

NEW MIDDLE SCHOOL, INC.
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

**NEW MIDDLE SCHOOL, INC.
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YEAR ENDED JUNE 30, 2016**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
New Middle School Inc.
Lakewood, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of New Middle School, Inc. (the School), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 auditors' 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 School'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 School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the School as of June 30, 2016, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages iii through viii and 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required By Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2016 on our consideration of the School'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 result of that testing, and not to provide an opinion on 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 the School's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Broomfield, Colorado
November 18, 2016

**NEW MIDDLE SCHOOL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

In this Management's Discussion and Analysis (MD&A) section of the Financial Statements for New Middle School, Inc., a component unit of Byers School District No. 32J (the District), we provide readers with a narrative overview and analysis of the financial activities for the year ended June 30, 2016. When analyzing financial activities of the current fiscal year, it is useful to compare current fiscal information with comparable information of the previous year. This discussion and analysis is also intended to serve as an introduction to the School's basic financial statements. We encourage readers to consider the information presented here in conjunction with the information presented in the basic financial statements to enhance their understanding of the School's financial activity and performance.

Financial Highlights

Key to the financial condition of the organization is the strength of the balance sheet disclosing amounts for assets, liabilities and net position.

At the close of the fiscal year, New Middle School, Inc. (the School) experienced a decrease of \$9,948 in net position due to a decrease in student participation which led to a decrease in per pupil revenues.

Total unrestricted cash and investments was \$123,000 at June 30, 2016, as compared to \$119,571 at June 30, 2015.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements are comprised of three components:

- Government-wide Financial Statements on pages 1 and 2
- Fund Financial Statements on pages 3-6
- Notes to the Financial Statements on pages 7-12

Government-wide Financial Statements

The Government-wide Financial Statements are designed to provide readers with a long-term and broad overview of the School's finances as a whole in a manner similar to a private sector business. The Government-wide Financial Statements use an economic resource management focus in which all of the assets are available to the School for the purpose of providing goods and services to qualified enrolled students, and the full accrual basis of accounting, which results in recording changes in assets and liabilities (revenues and expenses) when the underlying event causing the changes occurs to present this long-term and broad overview of financial position and activities in the Statement of Net Position and the Statement of Activities. Therefore, certain expenditures recorded in the governmental fund financial statements are deferred or capitalized and amortized or depreciated, and long-term liabilities not reported in fund financial statements are recorded before the cash, which can fund current year expenditures is received.

The Statement of Net Position presents the financial position of the School as a whole at the end of the fiscal year by presenting information on all of the School's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. The School does not have deferred outflows of resources or deferred inflows of resources. Over time, increases or decreases in net position serve as a useful indicator of whether the School's financial position is improving or deteriorating.

NEW MIDDLE SCHOOL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2016

The Statement of Activities shows how the financial position of the School as a whole has changed since the beginning of the fiscal year by presenting information showing how the School's net position have changed during the year. In the Statement of Activities, all changes in net position are reported as soon as the underlying economic event has occurred, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement even though the resulting cash flow may be recorded in a future period.

Fund Financial Statements

A fund is a fiscal and accounting entity with a self-balancing set of accounts used to record cash and other financial resources and related liabilities and residual equities segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The School, like other charter schools, uses fund accounting to ensure and demonstrate compliance with finance-related regulations, requirements, restrictions or limitations. Fund financial statements for the School include Governmental Funds only.

The measurement focus for governmental fund accounting is current financial resources, which include cash and near-cash assets and short term debt that are available during the fiscal year and soon enough after the end of the fiscal year to financially support the purpose of carrying on specific activities or attaining certain objectives in accordance with the special regulations, restrictions or limitations that define the fund.

