

**NORTHERN COLORADO ACADEMY OF
ARTS AND KNOWLEDGE**

FINANCIAL STATEMENTS
With Independent Auditors' Report

For the Year Ended June 30, 2022

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of the Northern Colorado Academy of Arts & Knowledge, as of and for the year ended June 30, 2022 and the related notes to the financial statements, which collectively comprise the Northern Colorado Academy of Arts & Knowledge's basic financial statements as listed in the table of contents.

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 the Northern Colorado Academy of Arts & Knowledge, as of June 30, 2022 and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Northern Colorado Academy of Arts & Knowledge and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Northern Colorado Academy of Arts & Knowledge's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is

higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Northern Colorado Academy of Arts & Knowledge's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Northern Colorado Academy of Arts & Knowledge's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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, 2022

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, 2022.

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 the Academy's assets and liabilities, both current and long term, regardless of 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, 2022

Net Position Summary

	Governmental Activities	
	<u>2021</u>	<u>2022</u>
Assets		
Current assets	\$ 959,949	\$949,207
Capital assets	308,099	308,099
Less: accumulated depreciation	<u>(226,094)</u>	<u>(238,578)</u>
Capital assets, net book value	82,005	69,521
Total assets	<u>\$1,041,954</u>	<u>\$1,018,728</u>
Liabilities		
Current liabilities	\$ 105,345	\$149,503
	<u> </u>	<u> </u>
Total liabilities	<u>\$105,345</u>	<u>\$149,503</u>
Net position		
Net investment (deficit) in capital assets	82,005	69,521
Restricted	48,500	48,500
Unrestricted	<u>806,104</u>	<u>721,204</u>
Total net position	<u>\$ 936,609</u>	<u>\$869,225</u>

FINANCIAL ANALYSIS OF THE ACADEMY'S ACTIVITIES

The Academy's net position increased by \$125,700 on June 30, 2021, and decreased in the year ending June 30, 2022, by \$(67,384).

Results of Operations:

For the fiscal year ended June 30, 2021, and 2022, the Academy wide results of operations were:

	Governmental Activities			
	2021		2022	
	Amount	% of Total	Amount	% of Total
General Revenue				
State & District Aid - all sources	\$ 1,427,775	77.00%	\$ 1,295,816	62.49%
Other	888	0.05%	3,972	0.19%
Total General Revenue	1,428,663	77.04%	1,299,788	62.69%
Program Revenue				
Charges for services	1,837	0.10%	10,743	0.52%
Operating Grants - Fed & State	367,849	19.84%	707,897	34.14%
Capital Grants	55,974	3.02%	55,080	2.66%
Total Program Revenue	425,660	22.96%	773,720	37.31%
Total Revenue	1,854,323	100.00%	2,073,508	100.00%
Expenses				
Instruction & Instructional Services	733,134	42.41%	962,405	44.95%
Support Services	995,489	57.59%	1,170,516	54.67%
Interest		0.00%	7,971	0.37%
Total Expenses	1,728,623	100.00%	2,140,892	100.00%
Increase (Decrease) in Net Position	\$ 125,700		\$ (67,384)	

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

\$8,062 per student for the 2020-21 school year and \$8,527.58 for the 2021-22 school year.

Student Enrollment: The Academy’s student enrollment and full time equivalent (FTE) for the fall count of the 2020-2021 was 185 students as compared 151.5 students for the fall of 2021-2022. To calculate total state aid to be provided by CSI for funded PPR, enrollment is multiplied by the Academy’s per pupil funding.

B. Major Fund Budgetary Highlights

General Fund Operations

The Academy’s only major governmental type fund is the General Fund. Expenditures and other financing use from General Fund operations were higher than revenues and other financing sources by \$(54,900) for the fiscal year ended June 30, 2022.

