILITIES		
Due to Student Groups	\$ <u>12,271</u>	\$ <u>4,878</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Northern Colorado Academy of Arts and Knowledge (the “School”) was organized in 2006 pursuant to the Colorado Charter Schools Act to form and operate a charter school within the State of Colorado. The School began operations in the Fall of 2006.

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 and organizations for which the School is financially accountable. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the School. In addition, any 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, 2010

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements and the proprietary fund in the fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The School has elected not to follow subsequent private-sector guidance.

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 more than \$1,500 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 Revenue - 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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

Net Assets/Fund Balances - In the government-wide financial statements and the proprietary fund in the fund financial statements, net assets are restricted when constraints placed on the net assets are externally imposed. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

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.

Comparative Information

Comparative total information for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the School's financial position and operations. However, complete comparative information in accordance with generally accepted accounting principles has not been presented since its inclusion would make the financial statements unduly complex and difficult to read. Certain prior year amounts have been reclassified to conform with the current year presentation.

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

At June 30, 2010, the School's governmental activities in the government-wide financial statements had deficit net assets of \$401,700, 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, 2010, the School did not meet this requirement, which may constitute an event of default as defined in the lease agreement. However, the School has obtained a waiver of this requirement from the bondholder for the year ended June 30, 2010.

NOTE 3: CASH AND INVESTMENTS

Cash and investments at June 30, 2010, consisted of the following:

Deposits	\$ 390,697
Investments	<u>153,523</u>
Total	<u><u>\$ 544,220</u></u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE 3: CASH AND INVESTMENTS (Continued)

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

Cash	\$ 378,426
Restricted Investments	153,523
Agency Fund Cash	<u>12,271</u>
Total	<u><u>\$ 544,220</u></u>

Deposits

The Colorado Public Deposit Protection Act (PDPA) requires local government entities to deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. The PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At June 30, 2010, the School had bank deposits of \$165,061 collateralized with securities held by the financial institution's agent but not in the School's name.

Investments

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

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

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

Credit Risk - 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, 2010, the Building Corporation had \$153,523 invested in a money market fund rated Aaa by Moody's Investors Service.

Restricted Cash and Investments

Investments of \$153,523 have been restricted by the Building Corporation for future debt service and repairs and replacement.

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE 4: INTERFUND BALANCES AND TRANSACTIONS

At June 30, 2010, the General Fund covered the negative cash balances of the Capital Reserve and Food Service Funds until grants were received, in the amounts of \$2,270 and \$2,725, respectively. 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, 2010, the General Fund transferred \$25,000 to the Capital Reserve Fund to provide funding for the repair and replacement reserve. The General Fund subsidized the operations of the Food Service Fund with a transfer of \$4,987.

NOTE 5: CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2010, are summarized below:

	<u>Balances 6/30/09</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances 6/30/10</u>
Governmental Activities				
Capital Assets, Being Depreciated				
Furniture and Equipment	\$ 454,182	\$ 45,463	\$ -	\$ 499,645
Less Accumulated Depreciation				
Furniture and Equipment	<u>(119,125)</u>	<u>(64,101)</u>	<u>-</u>	<u>(183,226)</u>
Governmental Activities Capital Assets, Net	<u>\$ 335,057</u>	<u>\$ (18,638)</u>	<u>\$ -</u>	<u>\$ 316,419</u>
Business-Type Activities				
Capital Assets, Not Being Depreciated				
Land	<u>\$ 1,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,000,000</u>
Capital Assets, Being Depreciated				
Building and Improvements	5,202,684	-	-	5,202,684
Furniture and Equipment	<u>12,487</u>	<u>-</u>	<u>-</u>	<u>12,487</u>
Total Capital Assets, Being Depreciated	<u>5,215,171</u>	<u>-</u>	<u>-</u>	<u>5,215,171</u>
Less Accumulated Depreciation				
Building and Improvements	(315,543)	(108,564)	-	(424,107)
Furniture and Equipment	<u>(2,466)</u>	<u>(753)</u>	<u>-</u>	<u>(3,219)</u>
Total Accumulated Depreciation	<u>(318,009)</u>	<u>(109,317)</u>	<u>-</u>	<u>(427,326)</u>
Total Capital Assets, Being Depreciated, Net	<u>4,897,162</u>	<u>(109,317)</u>	<u>-</u>	<u>4,787,845</u>
Business-Type Activities Capital Assets, Net	<u>\$ 5,897,162</u>	<u>\$ (109,317)</u>	<u>\$ -</u>	<u>\$ 5,787,845</u>

