

FOUNDATIONS ACADEMY



Financial Statements as of and for the Year
Ended June 30, 2016, Required
Supplemental Information and Additional
Information for the Year Ended
June 30, 2016 and Independent Auditor's
Reports

FOUNDATIONS ACADEMY

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Independent Auditor's Report

To the Board of Directors
Foundations Academy

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major funds of Foundations Academy (the "Academy"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Foundations Academy'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.

Auditor's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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.

To the Board of Directors
Foundations Academy

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 the major funds of Foundations Academy as of June 30, 2016 and the respective changes in its financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison schedules, as identified 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, which 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 supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2016 on our consideration of Foundations Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Foundations Academy's internal control over financial reporting and compliance.

Plante & Morse, PLLC

September 26, 2016

FOUNDATIONS ACADEMY

MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

This section of the annual financial report for Foundations Academy ("The Academy") provides an overview of the Academy's financial activities for the fiscal year ended June 30, 2016. It should be read in conjunction with the financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy financially as a whole. The Academy-wide financial statements provide information about the activities of the whole Academy, presenting both an aggregate view of the Academy's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the Academy's operations in more detail than the Academy-wide financial statements by providing information about the Academy's most significant fund — the General Fund — with the other fund presented in one column as the major Grant Fund.

Management's Discussion and Analysis
(Required Supplemental Information)

Basic Financial Statements

Academy-wide Financial Statements Fund Financial Statements

Notes to Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for the Governmental Funds

Reporting the Academy as a whole — Academy-wide Financial Statements

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The Statement of Net Position and the Statement of Activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

The Academy's Statement of Net Position — the difference between assets and liabilities, as reported in the Statement of Net Position — is one way to measure the Academy's financial position. The relationship between revenues and expenses is the Academy's operating results. The Academy's goal is to provide services to our students, not to generate profits as private sector companies do. One must consider nonfinancial factors, such as the quality of the education provided and the safety of the Academy, to assess the overall health of the Academy.

The Statement of Net Position and the Statement of Activities report the activities of the Academy, all of which are classified as governmental. These activities encompass all the Academy's services, including instruction and support services. Per-pupil operating revenue and property taxes passed through the Brighton School District 27J (the "District") and state and federal grants finance most of these activities. The Academy has entered into a services agreement (the "agreement") with National Heritage Academies, Inc. (NHA) which requires NHA to provide administration, strategic planning and all labor, materials, equipment, and supervision necessary for the provision of educational services to students. As part of the consideration received under the agreement, NHA also provides the facility in which the Academy operates. Under the terms of the agreement, NHA receives as remuneration for its services an amount equal to the total revenue received by the Academy from all revenue sources.

Reporting the Academy's Fund Financial Statements

The Academy's fund financial statements provide detailed information about the most significant funds — not the Academy as a whole. Some funds are required to be established by state law. However, the Academy establishes other funds to help it control and manage money for particular purposes or as required by state law (the Grant Fund is an example). The governmental funds of the Academy use the following accounting approach:

Governmental Funds — All of the Academy's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year-end that are available for spending. They are reported using an accounting method called modified accrual accounting. Only those revenues that are "measurable" and "currently available" are reported. Liabilities are recognized when incurred. The governmental fund statements provide a short-term view of the operations of the Academy and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliations presented as part of the statements.

The Academy as a Whole

The Statement of Net Position provides the perspective of the Academy as a whole. The table below provides a summary of the Academy's net position as of June 30:

	2016	2015
Assets:		
Current assets	\$ 227,557	\$ 222,247
Capital assets, net of accumulated depreciation	<u>29,084</u>	<u>33,694</u>
Total assets	256,641	255,941
Liabilities - current	<u>29,799</u>	<u>31,696</u>
Net position:		
Net investment in capital assets	29,084	33,694
Restricted	168,820	162,438
Unrestricted	<u>28,938</u>	<u>28,113</u>
Total net position	<u>\$ 226,842</u>	<u>\$ 224,245</u>

The restricted net position of governmental activities represent the reserve required under the Taxpayer's Bill of Rights ("TABOR"). The results of the current-year operations for the Academy as a whole are reported in the Statement of Activities, which shows the change in net position.