Final Budget vs. Actual

<u>Fiscal Year</u>	<u>Final Budget</u>	<u>Final Actual</u>
Revenues and Other Financing Sources		
2020-2021	1,785,636	1,854,323
2021-2022	1,994,482	2,073,508
Expenditures and Other Financing Uses		
2020-2021	1,829,627	1,722,769
2021-2022	2,026,534	2,128,408

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 2021-2022, the Board approved revised budgets in November 2021 and in May 2022. 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	\$2,323,169
Total Revenues Final Budget	<u>1,994,482</u>
Decrease in Budgeted Revenues	<u>\$ (328,687)</u>

The Academy's actual general fund revenues were more than the final budget by \$79,026, a variance of 3.96%.

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 from 185 to 151.5 or 33.5 student FTE's.

Expenditures and Other Financing Sources:

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

Total Expenditures Original Budget	\$ 2,094,511
Total Expenditures Final Budget	<u>2,026,534</u>
Decrease in Budgeted Expenditures	<u>\$ (67,977)</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

The Academy's net investment in capital assets is \$69,521. This can be summarized as follows:

Northern Colorado Academy of Arts & Knowledge
 Management’s Discussion and Analysis
 For Fiscal Year Ended June 30, 2022

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital Assets being depreciated	\$308,099	\$ -	\$ -	\$308,099
Less: Accumulated depreciation	<u>(226,094)</u>	<u>(12,484)</u>	<u>-</u>	<u>(238,578)</u>
Net investments in capital assets	<u>\$82,005</u>	<u>\$(12,484)</u>	<u>\$ -</u>	<u>\$69,521</u>

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

B. 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

The Preliminary Budget for 2021-2022 fiscal year was adopted by the Board of Directors in May 2021. 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. Key factors and estimates used in the 2022-2023 preliminary budget process include:

- The Academy’s PPR funding had been estimated to be \$8,900 per pupil

Northern Colorado Academy of Arts & Knowledge
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2022

- The Academy received Federal grants estimated at \$100,000 to help with the added expenditures with ESSER II and ESSER III
- Enrollment projections of students in grades K-5 with a funded FTE of 185; This is a huge unknown as families decided to homeschool with safety concerns around the Coronavirus Pandemic.

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, 2022

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 654,421
Grants receivable	278,408
Intergovernmental receivables	14,458
Prepays	1,920
Capital assets, net of accumulated depreciation/amortization	<u>69,521</u>
Total Assets	<u>1,018,728</u>
LIABILITIES	
Accounts payable and other accrued liabilities	43,111
Accrued salaries and benefits	<u>106,392</u>
Total Liabilities	<u>149,503</u>
NET POSITION	
Investment in capital assets	69,521
Restricted for TABOR	48,500
Unrestricted	<u>751,204</u>
Total Net Position	<u><u>\$ 869,225</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, 2022**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>			Net (Expense) Revenue and Changes in Net Position
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental activities:					
Instruction	\$ 962,405	\$ 10,743	\$ 579,432	\$ -	\$ (372,230)
Supporting services	1,170,516	-	128,465	55,080	(986,971)
Interest	7,971	-	-	-	(7,971)
Total governmental activities	<u>\$ 2,140,892</u>	<u>\$ 10,743</u>	<u>\$ 707,897</u>	<u>\$ 55,080</u>	<u>(1,367,172)</u>
General revenues:					
Per pupil revenue					1,291,928
Grants and contributions not restricted to specific programs					3,840
Unrestricted investment earnings					48
Miscellaneous					<u>3,972</u>
Total general revenues					<u>1,299,788</u>
Change in net position					(67,384)
Net position - beginning					<u>936,609</u>
Net position - ending					<u>\$ 869,225</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, 2022**

ASSETS

Cash and investments	\$	654,421
Grants receivable		278,408
Intergovernmental receivables		14,458
Prepays		1,920

Total Assets	\$	949,207
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LIABILITIES

Accounts payable and other accrued liabilities	\$	43,111
Accrued salaries and benefits		106,392

Total Liabilities		149,503
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FUND BALANCE

Non-spendable		1,920
Restricted for TABOR		48,500
Unassigned		749,284

Total Fund Balance		799,704
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Total Liabilities and Fund Balance	\$	949,207
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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 BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2022**

