

**NORTHERN COLORADO ACADEMY OF
ARTS AND KNOWLEDGE**

FINANCIAL STATEMENTS
With Independent Auditors' Report

For the Year Ended June 30, 2018

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northern Colorado Academy of Arts & Knowledge, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Northern Colorado Academy of Arts & Knowledge, as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Hoelting & Company Inc.

Colorado Springs, Colorado
October 12, 2018

Northern Colorado Academy of Arts & Knowledge
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2018

Northern Colorado Academy of Arts & Knowledge ("Academy") is a K-5 Public Charter School located in Fort Collins, Colorado that began operations in the fall of 2006. This Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Academy administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2018.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Fund Financial Statements:

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

Governmental activities including the Academy's major instruction and instructional support activities are reported in the General Fund. While governmental activities consist of functions that are mostly funded by intergovernmental revenues, business type activities consist of functions that are intended to recover all or most of their costs through user fees and charges.

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

Government-wide Financial Statements:

The Government-wide financial statements are maintained using the "full accrual" basis. They report all of the Academy's assets and liabilities, both current and long term, regardless if they are "currently available" or not. For example, capital assets and long-term obligations of the Academy are reported in the Statement of Net Position of the Government-wide financial statements.

Northern Colorado Academy of Arts & Knowledge
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2018

Net Position Summary

	Governmental Activities	
	<u>2017</u>	<u>2018</u>
Assets		
Current assets	\$ 389,606	\$ 506,612
Capital assets	272,205	272,205
Less: accumulated depreciation	<u>(180,895)</u>	<u>(191,181)</u>
Capital assets, net book value	91,310	81,024
Total assets	<u>\$ 480,916</u>	<u>\$ 587,636</u>
Liabilities		
Current liabilities	\$ 141,706	\$ 134,936
Long-term liabilities	<u>50,000</u>	<u>-</u>
Total liabilities	<u>191,706</u>	<u>134,936</u>
Net position		
Net investment (deficit) in capital assets	91,310	81,024
Restricted	47,700	53,500
Unrestricted	<u>150,200</u>	<u>318,176</u>
Total net position	<u>\$ 289,210</u>	<u>\$ 452,700</u>

FINANCIAL ANALYSIS OF THE ACADEMY'S ACTIVITIES

The Academy's net position improved for both the year ending June 30, 2018 and the year ending June 30, 2017. For 2017, the net position improved by \$ 353. In 2018, the net position improved by \$163,490.

Results of Operations:

For the fiscal year ended June 30, 2017 and 2018, the Academy wide results of operations were:

	Governmental Activities			
	2017		2018	
	Amount	% of Total	Amount	% of Total
General Revenue				
State & District- aid All sources	1,425,130	86.39%	1,517,586	80.91%
Other	7,366	0.45%	50,900	2.71%
Total General Revenue	1,432,496	86.84%	1,568,486	83.62%
Program Revenue				
Charges for Services	102,565	6.22%	135,630	7.23%
Operating Grants- Fed and State	114,607	6.95%	116,592	6.22%
Capital Grants			55,022	2.93%
Total Program Revenue	217,172	13.16%	307,244	16.38%
Total Revenue	1,649,668	100.00%	1,875,730	100.00%
Expenses				
Instruction and Instructional Srvc	755,913	45.83%	802,293	46.86%
Support Services	862,890	52.32%	875,997	51.16%
Interest on Long Term Debt				
Food Services	30,512	1.85%	33,950	1.98%
Building Corporation				
Total Expenses	1,649,315	100.00%	1,712,240	100.00%
Transfers:				
Interfund transfers				
Increase(Decrease) in Net Position	353		163,490	

A. Per Pupil Revenue (PPR)

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

Per Pupil Funding: Annually, the State and the District set the per pupil funding based on a base funding amount as adjusted by a number of factors including a cost-of-living factor and an At-Risk demographics factor. The Northern Colorado Academy of Arts & Knowledge PPOR was \$7,042 per student for the 2016-17 school year and \$ 7,282 for the 2017-18 school year.