Governmental fund accounting uses the modified accrual basis of accounting. This basis of accounting records and reports the inflows and outflows of current financial resources (spendable/appropriable resources) under the special regulations, restrictions or limitations that define the fund. Governmental fund financial statements reinforce the Government-wide Financial Statements by focusing on the current financial resources and emphasizing the need for short-term financing and generation of spendable resources. Governmental fund financial statements provide additional information related to the regulation, restrictions or limitations that define the funds, their impact on the ability of the fund to finance current activities and specific missions, and measurement against the planned appropriations and budgets of the responsible officials of the School.

Governmental Funds - are used to account for essentially the same functions reported as governmental activities in the Government-wide Financial Statements. However, unlike the Government-wide Financial Statements, Governmental Fund Financial Statements focus on near-term inflow and outflows of financial (spendable/appropriable) resources, as well as on balances of financial (spendable) resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing and appropriation related requirements.

Because the focus of Fund Financial Statements is narrower than that of the Government-wide Financial Statements, it is useful to compare the information presented for governmental funds in Fund Financial Statements with similar information presented for governmental activities in the Government-wide Financial Statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. A reconciliation of the Total Governmental Fund Balances in the Fund Financial Statements balance sheets to the Net Position of Governmental Activities in the Governmental-wide Financial Statements is provided following the Balance Sheet of Government Funds in the Fund Financial Statements. A reconciliation of the Net Change in Fund Balance - Total Governmental Fund in the Fund Financial Statements to the Change in Net Position of Governmental Activities in the Government-wide Financial Statement is provided following the Statement of Revenues, Expenditures and Changes in Fund Balance in the Fund Financial Statements.

**NEW MIDDLE SCHOOL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

These reconciliations provide explanations of differences between these balances and facilitate an understanding of the differences between the measurement focuses and basis of accounting used in preparing the Fund Financial Statements and the Government-wide Financial Statements.

In this annual report, the School reports on one governmental fund. Information is presented separately in the Fund Financial Statements for the General Fund. Individual Fund Balance Sheets and Statements of Revenues, Expenditures and Changes in Fund Balance is presented for the General Fund.

Notes to the Basic Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the information provided in the government-wide and fund financial statements.

Budgetary Comparisons

The School adopts an annual appropriation budget for its governmental fund. A budgetary comparison schedule has been provided for the General Fund on page 13.

CHANGES IN THE GOVERNMENT-WIDE FINANCIAL STATEMENTS

Condensed Statement of Net Position

The following table provides a condensed comparative presentation of the School's Government-wide Statement of Net Position for fiscal year June 30, 2016.

| | 2016 | 2015 |
|----------------------------|------------|------------|
| CURRENT ASSETS | | |
| Cash - Unrestricted | \$ 123,000 | \$ 119,571 |
| Total Current Assets | 123,000 | 119,571 |
| LIABILITIES | | |
| State Equalization Payable | 77,617 | 64,240 |
| Total Liabilities | 77,617 | 64,240 |
| NET POSITION | | |
| Restricted For: | | |
| TABOR | 43,038 | 49,603 |
| Unrestricted | 2,345 | 5,728 |
| Total Net Position | \$ 45,383 | \$ 55,331 |

A review of the condensed Government-wide Statement of Net Position for the School for fiscal year 2016 shows that current assets increased approximately \$3,000 and current liabilities increased approximately \$13,000 since fiscal year 2015. The increase in current liabilities relates to a reserve for potential CDE audit findings, which is estimated based on an internal analysis of enrollment verification.

Total net position decrease of \$9,948 relates to expenses exceeding revenues in fiscal year 2016.