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

Total Fund Balance of Governmental Funds	\$ 799,704
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.	
Capital assets, net of accumulated depreciation/amortization	<u>69,521</u>
Total Net Position of Governmental Activities	<u><u>\$ 869,225</u></u>

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

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2022

REVENUES	
Local sources	\$ 33,057
State sources	1,502,552
Federal sources	<u>537,899</u>
Total revenues	<u>2,073,508</u>
 EXPENDITURES	
Instruction	962,405
Supporting services	<u>1,166,003</u>
Total expenditures	<u>2,128,408</u>
Net change in fund balance	(54,900)
Fund balance, beginning	<u>854,604</u>
Fund balance, ending	<u><u>\$ 799,704</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, 2022**

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

Net Change in Fund Balance of Governmental Funds	\$	(54,900)
<p>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.</p>		
Depreciation/amortization expense		(171,897)
<p>Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the Statement of Net Position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p>		
Lease principal payments		159,413
Change in Net Position of Governmental Activities	\$	(67,384)

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, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Northern Colorado Academy of Arts & Knowledge dba Academy of Arts and Knowledge (the School) have been prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the School are discussed below.

A. REPORTING ENTITY

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 accompanying financial statements present the School and its component units, entities for which the School is considered to be financially accountable. Blended component units are, in substance, part of the School's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the School.

Based on the application of these criteria, the School does not include additional organizations within its reporting entity.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION

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 School and its component units. Any fiduciary activities are reported only in the fund financial statements. *Governmental activities* are supported by per pupil revenue and intergovernmental revenues.

The statement of activities demonstrates the degree to which direct expenses of given functions or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to students or other service users who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as *general revenues* rather than as program revenues.

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. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges for interfund services provided and used, the elimination of which would distort the direct costs and program revenues reported for the various functions.

The emphasis of fund financial statements is on major funds. Major individual funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major funds.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION (CONTINUED)

The School reports the following major governmental funds:

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

C. 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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The 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 School 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, as well as expenditures related to compensated absences are recorded only when payment is due. General capital asset acquisitions, including entering into contracts giving the School the right to use leased assets, are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under leases are reported as other financing sources.

Interest and charges for services 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 are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for 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 School.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*D. 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

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 reported at net asset value.

Receivables

All receivables are reported at their gross values 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 the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Capital assets

Capital assets include tangible and intangible assets that are reported in the governmental activities column in the government-wide financial statements. Capital assets, except for lease assets, are defined by the School as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. For lease assets, only those intangible lease assets that cost more than \$15,000 are reported as capital assets.

As the School constructs or acquires capital assets each period they are capitalized and reported at historical cost (except for intangible right-to-use lease assets, the measurement of which is discussed in Note 1 D. *Leases* below). The reported value excludes normal maintenance and repairs, which are amounts spent in relation to capital assets that do not increase the asset's capacity or efficiency or increase its estimated useful life. Donated capital assets are recorded at acquisition value at the date of donation. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential on the date of the donation. Intangible assets follow the same capitalization policies as tangible capital assets and are reported with tangible assets in the appropriate capital asset class.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Land and construction in progress are not depreciated. The other tangible and intangible assets of the School are depreciated/amortized using the straight-line method over the following estimated useful lives:

Building and improvements	15 years
Furniture and equipment	3-20 years

Accrued Salaries and Benefits

Salaries and benefits of teachers and other contracted personnel are paid over a twelve-month period, but are earned during a school year of approximately nine months. The salaries and benefits earned, but unpaid, are reported as a liability in the respective funds and have been fully funded as of the fiscal year end.

Unearned Revenue

Unearned revenue includes resources received by the School before the related revenue can be recognized because the earnings process is not complete.

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.

Leases

Lessee: The School is a lessee for a noncancellable lease of a building. The School recognizes a lease liability and an intangible right-to-use lease assets in the government-wide financial statements. The School recognizes lease liabilities with an initial, individual value of \$15,000 or more.

