

**NORTHERN COLORADO ACADEMY OF
ARTS AND KNOWLEDGE**

FINANCIAL STATEMENTS
With Independent Auditors' Report

For the Year Ended June 30, 2020

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
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JUNE 30, 2020

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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 and each major fund of Northern Colorado Academy of Arts & Knowledge, as of and for the year ended June 30, 2020, 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 and each major fund of Northern Colorado Academy of Arts & Knowledge, as of June 30, 2020, 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.

Adoption of new accounting standard

As described in Note 1 to the financial statements, effective July 1, 2019, Northern Colorado Academy of Arts & Knowledge adopted new accounting guidance, GASB Statement No. 84, *Fiduciary Activities*. Our opinion is not modified with respect to this matter.

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.

Hoelting & Company Inc.

Colorado Springs, Colorado
September 28, 2020

Northern Colorado Academy of Arts & Knowledge
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2020

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, 2020.

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, 2020

Net Position Summary

| | Governmental Activities | |
|--|-------------------------|-------------------|
| | <u>2019</u> | <u>2020</u> |
| Assets | | |
| Current assets | \$ 621,107 | \$ 898,801 |
| Capital assets | 272,205 | 301,246 |
| Less: accumulated depreciation | <u>(201,467)</u> | <u>(213,387)</u> |
| Capital assets, net book value | 70,738 | 87,859 |
| Total assets | <u>\$ 691,845</u> | <u>\$ 986,660</u> |
| Liabilities | | |
| Current liabilities | \$ 159,965 | \$ 175,751 |
| Total liabilities | <u>\$159,965</u> | <u>\$175,751</u> |
| Net position | | |
| Net investment (deficit) in capital assets | 70,738 | 87,859 |
| Restricted | 53,500 | 58,000 |
| Unrestricted | <u>407,642</u> | <u>665,050</u> |
| Total net position | <u>\$ 531,880</u> | <u>\$ 810,909</u> |

FINANCIAL ANALYSIS OF THE ACADEMY'S ACTIVITIES

The Academy's net position improved for both the year ending June 30, 2019 and the year ending June 30, 2020. In 2020, the net position improved by \$276,235.

Results of Operations:

For the fiscal year ended June 30, 2019 and 2020, the Academy wide results of operations were:

| | Governmental Activities | | | |
|--------------------------------------|-------------------------|------------|--------------|------------|
| | 2019 | | 2020 | |
| | Amount | % of Total | Amount | % of Total |
| General Revenue | | | | |
| State & District Aid - all sources | \$ 1,478,718 | 80.51% | \$ 1,658,259 | 74.51% |
| Other | 3,282 | 0.18% | 1,588 | 0.07% |
| Total General Revenue | 1,482,000 | 80.69% | 1,659,847 | 90.37% |
| Program Revenue | | | | |
| Charges for services | 87,579 | 4.77% | 32,441 | 1.46% |
| Operating Grants - Fed & State | 209,696 | 11.42% | 476,099 | 21.39% |
| Capital Grants | 57,394 | 3.12% | 57,304 | 2.57% |
| Total Program Revenue | 354,669 | 19.31% | 565,844 | 30.81% |
| Total Revenue | 1,836,669 | 100.00% | 2,225,691 | 121.18% |
| Expenses | | | | |
| Instruction & Instructional Services | 865,078 | 49.22% | 950,705 | 48.77% |
| Support Services | 849,882 | 48.36% | 938,569 | 48.15% |
| Food Services | 42,529 | 2.42% | 60,182 | 3.09% |
| Total Expenses | 1,757,489 | 100.00% | 1,949,456 | 110.92% |
| Increase (Decrease) in Net Position | \$ 79,180 | | \$ 276,235 | |

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 PPR was

\$7,728 per student for the 2018-19 school year and \$8,062 for the 2019-2020 school year.

Student Enrollment: The Academy’s student enrollment for the fall count of the 2018-19 was 205 students as compared 212 students for the fall of 2019-2020. 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 prior to the current year were 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 190.56 students for 2018-19. During 2019-2020, full day Kindergarten students were funded as any other grant.