Student Enrollment: The Academy’s student enrollment for the fall count of the 2016-17 was 211 students as compared 231 students for the fall of 2017-18. To calculate total state aid to be provided by the District funded PPR, enrollment is multiplied by the Academy’s per pupil funding. It should be noted that Kindergarten students are only funded at 58% of the pupil allocation. The funded full time equivalent (FTE) student count after adjusting out .42 FTE for each kindergarten student was 194.62 students for 2016-17 and 208.6 for 2017-18.

B. Major Fund Budgetary Highlights

General Fund Operations

The Academy’s only major governmental type fund is the General Fund. Expenditures and other financing uses from General Fund operations were lower than revenues and other financing sources by \$123,776 for the fiscal year ended June 30, 2018. 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		
2016-2017	1,642,516	1,639,668
2017-2018	1,815,921	1,825,730
Expenditures and Other Financing Uses		
2016-2017	1,705,018	1,641,570
2017-2018	1,769,041	1,701,954

Original vs. Final Budget

As a matter of practice, the Academy amends its budget periodically as needed during the school year. For the fiscal year 2017-18, the budget was amended in October 2017. The Academy Board does not budget for expenditures covered by grants or the grant revenue until an award allocation is received. The General Fund does not budget for debt financed capital outlays, if applicable, in the original budget.

Changes from Original to Final General Budget

Revenues and Other Financing Sources

Total Revenues Original Budget	\$	1,729,722
Total Revenues Final Budget		<u>1,815,921</u>
Increase in Budgeted Revenues	\$	<u>86,199</u>

The Academy's final general fund revenues were more than the final budget by \$9,809 a variance of 0.54%.

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

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

The final budget student FTE count was increased by 5.9 students.

Expenditures and Other Financing Sources:

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

Total Expenditures Original Budget	\$	1,718,444
Total Expenditures Final Budget		<u>1,769,041</u>
Decrease in Budgeted Expenditures	\$	<u>50,597</u>

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

Leasing space for the school instead of owning the building.

CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

The Academy's net investment in capital assets is \$81,024. This can be summarized as follows:

B.

	Beginning Balance	Additions	Disposals	Ending Balance
Depreciable capital assets	\$ 272,205	\$ -	\$ -	\$ 272,205
Less: Accumulated depreciation	<u>(180,895)</u>	<u>(10,286)</u>	<u>-</u>	<u>(191,181)</u>
Net investments in capital assets	<u>\$ 91,310</u>	<u>\$ (10,286)</u>	<u>\$ -</u>	<u>\$ 81,024</u>

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

C. Depreciation Expense

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

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

D. Debt, Principal Payments

During the 2015-16 the Academy has negotiated an agreement with Tatonka Education Services, Inc. over the outstanding debt left over from their prior management company. On June 30, 2017, \$ 10,000 was forgiven. June 30, 2018, \$50,000 was forgiven. A summary of long-term debt service activities is as follows.

	Balance 6/30/2017	Additions	Reductions	Balance 6/30/2018
Tatonka Loan	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ -</u>

ECONOMIC FACTORS AND NEXT’S YEAR BUDGET

The Preliminary Budget for 2018-19 Fiscal Year was adopted by the Board of Directors in March 2018. Few definite factors were known as the budget was being drafted, and others were unknown and needed to be projected with management’s best estimates based on feedback from the State, the District and the community. Some key factors and estimates used in the 2017-18 preliminary budget process include:

- The Academy’s PPR funding had been estimated to be \$ 7,718 per pupil;
- Enrollment projections of 233 students in grades K-5 with a funded FTE of 210.52;
- Elimination of Tatonka Management Services

CONTACTING THE ACADEMY’S MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the Academy’s finances. If you have questions about this report or need additional information, contact the Administration Office, Northern Colorado Academy of Arts & Knowledge, 4800 Wheaton Dr., Fort Collins, Colorado.