The results of this year's summarized operations for the Academy as a whole are reported in the summarized Statements of Activities (below), which shows the changes in net position for the periods ended June 30:

	2016	2015
Program revenue:		
Charges for services	\$ 96,126	\$ 130,757
Operating grants	<u>903,555</u>	<u>836,881</u>
Total program revenue	<u>999,681</u>	<u>967,638</u>
General revenue:		
Per-pupil operating levy	4,455,188	4,247,764
Mill levy revenue	34,654	33,951
Other state sources	36,068	13,820
Other	<u>108,939</u>	<u>164,502</u>
Total general revenue	<u>4,634,849</u>	<u>4,460,037</u>
Total revenues	<u>5,634,530</u>	<u>5,427,675</u>
Expenses—		
Contracted service fee:		
Instruction	2,327,936	2,282,354
Support services	3,293,487	3,121,752
Food services	5,900	5,900
Depreciation (unallocated)	<u>4,610</u>	<u>4,610</u>
Total expenses	<u>5,631,933</u>	<u>5,414,616</u>
Change in net position	<u>\$ 2,597</u>	<u>\$ 13,059</u>

As reported in the Statement of Activities, the cost of governmental activities was \$5,631,933. These activities were primarily funded by the Academy's state aid (based on student count) and governments and organizations that subsidized certain programs with grants. Capital construction revenues are funds required to be set aside from state aid to provide for facilities which are included in operating grants and the Academy utilized these funds for a portion of the facility lease expense.

The Academy experienced an increase in net position of \$2,597 in 2016. Under the terms of the agreement with NHA, NHA provides a spending account to the Board of Directors for discretionary expenditures. The primary reason for the change in net position is the timing of these discretionary expenditures.

A reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities appears on page 11.

Fund Financial Statements

As we noted earlier, the Academy uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Looking at funds helps the reader to consider whether the Academy is being accountable for the resources that the State and others provide to it and may provide more insight into the Academy's overall financial health.

The Academy's instruction and support services activities are reported in the General Fund. The Grant Fund represents grant activities. The Academy's combined fund balance was \$197,758 at June 30, 2016.

A reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position appears on page 10.

Budgetary Highlights

Over the course of the year, the Academy revises its budget to reflect changes in revenues and expenditures. The Academy adopts an annual budget for its general fund and grants fund. A budgetary comparison statement have been provided for the general fund and grants fund to demonstrate compliance with the budget.

Budgeted revenues for the General Fund were increased by \$2,070 from the original budget. Revenues were changed to reflect the following:

State Aid	<i>Increase</i>
Other State Sources	<i>Decrease</i>
Local Sources	<i>Increase</i>
Private Sources	<i>Increase</i>

Budgeted expenditures for the General Fund were increased by \$11,344. This change was to reflect the change in anticipated funding. Budgeted revenues for the Grant Fund was amended to reflect an increase in federal funding by \$1,434 from the original budget. Significant variances between the final budget and actual amounts are disclosed in the notes to the financial statements.

Capital Assets

At June 30, 2016, the Academy had \$29,084 invested in capital assets, including other equipment. Capital assets are primarily provided as a part of the agreement with NHA.

General Economic Factors and Next Year's Budgets

In November of 2000, voters in Colorado approved a provision to the Colorado constitution providing that K-12 funding would increase at pupil growth, plus inflation, plus 1% for 10 years and thereafter, growth plus inflation. This provision stabilizes and removes funding from the political process. As a result of this provision, the single most important factor in projecting the revenues is estimated future inflation.

Contacting the Academy's Financial Management

The financial report is designed to provide users of the report with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report, contact the Chief Financial Officer of National Heritage Academies, Inc., 3850 Broadmoor SE, Ste 201, Grand Rapids, MI 49512.

FOUNDATIONS ACADEMY

STATEMENT OF NET POSITION

JUNE 30, 2016

	Governmental Activities
ASSETS	
CURRENT ASSETS:	
Cash	\$ 198,142
Prepaid expenses	28,769
Due from governmental revenue sources	<u>646</u>
Total current assets	<u>227,557</u>
NON-CURRENT ASSETS:	
Capital assets	46,098
Less accumulated depreciation	<u>(17,014)</u>
Total capital assets, net of accumulated depreciation	<u>29,084</u>
TOTAL	<u><u>\$ 256,641</u></u>
LIABILITIES AND NET POSITION	
LIABILITIES:	
Unearned revenue	<u>\$ 29,799</u>
Total liabilities	<u>29,799</u>
NET POSITION:	
Net investment in capital assets	29,084
Restricted	168,820
Unrestricted	<u>28,938</u>
Total net position	<u>226,842</u>
TOTAL	<u><u>\$ 256,641</u></u>

See notes to financial statements.