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 \$259,114 for the fiscal year ended June 30, 2020. 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 | | |
| 2018-2019 | 1,826,699 | 1,836,670 |
| 2019-2020 | 1,986,539 | 2,019,654 |
| Expenditures and Other Financing Uses | | |
| 2018-2019 | 1,818,750 | 1,747,204 |
| 2019-2020 | 2,014,643 | 1,760,540 |

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 2019-2020, the budget was amended in November 2019. The Academy Board does not budget for expenditures covered by grants or the grant revenue until an award allocation is received. The General Fund does not budget for debt financed capital outlays, if applicable, in the original budget.

Changes from Original to Final General Budget

Revenues and Other Financing Sources

| | |
|--------------------------------|--------------------|
| Total Revenues Original Budget | \$ 2,034,666 |
| Total Revenues Final Budget | <u>1,986,539</u> |
| Decrease in Budgeted Revenues | <u>\$ (48,127)</u> |

The Academy's actual general fund revenues were more than the final budget by \$33,115 a variance of 0.59%.

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 decreased by 20 students.

Expenditures and Other Financing Sources:

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

| | |
|------------------------------------|-------------------|
| Total Expenditures Original Budget | \$ 1,773,253 |
| Total Expenditures Final Budget | <u>2,014,643</u> |
| Increase in Budgeted Expenditures | <u>\$ 241,390</u> |

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

As a result of the Coronavirus, the staffing management company receiving a Payroll Protection Program Loan (PPP). This resulted in the Academy not having payroll and related expenditures from the end of May thru June 30, 2020.

CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

The Academy's net investment in capital assets is \$70,738. This can be summarized as follows:

B.

| | Beginning Balance | Additions | Disposals | Ending Balance |
|--------------------------------------|----------------------|-----------------|-------------|-------------------|
| Depreciable capital assets | \$272,205 | \$ 29,041 | \$ - | \$301,246 |
| Less: Accumulated depreciation | <u>(201,467)</u> | <u>(11,920)</u> | <u>-</u> | <u>(213,387)</u> |
| Net investments in capital assets | <u>\$70,738</u> | <u>\$17,121</u> | <u>\$ -</u> | <u>\$87,859</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.

ECONOMIC FACTORS AND NEXT'S YEAR BUDGET

In March 2020, the world was faced with a pandemic of the Coronavirus. This led to all students having to remote learn for the last part of the fiscal year. The staffing management company received a Payroll Protection Loan (PPP loan), which released the burden of payroll costs for the last few months of the year. This will continue through July of 2020.

The Preliminary Budget for 2020-2021 Fiscal Year was adopted by the Board of Directors in June 2020. 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 2020-2021 preliminary budget process include:

- Due to the coronavirus and its uncertainty, management reduced per pupil funding by 5%
- The Academy's PPR funding had been estimated to be \$ 7,653 per pupil
- The coronavirus also increased health & custodial expenditures; the Academy received a Federal grant of roughly \$100,000 to help with the added expenditures
- Enrollment projections of students in grades K-5 with a funded FTE of 195; This is a huge unknown as many families may decide to homeschool with safety concerns around the Coronavirus.

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, 2020

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| ASSETS | |
| Cash and investments | \$ 843,417 |
| Receivables | 55,384 |
| Capital assets, net of accumulated depreciation | <u>87,859</u> |
| Total Assets | <u>986,660</u> |
| LIABILITIES | |
| Accounts payable and other accrued liabilities | 17,789 |
| Accrued salaries and benefits | 58,832 |
| Unearned revenue | <u>99,130</u> |
| Total Liabilities | <u>175,751</u> |
| NET POSITION | |
| Investment in capital assets | 87,859 |
| Restricted for TABOR | 58,000 |
| Unrestricted | <u>665,050</u> |
| Total Net Position | <u><u>\$ 810,909</u></u> |

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

**NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020**

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenue</u> | | <u>Capital Grants and Contributions</u> | Net (Expense) Revenue and Changes in Net Position |
|---------------------------------------|------------------|---------------------------------|---|---|--|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | | <u>Governmental Activities</u> |
| Governmental activities: | | | | | |
| Instruction | \$ 950,705 | \$ 11,596 | \$ 442,506 | \$ - | \$ (496,603) |
| Supporting services | 998,751 | 20,845 | 33,593 | 57,304 | (887,009) |
| Total governmental activities | <u>1,949,456</u> | <u>32,441</u> | <u>476,099</u> | <u>57,304</u> | <u>(1,383,612)</u> |
| General revenues: | | | | | |
| Per pupil revenue | | | | | 1,658,259 |
| Unrestricted investment earnings | | | | | 275 |
| Miscellaneous | | | | | <u>1,313</u> |
| Total general revenues | | | | | <u>1,659,847</u> |
| Change in net position | | | | | 276,235 |
| Net position - beginning, as restated | | | | | <u>534,674</u> |
| Net position - ending | | | | | <u><u>\$ 810,909</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, 2020**