**NEW MIDDLE SCHOOL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Condensed Statement of Activities

The following table provides a condensed comparative presentation of the School's Government-wide Statement of Activities for fiscal year ended June 30, 2016.

| | <u>2016</u> | <u>2015</u> |
|--|------------------|------------------|
| REVENUES | | |
| Intergovernmental | \$ 1,424,663 | \$ 1,708,778 |
| EXPENSES | | |
| Current | | |
| Instruction | 995,386 | 1,143,027 |
| Support Services | | |
| Student Services | 85,714 | 98,427 |
| Instructional Staff Services | 96,774 | 111,128 |
| General Administrative | 52,130 | 65,909 |
| School Administration Services | 80,184 | 92,077 |
| Business Services | 55,299 | 63,502 |
| Operations and Maintenance of Plant Services | 27,650 | 31,751 |
| Central Support Services | 41,474 | 47,626 |
| Total Expense | <u>1,434,611</u> | <u>1,653,447</u> |
| REVENUES OVER (UNDER) EXPENDITURES | (9,948) | 55,331 |
| Net Position - Beginning of Year | <u>55,331</u> | <u>-</u> |
| NET POSITION - END OF YEAR | <u>\$ 45,383</u> | <u>\$ 55,331</u> |

Revenue and expense line items used in the condensed Government-wide Statement of Activities for the School account for the following:

- Intergovernmental Revenue – The major portion of intergovernmental revenue is provided by the Colorado Public School Finance Act of 1994 (Finance Act), which provides for the funding of public school's on a full-time equivalent (FTE) pupil enrollment count formula. Student FTE was 215 for the 2016 fiscal year, a decrease of 61 from 2015.
- Instruction – Instructional expenses include activities dealing directly with the interactions between teaching staff and students.
- Student Services – Activities designed to assess and improve the well-being of students and to supplement the teaching process. These services pertain to interaction between students and teachers by designing the educational program for the needs of individual students and include activities designed to improve student attendance.
- Instructional Staff Services – Activities associated with assisting the instructional staff with the content and process of providing learning experiences for students.
- General Administrative – Activities concerned with establishing and administering policy for operating the school.
- School Administrative – Activities concerned with the overall administrative responsibility for the school.

**NEW MIDDLE SCHOOL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

- Business Services – Activities concerned with paying, transporting, exchanging, and maintaining goods and services for the school. Included are the fiscal and internal services necessary for operating the school.
- Operations & Maintenance of Plant – Activities concerned with keeping the physical plant open, comfortable, and safe for use, and keeping the grounds, buildings, and equipment in effective working condition and state of repair.
- Central Support Services – Activities, other than general administration, which support each of the other instructional and support service programs. These activities include planning, research, development, evaluation, information, staff, and data processing services.

ANALYSIS OF THE GOVERNMENT-WIDE FINANCIAL POSITION AND RESULTS OF OPERATIONS

Analysis of Government-wide Financial Position

Net position, the amount by which the School's assets exceed its liabilities, are generally accepted as the primary indicator of the School's financial position. Increasing net position from one year to the next indicates an improvement in the School's financial position while decreasing net position from one year to the next indicates deterioration in the School's financial position.

As of June 30, 2016, the School's assets exceeded liabilities by \$45,383. The changes in government-wide net position are presented and discussed above in the Changes in the Government-wide Financial Statements section of this MD&A.

The School's unrestricted net position was \$2,345 in fiscal year 2016.

The remaining net position, \$43,038 in fiscal year 2016, represents resources that are subject to external restrictions on how they may be used. Included in this category are statutory reserves required by the State of Colorado.

Analysis of Government-wide Results of Operation

The primary indicator used to assess the health of a School's operations is whether revenues exceed expenses for the fiscal year. For fiscal year 2016, expenses exceeded revenues by \$9,948.

The changes in government-wide revenue are presented and discussed above in the Changes in the Government-wide Financial Statements section of this Management's Discussion and Analysis.

ANALYSIS OF BALANCES OF FUND FINANCIAL STATEMENTS

Fund Financial Statements Overview

The School uses fund accounting to ensure and demonstrate compliance with finance-related regulations, requirements, restrictions or limitations and to report the financial position and financial activity of the funds. Fund Financial Statements reinforce the Government-wide Financial Statements and provide additional information related to regulations, requirements, restrictions or limitations and report the financial position and financial activity of the funds. The Fund Financial Statements include Governmental Funds.