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

Instruction	\$ 15,403
Supporting Services	<u>48,698</u>
Total	<u>\$ 64,101</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE 6: LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended June 30, 2010:

	Balances 6/30/09	Additions	Payments	Balances 6/30/10	Due Within One Year
Governmental Activities					
Capital Leases	\$ 119,819	\$ -	\$ 61,483	\$ 58,336	\$ 41,665
Mosaica Loan	962,290	-	88,484	873,806	134,108
Total	<u>\$ 1,082,109</u>	<u>\$ -</u>	<u>\$ 149,967</u>	<u>\$ 932,142</u>	<u>\$ 175,773</u>
Business-Type Activities					
Building Loan	<u>\$ 5,895,000</u>	<u>\$ -</u>	<u>\$ 75,000</u>	<u>\$ 5,820,000</u>	<u>\$ 80,000</u>

Capital Leases

In July 2006, the School entered into a lease agreement for the purchase of computer equipment. Terms of the agreement required monthly payments of \$5,075, through October 2009. Interest accrued at 12.9% per annum. This lease was paid in full during the year ended June 30, 2010.

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,

2011	\$ 46,096
2012	20,169
2013	<u>1,801</u>
Total Minimum Lease Payments	68,066
Less: Interest	<u>(9,730)</u>
Present Value of Future Minimum Lease Payments	<u><u>\$ 58,336</u></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 \$14,998 are required beginning on July 31, 2009, through June 30, 2016. The loan accrues interest at 8% per annum. At June 30, 2010, the School was delinquent on monthly payments totaling \$29,996. These payments were made in the subsequent fiscal year and are reported as a liability in the General Fund.

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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>
2011	\$ 134,108	\$ 75,870	\$ 209,978
2012	125,335	54,647	179,982
2013	135,738	44,244	179,982
2014	147,004	32,978	179,982
2015	159,205	20,777	179,982
2016	172,416	7,566	179,982
Total	<u>\$ 873,806</u>	<u>\$ 236,082</u>	<u>\$ 1,109,888</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, beginning in 2009, through 2036.

Future debt service requirements are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 80,000	\$ 407,400	\$ 487,400
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 - 2020	655,000	1,790,600	2,445,600
2021 - 2025	915,000	1,527,400	2,442,400
2026 - 2030	1,290,000	1,158,150	2,448,150
2031 - 2035	1,810,000	639,100	2,449,100
2036	690,000	48,300	738,300
Total	<u>\$ 5,820,000</u>	<u>\$ 7,140,700</u>	<u>\$ 12,960,700</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. The School will pay to MEI an annual fee for services performed. The fees earned for the year ended June 30, 2010, were \$248,060, of which \$191,261 was paid to MEI and \$56,799 was accrued at June 30, 2010.

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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, 2010, 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. The Amendment requires state and local governments to establish an emergency reserve, representing 3% of qualifying expenditures. At June 30, 2010, the School's emergency reserve, in the amount of \$78,000, was reported as a reservation of 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 continue efforts to control costs and modify programs as necessary to ensure that the School is operating with a balanced budget, to identify new revenue sources to allow the School to continue to offer an academic program that is attractive to families and to continue to market the School as an alternative to the District. The School has built its debt service requirements into its budget and plans to work with management and vendors to ensure its payment obligations are met in a timely manner.