ASSETS

| | | |
|----------------------|----|---------|
| Cash and investments | \$ | 843,417 |
| Receivables | | 55,384 |
| | | 898,801 |
| Total Assets | \$ | 898,801 |

LIABILITIES

| | | |
|--|----|---------|
| Accounts payable and other accrued liabilities | \$ | 17,789 |
| Accrued salaries and benefits | | 58,832 |
| Unearned revenue | | 99,130 |
| | | 175,751 |
| Total Liabilities | | 175,751 |

FUND BALANCE

| | | |
|----------------------|--|---------|
| Restricted for TABOR | | 58,000 |
| Unassigned | | 665,050 |
| | | 723,050 |
| Total Fund Balance | | 723,050 |

| | | |
|------------------------------------|----|---------|
| Total Liabilities and Fund Balance | \$ | 898,801 |
|------------------------------------|----|---------|

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

**NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2020**

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

| | |
|--|-------------------|
| Total Fund Balance of Governmental Funds | \$ 723,050 |
| Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. | 87,859 |
| | <hr/> |
| Total Net Position of Governmental Activities | <u>\$ 810,909</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, 2020

| | |
|---------------------------------------|--------------------------|
| REVENUES | |
| Local sources | \$ 63,870 |
| State sources | 1,863,932 |
| Federal sources | <u>91,852</u> |
| Total revenues | <u>2,019,654</u> |
| EXPENDITURES | |
| Instruction | 798,638 |
| Supporting services | <u>961,902</u> |
| Total expenditures | <u>1,760,540</u> |
| Net change in fund balance | 259,114 |
| Fund balance, beginning - as restated | <u>463,936</u> |
| Fund balance, ending | <u><u>\$ 723,050</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, 2020**

Amounts reported for Governmental Activities in the Statement of Activities are different because:

| | | |
|--|----|---------|
| Net Change in Fund Balance of Governmental Funds | \$ | 259,114 |
|--|----|---------|

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.

| | | | |
|----------------------|----|----------|--------|
| Depreciation Expense | \$ | (11,920) | |
| Capital Outlays | | 29,041 | 17,121 |

| | | |
|---|----|---------|
| Change in Net Position of Governmental Activities | \$ | 276,235 |
|---|----|---------|

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, 2020

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.

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.

The fund financial statements provide information about the government’s funds. 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, 2020

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.

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

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

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

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

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Cash and cash equivalents

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

Investments

Investments with a maturity of less than one year when purchased, non-negotiable certificates of deposit, and other nonparticipating investments are stated at cost or amortized cost. Investments with a maturity greater than one year when purchased are stated at fair value. Fair value is the price that would be received to sell an investment in an orderly transaction at year end.

Local government investment pools in Colorado must be organized under Colorado Revised Statutes, which allows certain types of governments within the state to pool their funds for investment purposes. Investments in such pools are valued at the pool's share price, the price at which the investment may be sold.

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 items

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.

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 |
|-------------------------|---------------|

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Deferred outflows/inflows of resources

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

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

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.

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.

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.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Fund balance classification (continued)

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.

G. ESTIMATES

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

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. ADOPTION OF NEW ACCOUNTING STANDARD

Northern Colorado Academy of Arts & Knowledge implemented GASB Statement No. 84, *Fiduciary Activities*, effective July 1, 2019. This Statement establishes specific criteria for identifying activities that should be reported as fiduciary activities. As a result, net position at June 30, 2019, was restated to reflect the cumulative effect of adopting this standard.