**NEW MIDDLE SCHOOL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Governmental Fund

Governmental Fund Financial Statements focus on the current financial resources, cash and near-cash assets and short-term debt that are available during the fiscal year and soon enough after the end of the fiscal year to financially support the purpose of carrying on specific activities or attaining certain objectives in accordance with the special regulation, restrictions or limitations that define the fund. This information is useful in assessing the School's current financial resource requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for future spending at the end of the fiscal year.

The total ending fund balance of the School's governmental fund was \$45,383 at the end of fiscal year 2016. \$2,345 at the end of fiscal year 2016 was unassigned fund balance. The remainder of the total governmental funds ending fund balance was not available for new spending in the following fiscal year because it is restricted or assigned for the following purposes:

- TABOR (Taxpayer's Bill of Rights) - \$43,038

The following is an analysis of the important balances of this major fund:

General Fund

This fund is the primary operating fund of the School. The General Fund is used to account for activities that are not required to be accounted for in another fund. The General Fund balance was \$45,383 as of June 30, 2016. Of these amounts, \$43,038 was restricted for TABOR.

GENERAL FUND BUDGET VARIANCE ANALYSIS

The School's budget is prepared according to Colorado Statutes.

| | Original Budget | Final Budget | Actual | Variance Positive (Negative) |
|----------------------------------|--------------------|------------------|------------------|------------------------------------|
| Fund Balance - Beginning of Year | \$ 49,750 | \$ 55,331 | \$ 55,331 | \$ - |
| Revenues | 1,910,202 | 1,419,464 | 1,424,663 | 5,199 |
| Expenditures | 1,902,646 | 1,435,631 | 1,434,611 | 1,020 |
| Fund Balance, June 30, 2016 | <u>\$ 57,306</u> | <u>\$ 39,164</u> | <u>\$ 45,383</u> | <u>\$ 6,219</u> |

Economic Factors and Next Year's Budgets and Rates

An increase in per pupil funding by at least inflation plus 1% was provided by the State Constitution Amendment 23, passed by the voters in November 2000.

- For fiscal year 2017, State funding will include a per pupil rate increase as compared to fiscal year 2016. Therefore, the School will be receiving an estimated \$6,795 per pupil (FTE basis).

Requests for Information

This financial report is designed to provide a general overview of the School's finances for all those with an interest in the School. Questions concerning any of the information provided in this report or requests for additional information shall be addressed to:

Board Treasurer
New Middle School, Inc.
165 S. Union Blvd., Ste. 777
Lakewood, CO 80228

**NEW MIDDLE SCHOOL, INC.
STATEMENT OF NET POSITION
JUNE 30, 2016**

| | <u>Governmental Activities</u> |
|----------------------------|------------------------------------|
| ASSETS | |
| CURRENT ASSETS | |
| Cash - Unrestricted | \$ 123,000 |
| Total Current Assets | <u>123,000</u> |
| LIABILITIES | |
| State Equalization Payable | <u>77,617</u> |
| Total Liabilities | <u>77,617</u> |
| NET POSITION | |
| Restricted For: | |
| TABOR | 43,038 |
| Unrestricted | <u>2,345</u> |
| Total Net Position | <u>\$ 45,383</u> |

See accompanying Notes to Financial Statements.

**NEW MIDDLE SCHOOL, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

| | Expenses | Operating Grants and Contributions | Net (Expense) Revenue and Changes in Net Position Governmental Activities |
|--|--------------|---|--|
| FUNCTIONS/PROGRAMS | | | |
| Governmental Activities | | | |
| Instruction | \$ 995,386 | \$ - | \$ (995,386) |
| Supporting Services: | | | |
| Student Services | 85,714 | - | (85,714) |
| Instructional Staff Services | 96,774 | - | (96,774) |
| General Administrative | 52,130 | - | (52,130) |
| School Administrative Services | 80,184 | - | (80,184) |
| Business Services | 55,299 | - | (55,299) |
| Operations and Maintenance of Plant Services | 27,650 | - | (27,650) |
| Central Support Services | 41,474 | - | (41,474) |
| Total Governmental Activities | \$ 1,434,611 | \$ - | (1,434,611) |
| General revenues: | | | |
| Intergovernmental | | | 1,424,663 |
| Total | | | 1,424,663 |
| Change in net position | | | (9,948) |
| Net position - Beginning of year | | | 55,331 |
| Net position - End of year | | | \$ 45,383 |

See accompanying Notes to Financial Statements.