At the commencement of a lease, the School initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Key estimates and judgments related to leases include how the School determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The School uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the School generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the School is reasonably certain to exercise.

The School monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

Long-term liabilities

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

For government-wide reporting, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called net position. Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances of bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law through constitutional provision or enabling legislation.

Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that does not meet the definition of the two preceding categories.

Sometimes the School will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the School's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

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 resolution 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 Education 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.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

E. REVENUES AND EXPENDITURES/EXPENSES

Compensated Absences

Vacation—The School’s policy permits employees to accumulate earned but unused vacation benefits, which are eligible for payment upon separation from employment. The liability for such leave is reported as incurred in the government-wide and proprietary fund financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable.

Sick Leave—Accumulated sick leave lapses when employees leave the employ of the School and, upon separation from service, no monetary obligation exists.

F. 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.

G. UPCOMING ACCOUNTING AND REPORTING CHANGES

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, provides guidance on the accounting and financial reporting for subscription-based informational technology arrangements (SBITAs). Under this statement, a government generally should recognize a right-to-use subscription asset—an intangible asset and a corresponding liability. The requirements of this statement are effective for fiscal years beginning after June 15, 2022.

Management has not yet determined the effect this statement will have on the School’s financial statements.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Budgets are required by State law for all funds, except fiduciary funds. The Head of School submits a proposed budget to the Board of Directors for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. It also includes a statement describing the major objectives of the educational program to be undertaken by the School and the manner in which the budget proposes to fulfill such objectives. Public hearings are conducted by the Board of Directors to obtain public comments.

On or before June 30, the budget is adopted by formal resolution. After the adoption of the budget, the board may review and change the budget at any time prior to January 31 of the fiscal year for which the budget was adopted. After January 31, the board may not review or change the budget except where money for a specific purpose from other than ad valorem taxes becomes available which could not have been reasonable foreseen at the time of the adoption of the budget. Expenditures may not legally exceed appropriations at the fund level. Authorization to transfer budgeted amounts between line items within any fund rests with the Head of School. Revisions that alter the total expenditures in 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 as established by the Board of Directors.

Budgets for all fund types are adopted on a basis consistent with Generally Accepted Accounting Principles (GAAP). GAAP-basis accounting requires that expenditures of salaries and related benefits be recorded in the fiscal year earned. Thus, the School budgets for all accrued salaries and related benefits earned but unpaid at June 30. Budgeted amounts reported in the accompanying financial statements are as originally adopted and as amended by the Head of School and/or Board of Directors throughout the year. All appropriations lapse at the end of each fiscal year.

Excess of Expenditures over Appropriations

For the year ended June 30, 2022, expenditures exceeded appropriations in the general fund by \$101,874. These over-expenditures were funded by greater than anticipated revenues.

NOTE 3 – DEPOSITS AND INVESTMENTS

A summary of deposits and investments as of June 30, 2022 is as follows:

Deposits	\$ <u>654,421</u>
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Deposits and investments are reported in the financial statements as follows:

Cash and investments	\$ <u>654,421</u>
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NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

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, 2022 was \$654,421 and the bank balances were \$647,845. Of the bank balances, \$250,000 were covered by federal deposit insurance, and the remaining balance was uninsured but collateralized in accordance with the provisions of the PDPA.

Investments

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.