Restatements had the following impact on previously reported balances:

| | |
|--|-------------------|
| Net Position, June 30, 2019, as originally stated | \$ 531,880 |
| Adoption of new accounting standard | <u>2,794</u> |
| Net Position, June 30, 2019, as Restated (deficit) | <u>\$ 534,674</u> |
| Fund Balance, June 30, 2019, as originally stated | \$ 461,142 |
| Adoption of new accounting standard | <u>2,794</u> |
| Fund Balance, June 30, 2019, as Restated | <u>\$ 463,936</u> |

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, 2020

NOTE 3 – DEPOSITS AND INVESTMENTS

A summary of deposits and investments as of June 30, 2020 is as follows:

| | |
|----------|-------------------|
| Deposits | <u>\$ 843,417</u> |
|----------|-------------------|

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

| | |
|----------------------|-------------------|
| Cash and investments | <u>\$ 843,417</u> |
|----------------------|-------------------|

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, 2020 was \$843,417 and the bank balances were \$839,057. Of the bank balances, \$250,000 was covered by federal deposit insurance and the remaining balances falling under the provisions of the Colorado Public Deposit Protections Acts, which are collateralized in single institutional 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, 2020 the School had no investments.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2020 was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> |
|---|------------------------------|----------------------|------------------|---------------------------|
| <i>Governmental Activities</i> | | | | |
| Capital assets, being depreciated: | | | | |
| Land improvements | \$ - | \$ 11,360 | \$ - | \$ 11,360 |
| Furniture and equipment | <u>272,205</u> | <u>17,681</u> | <u>-</u> | <u>289,886</u> |
| Total capital assets, being depreciated | 272,205 | 29,041 | - | 301,246 |
| Less Accumulated Depreciation | <u>(201,467)</u> | <u>(11,920)</u> | <u>-</u> | <u>(213,387)</u> |
| Total capital assets being depreciated, net | <u>\$ 70,738</u> | <u>\$ 17,121</u> | <u>\$ -</u> | <u>\$ 87,859</u> |

Depreciation expense was charged to functions/programs as follows:

Governmental activities

| | |
|-------------|------------------|
| Instruction | <u>\$ 11,920</u> |
|-------------|------------------|

NOTE 5 – 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, 2020 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 term of the lease is 36 months and ends on June 30, 2020. The lease requires payments of \$19,966 per month and renews annually. The lease expense for the year ended June 30, 2020 was \$259,908.

NOTE 6 – MANAGEMENT AGREEMENT

On July 30, 2019, the School entered into the management agreement with Minga Education Group, Inc. (“Minga”). The teachers and staff are employees of Minga. The administrative fees earned by Minga for the year ended June 30, 2019 were \$45,577.

NOTE 7 - 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.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 8 – 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, 2020, this funding accounted for approximately 75% of the School's revenues.

NOTE 9 - 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 effect on the financial position of the School.

NOTE 10 – COMPLIANCE

The School has complied with the requirements of the Financial Policies and Procedures Handbook for the 2020 audit period as required by Colorado Statute CRS 22-44-204(3).

NOTE 11 - 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, 2020 there is a \$58,000 reservation of fund balance in the General Fund for the amendment.

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

NOTE 12 - RELATED PARTY TRANSACTIONS

The School has entered into a management agreement with Minga Education Group. Minga Education Group's Business Manager is Shannon Gossard, who also serves as the School's Director of Business and Operations. Minga Education Group earned management fees of \$45,577 during the year.

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, 2020

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Positive (Negative) |
|-----------------------------|------------------|------------|-------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Local sources | \$ 238,266 | \$ 130,012 | \$ 63,870 | \$ (66,142) |
| State sources | 1,735,760 | 1,770,339 | 1,863,932 | 93,593 |
| Federal sources | 60,640 | 86,188 | 91,852 | 5,664 |
| | 2,034,666 | 1,986,539 | 2,019,654 | 33,115 |
| EXPENDITURES | | | | |
| Salaries | 987,967 | 1,073,416 | 847,845 | 225,571 |
| Benefits | 166,820 | 208,558 | 191,877 | 16,681 |
| Purchased services | 518,066 | 640,330 | 612,693 | 27,637 |
| Supplies | 95,331 | 86,271 | 79,084 | 7,187 |
| Property | 1,000 | 2,000 | 29,041 | (27,041) |
| Other | 4,069 | 4,068 | - | 4,068 |
| | 1,773,253 | 2,014,643 | 1,760,540 | 254,103 |
| Net change in fund balances | 261,413 | (28,104) | 259,114 | 287,218 |
| Fund balances - beginning | 303,597 | 469,959 | 463,936 | (6,023) |
| Fund balance - ending | \$ 565,010 | \$ 441,855 | \$ 723,050 | \$ 281,195 |

See the accompanying Independent Auditors' Report.