NEW MIDDLE SCHOOL, INC.
BALANCE SHEET – GOVERNMENTAL FUND
JUNE 30, 2016

ASSETS

CURRENT ASSETS

| | |
|----------------------|-------------------|
| Cash - Unrestricted | \$ 123,000 |
| Total Current Assets | <u>\$ 123,000</u> |

LIABILITIES AND FUND BALANCES

LIABILITIES

| | |
|----------------------------|---------------|
| State Equalization Payable | \$ 77,617 |
| Total Liabilities | <u>77,617</u> |

FUND BALANCE

| | |
|--|-----------------------|
| Restricted for: | |
| TABOR | 43,038 |
| Unassigned | 2,345 |
| Total Fund Balance | <u>45,383</u> |
| Total Liabilities and Fund Balance | <u>\$ 123,000</u> |

See accompanying Notes to Financial Statements.

NEW MIDDLE SCHOOL, INC.
RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2016

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

| | |
|---|-------------------------|
| Fund Balance - Total Governmental Fund | <u>\$ 45,383</u> |
| Net Position of Governmental Activities | <u><u>\$ 45,383</u></u> |

See accompanying Notes to Financial Statements.

**NEW MIDDLE SCHOOL, INC.
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – GOVERNMENTAL FUND
TO THE STATEMENT OF NET POSITION
YEAR ENDED JUNE 30, 2016**

| | |
|--|-------------------------|
| REVENUES | |
| Intergovernmental | <u>\$ 1,424,663</u> |
| EXPENDITURES | |
| Current: | |
| Instruction | 995,386 |
| Support Services: | |
| Student Services | 85,714 |
| Instructional Staff Services | 96,774 |
| General Administrative | 52,130 |
| School Administration Services | 80,184 |
| Business Services | 55,299 |
| Operations and Maintenance of Plant Services | 27,650 |
| Central Support Services | 41,474 |
| Total Expenditures | <u>1,434,611</u> |
| REVENUES OVER (UNDER) EXPENDITURES | (9,948) |
| Fund Balance - Beginning of Year | <u>55,331</u> |
| FUND BALANCE - END OF YEAR | <u><u>\$ 45,383</u></u> |

See accompanying Notes to Financial Statements.

NEW MIDDLE SCHOOL, INC.
RECONCILIATION OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

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

| | |
|---|--------------------------|
| Net Change in Fund Balances - Total Governmental Fund | <u>\$ (9,948)</u> |
| Governmental Activities Change in Net Position | <u><u>\$ (9,948)</u></u> |

See accompanying Notes to Financial Statements.

NEW MIDDLE SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New Middle School, Inc. (the School) was formed in July 2014 pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Byers School District No. 32J (the District) in the State of Colorado.

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles applicable to governmental units. A summary of the School significant accounting policies consistently applied in the preparation of these financial statements follows:

Financial Reporting Entity

The Governmental Accounting Standards Board (GASB) has specified the criteria to be used in defining a governmental entity for financial reporting purposes:

The basic, but not the only, criterion for including a governmental department, agency, institution, commission, public authority or other governmental organization in a governmental unit's reporting entity for general purpose financial reports is the exercise of financial accountability over such agencies by the governmental unit's elected officials. Financial accountability is derived from the governmental unit's power and includes, but is not limited to, financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. Financial accountability implies that a governmental unit is dependent on another and the dependent unit should be reported as part of the other.