BASIC FINANCIAL STATEMENTS

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 476,274
Receivables	20,738
Receivable from agency fund	6,334
Prepaid expenses	3,266
Capital assets, net of accumulated depreciation	81,024
Total assets	587,636
LIABILITIES	
Accounts payable and current liabilities	11,736
Accrued salaries and benefits	123,200
Total liabilities	134,936
NET POSITION	
Investment in capital assets	81,024
Restricted for Tabor	53,500
Unrestricted	318,176
Total net position	\$ 452,700

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

**NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Total</u>
Governmental activities:					
Instruction	\$ 802,293	\$ 125,702	\$ 84,495	\$ -	\$ (592,096)
Supporting services					
Pupil services	62,888	-	-	-	(62,888)
Instructional staff	16,994	-	-	-	(16,994)
General administration	130,598	-	-	-	(130,598)
School administration	249,513	-	-	-	(249,513)
Business services	62,056	-	-	-	(62,056)
Operation and maintenance	285,189	-	-	55,022	(230,167)
Central support services	59,321	-	-	-	(59,321)
Community Services	9,438	-	-	-	(9,438)
Food service operations	33,950	9,928	32,097	-	8,075
Total governmental activities	<u>\$ 1,712,240</u>	<u>\$ 135,630</u>	<u>\$ 116,592</u>	<u>\$ 55,022</u>	<u>(1,404,996)</u>
General revenues:					
Per pupil revenue					1,517,586
Earnings on investments					164
Other revenues					50,736
Total general revenues					<u>1,568,486</u>
Change in net position					163,490
Net position - beginning					<u>289,210</u>
Net position - ending					<u><u>\$ 452,700</u></u>

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

**NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
BALANCE SHEET
GENERAL FUND
JUNE 30, 2018**

ASSETS

Cash and cash equivalents	\$ 476,274
Receivables	20,738
Receivable from agency fund	6,334
Prepaid expenses	<u>3,266</u>
 Total assets	 <u>\$ 506,612</u>

LIABILITIES

Accounts payable and other current liabilities	\$ 11,736
Accrued salaries and benefits	<u>123,200</u>
 Total liabilities	 <u>134,936</u>

FUND BALANCES

Nonspendable	3,266
Restricted for TABOR	53,500
Unassigned	<u>314,910</u>
 Total fund balances	 <u>371,676</u>

Total liabilities and fund balances	<u>\$ 506,612</u>
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The accompanying notes are an integral part of these financial statements.

**NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
RECONCILIATION OF THE GENERAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018**

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

Total fund balances - general fund	\$ 371,676
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds, but are reported in the governmental activities of the Statement of Net Position.	81,024
Net position of governmental activities in the statement of net position	<u>\$ 452,700</u>

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

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

REVENUES	
Local sources	\$ 154,796
State sources	1,624,803
Federal sources	<u>46,131</u>
 Total revenues	 <u>1,825,730</u>
 EXPENDITURES	
Instruction	792,007
Pupil services	62,888
Instructional staff	16,994
General administration	130,598
School administration	249,513
Business services	62,056
Operation and maintenance	285,189
Central support services	59,321
Community services	1,490
Food service operations	<u>41,898</u>
 Total expenditures	 <u>1,701,954</u>
 Net change in fund balance	 123,776
 Fund balance - beginning	 <u>247,900</u>
 Fund balance - ending	 <u><u>\$ 371,676</u></u>

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

**NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

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

Net change in fund balance - general fund:	\$	123,776
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.		(10,286)
The issuance of long-term debt (e.g. bonds, loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on net position. Likewise, debt forgiveness increases net position but provides no current financial resources in the governmental funds. This amount is the net effect of these differences in the treatment of long-term debt.		<u>50,000</u>
Change in net position of governmental activities	\$	<u><u>163,490</u></u>

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

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUND
JUNE 30, 2018

	<u>Student Activities</u>
ASSETS	
Cash	\$ 12,085
Total assets	<u>12,085</u>
LIABILITIES	
Due to student organizations	5,751
Payable to general fund	<u>6,334</u>
Total liabilities	<u>\$ 12,085</u>

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

NOTES TO FINANCIAL STATEMENTS

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Northern Colorado Academy of Arts & Knowledge d/b/a T.R. Paul Academy of Arts and Knowledge (the “School”) was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school. In 2006, the School entered into a contract with the Colorado Charter School Institute (the “Institute”) to authorize the School’s charter. The current contract expires on June 30, 2021.