REQUIRED SUPPLEMENTARY INFORMATION

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2010

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE Positive (Negative)</u>
REVENUES				
Local Sources				
Per Pupil Revenue	\$ 2,331,345	\$ 2,271,948	\$ 2,271,744	\$ (204)
Tuition	81,767	123,000	122,369	(631)
Contributions and Donations	92,500	40,000	18,790	(21,210)
Facility Rental	11,500	2,000	2,978	978
Miscellaneous	1,174	4,000	29,927	25,927
Total Local Sources	<u>2,518,286</u>	<u>2,440,948</u>	<u>2,445,808</u>	<u>4,860</u>
State Sources				
Grants	<u>21,200</u>	<u>30,326</u>	<u>28,260</u>	<u>(2,066)</u>
Federal Sources				
Grants	<u>22,930</u>	<u>58,830</u>	<u>57,299</u>	<u>(1,531)</u>
TOTAL REVENUES	<u>2,562,416</u>	<u>2,530,104</u>	<u>2,531,367</u>	<u>1,263</u>
EXPENDITURES				
Current				
Salaries	927,121	970,500	975,683	(5,183)
Employee Benefits	176,040	199,495	208,852	(9,357)
Purchased Services	975,806	1,030,361	998,492	31,869
Supplies and Materials	87,191	56,592	89,248	(32,656)
Miscellaneous	15,600	3,870	2,617	1,253
Debt Service				
Principal	141,993	149,231	168,346	(19,115)
Interest and Fees	44,538	81,952	92,691	(10,739)
Reserves	<u>169,813</u>	<u>235,646</u>	<u>-</u>	<u>235,646</u>
TOTAL EXPENDITURES	<u>2,538,102</u>	<u>2,727,647</u>	<u>2,535,929</u>	<u>191,718</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	24,314	(197,543)	(4,562)	192,981
OTHER FINANCING SOURCES (USES)				
Transfers Out	<u>(103,394)</u>	<u>(32,650)</u>	<u>(29,987)</u>	<u>2,663</u>
NET CHANGE IN FUND BALANCE	(79,080)	(230,193)	(34,549)	195,644
FUND BALANCE, Beginning	<u>79,080</u>	<u>230,193</u>	<u>230,193</u>	<u>-</u>
FUND BALANCE, Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 195,644</u>	<u>\$ 195,644</u>

See the accompanying Independent Auditors' Report.

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. All budgets lapse at fiscal year end.
- 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.

Legal Compliance

For the year ended June 30, 2010, expenditures of the Food Service and Student Activities Funds exceeded the amounts budgeted by \$2,618 and \$2,604, respectively. These may be violations of State statutes.

SUPPLEMENTARY INFORMATION

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2010

	<u>CAPITAL RESERVE</u>	<u>GRANTS</u>	<u>FOOD SERVICE</u>	<u>TOTAL</u>
ASSETS				
Grants Receivable	\$ 2,270	\$ -	\$ 2,725	\$ 4,995
TOTAL ASSETS	<u>\$ 2,270</u>	<u>\$ -</u>	<u>\$ 2,725</u>	<u>\$ 4,995</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Interfund Payables	\$ 2,270	\$ -	\$ 2,725	\$ 4,995
TOTAL LIABILITIES	<u>2,270</u>	<u>-</u>	<u>2,725</u>	<u>4,995</u>
FUND BALANCES				
Unreserved, Reported in Special Revenue Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL FUND BALANCES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,270</u>	<u>\$ -</u>	<u>\$ 2,725</u>	<u>\$ 4,995</u>

See the accompanying Independent Auditors' Report.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2010

	<u>CAPITAL RESERVE</u>	<u>GRANTS</u>	<u>FOOD SERVICE</u>	<u>TOTAL</u>
REVENUES				
Local Sources	\$ -	\$ -	\$ 33,814	\$ 33,814
State Sources	33,583	-	544	34,127
Federal Sources	-	153,322	31,116	184,438
	<u>33,583</u>	<u>153,322</u>	<u>65,474</u>	<u>252,379</u>
TOTAL REVENUES				
EXPENDITURES				
Current				
Instruction	-	153,322	-	153,322
Supporting Services	58,583	-	70,461	129,044
	<u>58,583</u>	<u>153,322</u>	<u>70,461</u>	<u>282,366</u>
TOTAL EXPENDITURES				
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(25,000)	-	(4,987)	(29,987)
OTHER FINANCING SOURCES				
Transfers In	25,000	-	4,987	29,987
	<u>25,000</u>	<u>-</u>	<u>4,987</u>	<u>29,987</u>
NET CHANGE IN FUND BALANCES	-	-	-	-
FUND BALANCES, Beginning	-	-	-	-
FUND BALANCES, Ending	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

See the accompanying Independent Auditors' Report.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