The School is separately incorporated as a Colorado nonprofit corporation and has been determined to be a component unit of the District. The School provides a traditional curriculum primarily through online technology to students in grades 7-8 across Colorado.

For financial reporting purposes, in conformance with GASB, the School includes all funds, agencies, boards and commissions that are controlled by or dependent on its Board of Directors. Control by or dependence on the School was determined on the basis of budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the School, obligation of the School to finance any debts that may occur, or receipt of significant subsidies from the School. The School is not financially accountable for any other organization.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the School. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities normally are supported by intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function.

NEW MIDDLE SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program revenues include 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. Other items not properly included among program revenues are reported instead as general revenues. Separate financial statements are provided for governmental funds. The School has one major individual governmental fund - the General Fund.

Fund Accounting

The accounts of the School are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. 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. The major fund presented in the accompanying basic financial statements is as follows:

Major Governmental Fund

General Fund - The General Fund is the general operating fund of the School. It is used to account for all financial resources except those required to be accounted for in another fund.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The government-wide financial statements are presented 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 related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, operating statements present increases and decreases in net current assets and fund balance as a measure of available spendable resources. This means that only current liabilities are generally included on their balance sheets.

All governmental funds use the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period, or soon enough thereafter, to pay liabilities of the current period. Revenues are considered to be available if collected within 60 days after year-end.

Grants and entitlement revenues are recognized when compliance with matching requirements is met. A receivable is established when the related expenditures exceed revenue receipts, and a deferred revenue account is established when receipts exceed the related expenditures.

Expenditures are recorded when incurred with the exception of certain accrued sick and personal pay, which are accounted for as expenditures when due.

NEW MIDDLE SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets, which include property and equipment, are utilized for general School operations and are capitalized at actual or estimated cost. Donations of such assets are recorded at estimated fair value at the time of donation. Capital assets are reported in the applicable governmental activities column in the government-wide financial statements.

Maintenance, repairs and minor renovations are recorded as expenditures when incurred. Major additions and improvements are capitalized. When assets used in the operation of the governmental funds are sold, the proceeds of the sale are recorded as revenues in the appropriate fund. The monetary threshold for capitalization of assets is \$5,000.

Depreciation of all capital assets is charged as an expense against operations.

Capital assets of the School are depreciated using the straight-line method.

The School currently has no capital assets.

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 used in the governmental fund financial statements are as follows:

Nonspendable – This classification includes amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact. The School classified the long-term portion of advance receivable from other funds as nonspendable. The school had no nonspendable funds as of June 30, 2016.

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. The School has classified Emergency Reserves as being restricted because their use is restricted by State Statute for declared emergencies. Restricted balance related to Emergency Reserves as of June 30, 2016 is \$43,038 (see Note 5).

Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (i.e. resolution) that was employed 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. The School did not have any committed resources as of June 30, 2016.

**NEW MIDDLE SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assigned – This classification includes amounts that are subject to a purpose constraint that represents an intended use, but does not meet the criteria to be classified as restricted or committed. The purpose of this assignment must be narrower than the purpose of the General Fund, and in funds other than the General Fund, assigned fund balance represents the residual amount of fund balance. The School did not have any assigned fund balances as of June 30, 2016.

Unassigned – This classification includes the residual fund balance for the General Fund.

Budget

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 fund balance.

The School's budgeted and actual expenditures for the year ending June 30, 2016 represent the following:

| | Budgeted Amounts | | Actual Expenditures | Variance with Final Budget |
|--------------|------------------|--------------|------------------------|-------------------------------|
| | Original | Final | | Positive (Negative) |
| General Fund | \$ 1,902,646 | \$ 1,435,631 | \$ 1,434,611 | \$ 1,020 |

Current Year GASB Statement Implementation

For the year ended June 30, 2016, the School adopted the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*, which is effective for financial statement periods beginning after June 15, 2015. GASB Statement No. 72 requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. The School's fair value measurements have not changed as a result of the implementation.