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

A. REPORTING ENTITY

The 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.

Based upon the application of these criteria, there are no organizations that should be included in the School’s reporting entity.

B. BASIS OF PRESENTATION – GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the government. *Governmental activities* are normally supported by per pupil revenue and intergovernmental revenues. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. BASIS OF PRESENTATION – FUND FINANCIAL STATEMENTS

The emphasis of fund financial statements is on major funds. The School reports the following major fund:

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

Additionally, the School reports the following fund type:

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

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

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

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

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

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

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

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

The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

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

Cash and cash equivalents

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

Receivables

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

Prepaid expenses

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

Capital assets

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

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

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

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Capital assets (continued)

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

Furniture and equipment	3 to 20 years
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Deferred outflows/inflows of resources

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

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

Unearned Revenues

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

Long-term liabilities

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

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

Net position flow assumption

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

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Fund balance classification

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

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

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

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

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

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

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

F. REVENUES AND EXPENDITURES/EXPENSES

Program revenues

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

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. ESTIMATES

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGET INFORMATION

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

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

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

Expenditures may not legally exceed appropriations at the fund level. Revisions that alter the total expenditures of any fund must be approved by the Board of Directors.

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

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3 – DEPOSITS AND INVESTMENTS

Cash deposits with financial institutions

Custodial credit risk—deposits. Custodial credit risk is the risk that, in the event of a bank failure, the School’s deposits might not be recovered. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

The carrying amount of the School’s deposits at June 30, 2018 was \$476,274 and the bank balances were \$476,661. Of the bank balances, \$250,000 was covered by federal deposit insurance. The remaining balance falls under the provisions of the Colorado Public Deposit Protections Acts, which are collateralized in single institution pools.

Investments

Credit Risk

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

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

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

At June 30, 2018 the School had no investments.

Deposits are reported in the financial statements as follows:

Cash	\$ 476,274
Agency fund cash	<u>12,085</u>
Total	<u>\$ 488,359</u>

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<i>Governmental Activities</i>				
Depreciable assets:				
Furniture and equipment	\$ 272,205	\$ -	\$ -	\$ 272,205
Less accumulated depreciation for:				
Furniture and equipment	<u>(180,895)</u>	<u>(10,286)</u>	<u>-</u>	<u>(191,181)</u>
<i>Governmental activities capital assets, net</i>	<u>\$ 91,310</u>	<u>\$ (10,286)</u>	<u>\$ -</u>	<u>\$ 81,024</u>

Depreciation expense was charged to functions/programs as follows:

<i>Governmental activities</i>	
Instruction	<u>\$ 10,286</u>

NOTE 5 – LONG-TERM LIABILITIES

Tatonka Loan

On December 22, 2015 the School entered into the management agreement with Tatonka Education Services, Inc (TES). A loan modification agreement was executed to modify the outstanding \$70,000 debt that remained from the forgiveness of debt from the prior management company, Mosaica Education, Inc. The remaining \$50,000 loan balance was forgiven on June 30, 2018.

Long-term liability activity for the year ended June 30, 2018 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental activities:</u>					
Tatonka loan	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ -</u>

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 6 – OPERATING LEASES

On December 17, 2014 the School entered into a lease for copiers which qualifies as an operating lease. The term of the lease is 60 months. The lease requires payments of \$1,085 per month. The rental expense for the year ended June 30, 2018 was \$13,020.

On July 1, 2017 the School entered into a lease agreement with Colorado Springs Early Colleges to lease the building located at 4800 Wheaton Dr., Fort Collins, Colorado. The lease requires payments of \$17,674 per month and renews annually. The lease expense for the year ended June 30, 2018 was \$212,084. The management agreement was terminated as of June 30, 2018.