BUDGETARY COMPARISON SCHEDULE

CAPITAL RESERVE FUND

Year Ended June 30, 2010

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE Positive (Negative)</u>
REVENUES				
State Sources				
Capital Construction	\$ 48,090	\$ 33,860	\$ 33,583	\$ (277)
TOTAL REVENUES	<u>48,090</u>	<u>33,860</u>	<u>33,583</u>	<u>(277)</u>
EXPENDITURES				
Supporting Services				
Building Lease	126,484	33,860	33,583	277
Building Repairs and Replacement	<u>25,000</u>	<u>25,000</u>	<u>25,000</u>	<u>-</u>
TOTAL EXPENDITURES	<u>151,484</u>	<u>58,860</u>	<u>58,583</u>	<u>277</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(103,394)	(25,000)	(25,000)	-
OTHER FINANCING SOURCES				
Transfers In	<u>103,394</u>	<u>25,000</u>	<u>25,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCE, Beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See the accompanying Independent Auditors' Report.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

BUDGETARY COMPARISON SCHEDULE

GRANTS FUND

Year Ended June 30, 2010

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE Positive (Negative)</u>
REVENUES				
Federal Sources				
Grants	\$ -	\$ 155,322	\$ 153,322	\$ (2,000)
TOTAL REVENUES	<u>-</u>	<u>155,322</u>	<u>153,322</u>	<u>(2,000)</u>
EXPENDITURES				
Instruction	<u>-</u>	<u>155,322</u>	<u>153,322</u>	<u>2,000</u>
TOTAL EXPENDITURES	<u>-</u>	<u>155,322</u>	<u>153,322</u>	<u>2,000</u>
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCE, Beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See the accompanying Independent Auditors' Report.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

BUDGETARY COMPARISON SCHEDULE

FOOD SERVICE FUND

Year Ended June 30, 2010

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE Positive (Negative)</u>
REVENUES				
Local Sources				
Lunch Charges	\$ 87,808	\$ 36,660	\$ 33,814	\$ (2,846)
State Sources				
Grants	-	-	544	544
Federal Sources				
Grants	-	23,533	31,116	7,583
TOTAL REVENUES	<u>87,808</u>	<u>60,193</u>	<u>65,474</u>	<u>5,281</u>
EXPENDITURES				
Supporting Services				
Salaries	10,575	18,068	11,919	6,149
Employee Benefits	891	1,521	952	569
Purchased Services	64,090	43,478	53,186	(9,708)
Supplies and Materials	10,800	1,300	958	342
Property	-	3,447	3,446	1
Reserves	1,452	29	-	29
TOTAL EXPENDITURES	<u>87,808</u>	<u>67,843</u>	<u>70,461</u>	<u>(2,618)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	(7,650)	(4,987)	2,663
OTHER FINANCING SOURCES				
Transfers In	-	7,650	4,987	(2,663)
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCE, Beginning	-	-	-	-
FUND BALANCE, Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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, 2010

	<u>BALANCE</u> 6/30/09	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> 6/30/10
ASSETS				
Cash	\$ <u>4,878</u>	\$ <u>42,997</u>	\$ <u>35,604</u>	\$ <u>12,271</u>
LIABILITIES				
Due to Student Groups	\$ <u>4,878</u>	\$ <u>42,997</u>	\$ <u>35,604</u>	\$ <u>12,271</u>

See the accompanying Independent Auditors' Report.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE

BUDGETARY COMPARISON SCHEDULE

STUDENT ACTIVITIES FUND

Year Ended June 30, 2010

	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE Positive (Negative)</u>
REVENUES			
Student Groups	\$ 33,000	\$ 42,997	\$ 9,997
TOTAL REVENUES	<u>33,000</u>	<u>42,997</u>	<u>9,997</u>
EXPENDITURES			
Student Groups	30,078	35,604	(5,526)
Reserves	<u>2,922</u>	<u>-</u>	<u>2,922</u>
TOTAL EXPENDITURES	<u>33,000</u>	<u>35,604</u>	<u>(2,604)</u>
NET CHANGE IN DUE TO STUDENT GROUPS	-	7,393	7,393
DUE TO STUDENT GROUPS, Beginning	<u>-</u>	<u>4,878</u>	<u>4,878</u>
DUE TO STUDENT GROUPS, Ending	<u><u>\$ -</u></u>	<u><u>\$ 12,271</u></u>	<u><u>\$ 12,271</u></u>

See the accompanying Independent Auditors' Report.