FOUNDATIONS ACADEMY

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2016

		<u>Program Revenues</u>		Governmental Activities Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants	
FUNCTIONS/PROGRAMS —				
Governmental activities:				
Contracted service fee:				
Instruction	\$ 2,327,936	\$ 96,126	\$ 148,019	\$ (2,083,791)
Support services	3,293,487	-	755,536	(2,537,951)
Food services	5,900	-	-	(5,900)
Depreciation (unallocated)	<u>4,610</u>	<u>-</u>	<u>-</u>	<u>(4,610)</u>
Total governmental activities	<u>\$ 5,631,933</u>	<u>\$ 96,126</u>	<u>\$ 903,555</u>	(4,632,252)
GENERAL PURPOSE REVENUES:				
Per-pupil operating levy				4,455,188
Mill levy revenue				34,654
Other state sources				36,068
Other				<u>108,939</u>
Total general purpose revenue				<u>4,634,849</u>
CHANGE IN NET POSITION				2,597
NET POSITION:				
Beginning of year				<u>224,245</u>
End of year				<u>\$ 226,842</u>

See notes to financial statements.

FOUNDATIONS ACADEMY

BALANCE SHEET — GOVERNMENTAL FUNDS JUNE 30, 2016

	Total Governmental Funds - General Fund
ASSETS	
Cash	\$ 198,142
Prepaid expenses	28,769
Due from governmental revenue sources	646
TOTAL	<u>\$ 227,557</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES:	
Unearned revenue	<u>\$ 29,799</u>
 Total liabilities	 <u>29,799</u>
FUND BALANCE:	
Nonspendable	28,769
Committed	3,639
Restricted	168,820
Unrestricted	<u>(3,470)</u>
 Total fund balance	 <u>197,758</u>
TOTAL	<u>\$ 227,557</u>

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position

Total governmental fund balance	\$ 197,758
Capital assets used in governmental activities are not financial resources and are not reported in the funds:	
Capital assets cost	\$ 46,098
Accumulated depreciation	<u>(17,014)</u>
	<u>29,084</u>
 Net position of governmental activities	 <u>\$ 226,842</u>

See notes to financial statements.

FOUNDATIONS ACADEMY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES — GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2016

	General Fund	Grant Fund	Total Governmental Funds
REVENUES:			
Federal sources	\$ -	\$ 78,895	\$ 78,895
Per-pupil levy	4,455,188	-	4,455,188
Mill levy	34,654	-	34,654
Capital construction	755,536	-	755,536
Other state sources	113,813	-	113,813
Charges for services	96,126	-	96,126
Other sources	<u>108,939</u>	<u>-</u>	<u>108,939</u>
Total revenues	<u>5,564,256</u>	<u>78,895</u>	<u>5,643,151</u>
EXPENDITURES — Contracted service fee:			
Instruction	2,257,662	78,895	2,336,557
Support services	3,293,487	-	3,293,487
Food services	<u>5,900</u>	<u>-</u>	<u>5,900</u>
Total expenditures	<u>5,557,049</u>	<u>78,895</u>	<u>5,635,944</u>
NET CHANGE IN FUND BALANCE	7,207	-	7,207
FUND BALANCE — Beginning of year	<u>190,551</u>	<u>-</u>	<u>190,551</u>
FUND BALANCE — End of year	<u>\$ 197,758</u>	<u>\$ -</u>	<u>\$ 197,758</u>

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities

Net change in fund balance — total governmental funds	\$ 7,207
Governmental funds report capital outlays as expenditures, in the statement of activities these costs are allocated over their useful lives as depreciation	(4,610)
Revenue reported in the governmental funds as available and measurable — reported in the statement of activities in prior years	(8,621)
Contracted service fee recognized consistent with the revenue policy	<u>8,621</u>
Change in net position of governmental activities	<u>\$ 2,597</u>

See notes to financial statements.

FOUNDATIONS ACADEMY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

1. NATURE OF OPERATIONS

Foundations Academy (the “Academy”) was incorporated on October 19, 2008, and began operations on July 1, 2010. The Academy is a component of the Brighton School District 27J of the State of Colorado (the “District”), which provides education based on rigorous teaching methods, parental involvement, student responsibility, and basic moral values. The Academy provides education, at no cost to the parents, to students in kindergarten through eighth grade. The Academy offers half-day kindergarten at no cost, however tuition is charged if the parents elect full-day kindergarten for their children. Enrollment is open to all appropriately aged children without regard to gender, ethnic background, disability, and/or religious affiliation. The Academy operates under a charter approved by the District, which is responsible for oversight of the Academy’s operations. The charter expires on June 30, 2039. The total administrative fee for the year ended June 30, 2016, paid to the District was \$124,654.

The Academy is organized as a public school pursuant to C.R.S. 22-30,5-101 et. seq., which authorizes the formation of charter schools. The Academy operates as an organization exempt from federal income tax as a governmental entity pursuant to Colorado laws applicable to Colorado public schools.