NOTE 7 – MANAGEMENT AGREEMENT

On August 1, 2017 the School entered into the management agreement with Tatonka Education Services, Inc. (“TES”). The teachers and staff are employees of TES. Under the terms of the agreement, the School is required to pay TES an annual fee for services performed. The administrative fees earned by TES for the year ended June 30, 2018 were \$88,000. The management agreement was terminated effective June 30, 2018.

NOTE 8 - RISK MANAGEMENT

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

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

NOTE 9 – CONCENTRATION OF RISK

The School is funded directly by Colorado Charter School Institute (CSI) based on the Institute’s per pupil funding. For the fiscal year ended June 30, 2018, this funding along with pass-through grant funding accounted for approximately 92% of the School’s revenues.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

GRANTS

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

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 11 – COMPLIANCE

The School has complied with the requirements of the Financial Policies and Procedures Handbook for the 2018 audit period as required by Colorado Statute CRS 22-44-204(3).

NOTE 12 - AMENDMENT TO COLORADO CONSTITUTION

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities and other specific requirements of state and local governments.

The amendment requires emergency reserves be established. These reserves must be at least 3% of fiscal year spending. The School is not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls or salary and benefit increases. At June 30, 2018 there is a \$53,500 reservation of fund balance in the General Fund for the amendment.

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

REQUIRED SUPPLEMENTARY INFORMATION

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
REVENUES				
Local sources:				
Other local sources	\$ 128,723	\$ 167,347	\$ 154,632	\$ (12,715)
Interest on investments	155	155	164	9
Total local sources	<u>128,878</u>	<u>167,502</u>	<u>154,796</u>	<u>(12,706)</u>
State sources:				
State equalization	1,475,461	1,518,981	1,517,586	(1,395)
Capital construction grant	50,675	51,979	55,022	3,043
Other state sources	28,821	32,614	52,195	19,581
Total state sources	<u>1,554,957</u>	<u>1,603,574</u>	<u>1,624,803</u>	<u>21,229</u>
Federal sources				
Other federal sources	45,887	44,845	46,131	1,286
Total federal sources	<u>45,887</u>	<u>44,845</u>	<u>46,131</u>	<u>1,286</u>
Total revenues	<u>1,729,722</u>	<u>1,815,921</u>	<u>1,825,730</u>	<u>9,809</u>
EXPENDITURES				
Instruction	796,828	817,713	792,007	25,706
Pupil services	55,843	62,515	62,888	(373)
Instructional staff	19,319	29,953	16,994	12,959
General administration	162,041	163,564	130,598	32,966
School administration	228,211	237,033	249,513	(12,480)
Business services	62,920	67,033	62,056	4,977
Operation and maintenance	288,615	284,822	285,189	(367)
Central support services	62,045	62,051	59,321	2,730
Food services operations	40,061	41,344	41,898	(554)
Community services	2,561	3,013	1,490	1,523
Total expenditures	<u>1,718,444</u>	<u>1,769,041</u>	<u>1,701,954</u>	<u>67,087</u>
Net change in fund balances	11,278	46,880	123,776	76,896
Fund balance - beginning	<u>196,990</u>	<u>247,900</u>	<u>247,900</u>	<u>-</u>
Fund balance - ending	<u>\$ 208,268</u>	<u>\$ 294,780</u>	<u>\$ 371,676</u>	<u>\$ 76,896</u>

See the accompanying Independent Auditors' Report.

OTHER SUPPLEMENTAL INFORMATION

**NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED JUNE 30, 2018**

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
ASSETS				
Cash	\$ 23,238	\$ 13,646	\$ 24,799	\$ 12,085
Total assets	<u>\$ 23,238</u>	<u>\$ 13,646</u>	<u>\$ 24,799</u>	<u>\$ 12,085</u>
 LIABILITIES				
Payable to student organizations	\$ 16,960	\$ 17,396	\$ 28,605	\$ 5,751
Payable to general fund	<u>6,278</u>	<u>6,334</u>	<u>6,278</u>	<u>6,334</u>
Total liabilities	<u>\$ 23,238</u>	<u>\$ 23,730</u>	<u>\$ 34,883</u>	<u>\$ 12,085</u>

See the accompanying Independent Auditors' Report.