At June 30, 2022 the School had no investments.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2022 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<i>Governmental activities</i>				
Capital assets being depreciated:				
Buildings and improvements	\$ 11,360	\$ -	\$ -	\$ 11,360
Furniture and equipment	<u>296,739</u>	<u>-</u>	<u>-</u>	<u>296,739</u>
Total capital assets being depreciated	<u>308,099</u>	<u>-</u>	<u>-</u>	<u>308,099</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,515)	(757)	-	(2,272)
Furniture and equipment	<u>(224,579)</u>	<u>(11,727)</u>	<u>-</u>	<u>(236,306)</u>
Total accumulated depreciation	<u>(226,094)</u>	<u>(12,484)</u>	<u>-</u>	<u>(238,578)</u>
Total capital assets being depreciated, net	<u>82,005</u>	<u>(12,484)</u>	<u>-</u>	<u>69,521</u>
Lease assets being amortized:				
Buildings and improvements	<u>159,413</u>	<u>-</u>	<u>(159,413)</u>	<u>-</u>
Total lease assets being amortized	<u>159,413</u>	<u>-</u>	<u>(159,413)</u>	<u>-</u>
Less accumulated amortization for:				
Buildings and improvements	<u>-</u>	<u>(159,413)</u>	<u>159,413</u>	<u>-</u>
Total accumulated amortization	<u>-</u>	<u>(159,413)</u>	<u>159,413</u>	<u>-</u>
Total lease assets being amortized, net	<u>159,413</u>	<u>(159,413)</u>	<u>-</u>	<u>-</u>
Capital assets, net of accumulated depreciation/amortization	<u>241,418</u>	<u>(171,897)</u>	<u>-</u>	<u>69,521</u>
Total governmental activities capital assets	<u>\$ 241,418</u>	<u>\$ (171,897)</u>	<u>\$ -</u>	<u>\$ 69,521</u>

Depreciation/amortization expense was charged to the functions/programs of the governmental activities of the School as follows:

Governmental Activities

Instruction	<u>\$ 171,897</u>
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NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 5 – LEASES

School as lessee

The School, as a lessee, has entered into a lease agreement involving educational facilities, with a lease term of 5 years. The total costs of these right-to-use lease assets are recorded as \$0, less accumulated amortization of \$0. The School has determined that as of June 30, 2022, there is no loss associated with an impairment of the right-to-use lease asset.

As of June 30, 2022 the lease term has ended.

NOTE 6 – LONG-TERM LIABILITIES

Changes in the School’s long-term liabilities for the year ended June 30, 2022, are as follows:

	<u>Beginning Balance</u>	<u>Debt Issued And Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One year</u>
<i>Governmental Activities</i>					
Leases	\$ 159,413	\$ -	\$ (159,413)	\$ -	\$ -

Leases are liquidated in the General fund.

NOTE 7 – MANAGEMENT AGREEMENT

On July 1, 2020, 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, 2021 were \$172,000.

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 fiscal years.

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.

NORTHERN COLORADO ACADEMY OF ARTS AND KNOWLEDGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 10 - 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 \$172,000 during the year.

NOTE 11 - TAX, SPENDING, AND DEBT LIMITATIONS

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, 2022 there is a \$48,500 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.

NOTE 12 – ADOPTION OF NEW ACCOUNTING STANDARD

Northern Colorado Academy of Arts & Knowledge implemented GASB Statement No. 87, *Leases*, effective July 1, 2021. This Statement establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. There is no effect on fund balance or net position as a result of the implementation of this standard. However, beginning lease assets and lease liabilities were restated by \$159,413 to reflect the net present value of financing leases as of June 30, 2021.

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, 2022

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local sources	\$ 38,900	\$ 34,442	\$ 33,057	\$ (1,385)
State sources	1,993,180	1,447,400	1,502,552	55,152
Federal sources	291,089	512,640	537,899	25,259
Total revenues	<u>2,323,169</u>	<u>1,994,482</u>	<u>2,073,508</u>	<u>79,026</u>
EXPENDITURES				
Instruction	1,128,881	1,031,628	962,405	69,223
Supporting services	965,630	956,116	1,166,003	(209,887)
Appropriated reserves	-	38,790	-	38,790
Total expenditures	<u>2,094,511</u>	<u>2,026,534</u>	<u>2,128,408</u>	<u>(101,874)</u>
Net change in fund balances	228,658	(32,052)	(54,900)	(22,848)
Fund balances - beginning	<u>743,465</u>	<u>854,604</u>	<u>854,604</u>	<u>-</u>
Fund balance - ending	<u><u>\$ 972,123</u></u>	<u><u>\$ 822,552</u></u>	<u><u>\$ 799,704</u></u>	<u><u>\$ (22,848)</u></u>

See the accompanying Independent Auditors' Report.