The majority of the Academy’s funding is provided by the State of Colorado and passed through the District.

The Board of Directors of the Academy has entered into a services agreement (the “agreement”) with National Heritage Academies, Inc. (“NHA”), which requires NHA to provide administration, strategic planning and all labor, materials, equipment, and supervision necessary for the provision of educational services to students. As part of the consideration received under the agreement, NHA also provides the facility in which the Academy operates. The agreement will continue until termination of the charter contract, unless at least 90 days written notice of intent to terminate or renegotiate is given by either the Academy or NHA.

Under the terms of the agreement, NHA receives as remuneration for its services an amount equal to the total revenue received by the Academy from all revenue sources.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Academy-wide and Fund Financial Statements — The Academy-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Academy’s government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues not classified as program revenues are reported instead as general purpose revenue.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Academy-wide Statements — The Academy-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The effect of interfund activity has been eliminated from the Academy-wide financial statements.

When an expense is incurred for purposes for which both restricted and unrestricted net position, or fund balance are available, the Academy's policy is to first apply restricted resources. When an expense is incurred for purposes which amounts in any of the unrestricted fund balance classifications could be used, it is the Academy's policy to spend funds in this order: committed, assigned and unassigned.

Fund-Based Statements — Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenue not meeting this definition is classified as a deferred inflow of resources. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. The contracted service fee to NHA is recorded consistent with the recognition of revenue.

Fund Classification — The financial activities of the Academy are organized on the basis of funds. The operation of each fund is accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

General Fund — The General Fund is used to account for the general educational programs of the Academy. Its revenues are derived primarily from the State of Colorado and passed through the District.

Grant Fund — The Grant Fund is used to account for the educational programs of the Academy. Its revenues are derived primarily from Federal sources.

Capital Assets — Capital assets, which include other equipment, consists of assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year, and are reported in the applicable governmental column in the Academy-wide financial statements.

Estimates — The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, and expenditures during the reporting period. Actual results could differ from those estimates.

Cash — 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. At June 30, 2016, all financial institutions holding deposits for the Academy are eligible public depositories. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. The Academy does not have amounts on deposit in excess of federal insurance levels.

Cash as of June 30, 2016, represents bank deposits, which are covered by federal depository insurance. Accordingly, there are no investments, which are required to be categorized according to risk.

Unavailable and Unearned Revenue — Unavailable revenue is reported in connection with receivables for revenue that is not considered available and measurable to liquidate liabilities of the current period. Unearned revenue is reported in connection with funds that have been received for services which have not been performed and is therefore not yet earned. As of June 30, 2016 deferred inflows for unavailable revenue were recognized for \$0 and a liability for unearned revenue was recognized for \$29,799.

Contracted Service Fee Payable — Contracted service fee payable as of June 30, 2016, represents a timing difference between funds received from governmental sources and amounts paid to NHA in accordance with the agreement.

Fund Balance — Fund balances may be classified as nonspendable, restricted, committed, assigned, or unassigned. The terms nonspendable and restricted are used either to indicate that certain assets do not represent spendable resources available for general educational programs or to earmark a portion of fund balance as legally segregated for a specific future use. The term committed represents amounts that can only be used for the specific purpose determined by a formal resolution of the board. The term assigned is used to classify the fund balance intended to be used by the board, but does not meet the criteria to be restricted or committed. The term unassigned is used for amounts that have not been restricted, committed, or otherwise assigned for future uses. At June 30, 2016, the Academy had \$28,769 in nonspendable fund balance, \$3,639 in committed fund balance, \$168,820 in restricted fund balance, \$(3,470) in unassigned fund balance. The committed fund balance has been committed by the Board of Directors for software subscriptions.

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, (the “Amendment”), which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local government. The Amendment is complex and subject to judicial interpretation. The Academy believes it is in compliance with the requirements of the Amendment. The Amendment requires state and local governments to establish an emergency reserve, representing 3% of qualifying expenditures. At June 30, 2016, the Academy’s fund balance of \$168,820 was reported as restricted fund balance in the General fund.

Budgetary Information — Annual budgets are required by Colorado State statutes for all funds and are adopted on a basis consistent with generally accepted accounting principles and state law in the United States of America for the general and grant funds.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Academy to have its budget in place by June 30. The budgets can be amended by the Board of Directors as considered necessary prior to January 31. The budgets were amended to increase budgeted revenues and expenditures for the General Fund by \$2,070 and \$11,344 and to increase budgeted revenues and expenditures for the Grant Fund by \$1,434.

The Academy adheres to the following procedures in establishing budgetary data reflected in the financial statements:

- Prior to June 30, management submits to the board of directors a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means for financing them. All budgets lapse at year-end.
- By June 30, the budget is adopted by the board of directors.
- 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.