NOTE 2 CASH DEPOSITS

The School's deposits are governed by Colorado Statute. 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 regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least equal to the aggregate uninsured deposits.

NEW MIDDLE SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 CASH DEPOSITS (CONTINUED)

The State Regulatory Commissions for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

The cash balance was held by banking institutions in the State of Colorado and was fully collateralized, to the extent not covered by federal deposit insurance.

At June 30, 2016, cash deposits consisted of the following:

| | |
|----------------------------------|-------------------|
| Unrestricted - Operating Account | \$ 123,000 |
| Total Cash Deposits | <u>\$ 123,000</u> |

The School has no investments.

NOTE 3 STATE EQUALIZATION PAYABLE

Revenue of the School is primarily provided by the Colorado Public School Finance Act of 1994, which provides funding to public schools on a full time equivalent (FTE) per pupil enrollment count. The School performs a pupil enrollment count each October. The enrollment count is subject to audit by the Colorado Department of Education (CDE).

The School has recorded a liability for fiscal year 2016 totaling \$13,377, representing .93% of intergovernmental revenues. The total payable recorded as of June 30, 2016 of \$77,617 includes the liability recorded for fiscal year 2015 of \$64,240, representing 3.76% of intergovernmental revenues. The liability will be a reduction of per pupil revenues upon completion of the CDE audit, as noted above. The liability is recognized as a reduction in intergovernmental revenues in the year it is recorded.

NOTE 4 RELATED PARTY TRANSACTIONS

The School procures services from the Rocky Mountain Charter Collaborative ("Collaborative"). The Collaborative is a cooperative education organization based on the Colorado Charter School Collaborative Act, C.R.S. §§ 22-30.5-601 – 605. Members of the School's board of directors also serve as members of the Collaborative's board of directors.

NEW MIDDLE SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 5 TAX, SPENDING AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights (TABOR) contains tax, spending, revenue and debt limitations, which apply to the State of Colorado and all local governments.

Spending and revenue limits are determined based on the prior year's Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

The School's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits will require judicial interpretation.

NOTE 6 RISK MANAGEMENT

The School is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God. The School maintains commercial insurance for all risks of loss. Settled claims have not exceeded this coverage for the last two years.

NEW MIDDLE, INC.
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – GENERAL FUND
YEAR ENDED JUNE 30, 2016

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--|------------------|------------------|------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Intergovernmental | \$ 1,910,202 | \$ 1,419,464 | \$ 1,424,663 | \$ 5,199 |
| Total Revenues | <u>1,910,202</u> | <u>1,419,464</u> | <u>1,424,663</u> | <u>5,199</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Instructional | 1,312,840 | 987,765 | 995,386 | (7,621) |
| Support Services | <u>589,806</u> | <u>447,866</u> | <u>439,225</u> | <u>8,641</u> |
| Total Expenditures | <u>1,902,646</u> | <u>1,435,631</u> | <u>1,434,611</u> | <u>1,020</u> |
| REVENUE OVER (UNDER) EXPENDITURES | 7,556 | (16,167) | (9,948) | 6,219 |
| Fund Balance - Beginning of Year | <u>49,750</u> | <u>55,331</u> | <u>55,331</u> | <u>-</u> |
| FUND BALANCE - END OF YEAR | <u>\$ 57,306</u> | <u>\$ 39,164</u> | <u>\$ 45,383</u> | <u>\$ 6,219</u> |



**INDEPENDENT AUDITORS' 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**

Board of Directors
New Middle School, Inc.
Lakewood, Colorado

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 financial statements of the governmental activities and the major fund for New Middle School, Inc. (the School) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated November 18, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School'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 School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School'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 entity'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 or significant deficiencies. However, material weaknesses may exist that have not been identified.

Board of Directors
New Middle School, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School'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 result of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Broomfield, Colorado
November 18, 2016