3. DUE FROM GOVERNMENTAL REVENUE SOURCES

Receivables as of June 30, 2016 for the Academy included \$646 in state aid receivable. The Academy considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

4. RISK MANAGEMENT

The Academy is exposed to various risks of loss related to general liability. Commercial insurance policies to cover certain risks of loss have been obtained. There have been no significant reductions in insurance coverage during fiscal year 2016, and claims did not exceed coverage less retained risk deductible amounts in the past three fiscal years

5. CAPITAL ASSETS

Capital asset activity of the Academy's governmental activities was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental activities —				
Other equipment	<u>\$ 46,098</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 46,098</u>
Total capital assets at historical cost	<u>46,098</u>	<u>-</u>	<u>-</u>	<u>46,098</u>
Less accumulated depreciation —				
Other equipment	<u>12,404</u>	<u>4,610</u>	<u>-</u>	<u>17,014</u>
Total accumulated depreciation	<u>12,404</u>	<u>4,610</u>	<u>-</u>	<u>17,014</u>
Total governmental activities capital assets, net	<u>\$ 33,694</u>	<u>\$ (4,610)</u>	<u>\$ -</u>	<u>\$ 29,084</u>

6. CONTINGENCIES

The Academy has received proceeds from several federal and state grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

7. OPERATING LEASE

The Academy has entered into a sublease agreement with NHA for a facility to house the Academy. The lease term is from July 1, 2015 through June 30, 2016. Annual rental payments required by the lease are \$1,008,480, payable in 12 monthly payments of \$84,040. This lease is renewable on a year-to-year basis.

The Academy subsequently renewed the sublease with NHA for the period of July 1, 2016 through June 30, 2017, at the same rental rate.

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REQUIRED SUPPLEMENTAL INFORMATION

FOUNDATIONS ACADEMY

REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE GENERAL FUND YEAR ENDED JUNE 30, 2016

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
REVENUES:				
State Aid	\$ 5,196,497	\$ 5,204,270	\$ 5,210,724	\$ 6,454
Other State Sources	80,176	68,384	113,813	45,429
Local Sources	33,951	35,540	34,654	(886)
Private Sources	117,000	121,500	205,065	83,565
Total Revenues	<u>5,427,624</u>	<u>5,429,694</u>	<u>5,564,256</u>	<u>134,562</u>
EXPENDITURES - Contracted Service fee:				
Instruction:				
Basic Instruction	1,887,825	1,877,872	2,034,864	156,992
Added Needs	-	-	7,440	7,440
Special Education	193,994	205,423	215,358	9,935
Support Services:				
Pupil Services	141,665	139,982	136,513	(3,469)
Instructional Staff Services	586,253	578,526	579,447	921
Board of Education	118,286	134,987	86,942	(48,045)
Executive Administration	228,148	171,857	174,422	2,565
Grant Procurement	40,048	45,895	35,388	(10,507)
Office of the Principal	268,454	263,614	271,092	7,478
Other School Administration	152,947	154,201	131,846	(22,355)
Business Support Services	110,532	121,047	108,717	(12,330)
Central Services	329,250	363,421	307,109	(56,312)
Pupil Transportation Services	-	-	8,979	8,979
Operations and Maintenance	1,364,322	1,376,243	1,453,032	76,789
Food Services	5,900	5,900	5,900	-
Total Expenditures	<u>5,427,624</u>	<u>5,438,968</u>	<u>5,557,049</u>	<u>118,081</u>
NET CHANGE IN FUND BALANCE	-	(9,274)	7,207	16,481
FUND BALANCE - Beginning of year	<u>-</u>	<u>190,551</u>	<u>190,551</u>	<u>-</u>
FUND BALANCE - End of year	<u>\$ -</u>	<u>\$ 181,277</u>	<u>\$ 197,758</u>	<u>\$ 16,481</u>

FOUNDATIONS ACADEMY

REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE GRANT FUND YEAR ENDED JUNE 30, 2016

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
REVENUES - Federal Sources	\$ 68,840	\$ 70,274	\$ 78,895	\$ 8,621
EXPENDITURES - Contracted Service Fee	68,840	70,274	78,895	8,621
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCE - Beginning of year	-	-	-	-
FUND BALANCE - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To Management and the Board of Directors
Foundations Academy

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the governmental activities and the major funds of Foundations Academy (the "Academy") as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated September 26, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Foundations Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Academy's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To Management and the Board of Directors
Foundations Academy

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Foundations Academy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Academy's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Alente & Morse, PLLC

September 26, 2016