

**Third Future Schools aka
Academy of Advanced Learning**

(A Component Unit of the Joint School District No. 28-J of the
Counties of Adams and Arapahoe, Colorado)

Financial Statements and Independent Auditor's Reports

June 30, 2017

Third Future Schools aka Academy of Advanced Learning
(A Component Unit of the Joint School District No. 28-J of the
Counties of Adams and Arapahoe, Colorado)
June 30, 2017

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Independent Auditor's Report

Board of Directors
Third Future Schools aka Academy of Advanced Learning
Joint School District No. 28-J of the
Counties of Adams and Arapahoe, Colorado
Aurora, Colorado

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund and the aggregate remaining fund information Third Future Schools aka Academy of Advanced Learning (TFS/AAL), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise TFS/AAL'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. 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.

Board of Directors
Third Future Schools aka Academy of Advanced Learning

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of TFS/AAL as of June 30, 2017, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the general and internal service funds 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 as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BKD, LLP

Denver, Colorado
September 26, 2017

Third Future Schools aka Academy of Advanced Learning
(A Component Unit of the Joint School District No. 28-J of the
Counties of Adams and Arapahoe, Colorado)
Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended June 30, 2017

As management of Third Future Schools aka Academy of Advanced Learning (TFS/AAL), we offer readers of TFS/AAL's basic financial statements this narrative and analysis of the financial activities of TFS/AAL as of and for the year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with additional information provided in the basic financial statements.

Financial Highlights

The year ended June 30, 2017, was the start-up year of operations for TFS/AAL. Net position amounted to \$317,127 as of June 30, 2017. The start-up activities of TFS/AAL were funded primarily by grant revenue. Grant revenue for the year was \$931,073.

Charter Schools rely almost exclusively on per-pupil funding flowing through the authorizing school district. TFS/AAL has done an excellent job of recruiting students to start the first year. The process of finding students and families included mailings, phone calls, open houses, and door to door visits. A quality educational program is the most important factor for a parent when choosing a school and getting people to understand what the school is offering is a huge challenge. Recruiting quality staff is also very critical to the success of a charter school and the administrative team conducted hundreds of interviews to find the talented staff to start the school.

The biggest challenge to open a charter school is securing the facility. The cost to remodel the facility is expected to be approximately \$2 million. In August 2017, the school opened on time with 500 students, kindergarten through sixth grade. The school has a waiting list and plans to expand to include seventh and eighth grade next school year.

Overview of Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to TFS/AAL's basic financial statements. These basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of TFS/AAL's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of TFS/AAL's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of TFS/AAL is improving or deteriorating.

Third Future Schools aka Academy of Advanced Learning
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Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended June 30, 2017

The statement of activities presents information showing how TFS/AAL's net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flow changes in future fiscal periods.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. TFS/AAL, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. TFS/AAL maintains one governmental fund – its General Fund which reports all activity, including that of the Building Corporation.

TFS/AAL adopts an annual budget for its general fund. A budgetary comparison has been provided for the general fund in the basic financial statements to demonstrate compliance with the budget.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Third Future Schools aka Academy of Advanced Learning
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Counties of Adams and Arapahoe, Colorado)
Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended June 30, 2017

Government-wide Financial Analysis

As noted previously, net position may serve over time as a useful indicator of TFS/AAL's financial position. As of June 30, 2017, TFS/AAL's net position was \$317,127. Net investment in capital assets was \$210,215 as of June 30, 2017. TFS/AAL had an unrestricted net position of \$81,262 as of June 30, 2017. Following is a condensed statement of net position as of June 30, 2017:

Assets

Current assets	\$ 83,851
Noncurrent assets - other	61,500
Noncurrent assets - capital	<u>1,359,224</u>
Total assets	<u>1,504,575</u>

Liabilities

Current liabilities	395,965
Long-term liabilities	
Due within one year	
Notes payable	276,517
Due more than one year	<u>514,966</u>
Total liabilities	<u>1,187,448</u>

Net Position

Net investment in capital assets	210,215
Restricted for TABOR	25,650
Unrestricted	<u>81,262</u>
Total net position	<u>\$ 317,127</u>

Third Future Schools aka Academy of Advanced Learning
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Counties of Adams and Arapahoe, Colorado)
Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended June 30, 2017

TFS/AAL's only source of revenue during start-up was grants. TFS/AAL incurred startup expenses related to instruction and support services during the fiscal year end June 30, 2017:

Revenues

General revenues	
Grants - unrestricted	\$ 931,073
	<hr/>
Total revenues	931,073
	<hr/>

Expenses

Functions/programs	
Governmental activities	
Instruction	85,052
Support services	525,391
Interest on long-term debt	3,503
	<hr/>
Total expenses	613,946
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Change in Net Position	317,127
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Net Position - Beginning	<hr/> -
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Net Position - Ending	<hr/> \$ 317,127 <hr/>
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Financial Analysis of Governmental Funds

As previously mentioned, TFS/AAL has one governmental fund, the General Fund. The General Fund is considered a major fund and is used to account for TFS/AAL's general operations. During the first year of operations, TFS/AAL's General Fund ended the fiscal year with a fund balance deficit of \$247,111.

General Fund Budgetary Highlights

TFS/AAL budgeted General Fund expenditures of \$2,250,000 for the year ended June 30, 2017. Actual expenditures for the year ended June 30, 2017 were \$1,969,667. There was one budget amendment during the fiscal year.

Third Future Schools aka Academy of Advanced Learning
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Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended June 30, 2017

Capital Assets and Debt Administration

Capital asset activity is described in Note 3 to the financial statements and involved leasehold improvements.

As described in Note 5 to the financial statements, TFS/AAL, through the Building Corporation, leases the facility from an unrelated party and financed leasehold improvements as described in Note 4.

Economic Factors and Next Year's Budget

The primary factor driving the budget will be student enrollment. The Funded Pupil Count (FPC) projected for the 2017-2018 school year is 473. This is a major factor used in preparing TFS/AAL's budget for the fiscal year 2017-2018.

Request for Information

This financial report is designed to provide a general overview of finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Cheryl Serrano at 431 Sable Boulevard, Aurora, Colorado 80011.

Third Future Schools aka Academy of Advanced Learning
(A Component Unit of the Joint School District No. 28-J of the
Counties of Adams and Arapahoe, Colorado)
Statement of Net Position
June 30, 2017

	Primary Government Governmental Activities
Assets	
Cash	\$ 63,250
Grants receivable	13,000
Prepaid expenses	7,601
Lease deposit	61,500
Leasehold improvements	<u>1,359,224</u>
Total assets	<u>1,504,575</u>
Liabilities	
Accounts payable	34,936
Construction contracts payable	357,526
Interest payable	3,503
Long-term liabilities	
Due within one year	
Notes payable	276,517
Due more than one year	
Notes payable	<u>514,966</u>
Total liabilities	<u>1,187,448</u>
Net Position	
Net investment in capital assets	210,215
Restricted for TABOR	25,650
Unrestricted	<u>81,262</u>
Total net position	<u><u>\$ 317,127</u></u>

Third Future Schools aka Academy of Advanced Learning
(A Component Unit of the Joint School District No. 28-J of the
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Statement of Activities
Year Ended June 30, 2017

				Net (Expense) Revenue and Changes in Net Position
	Expenses	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Functions/Programs				
Governmental activities				
Instruction	\$ 85,052	\$ -	\$ -	\$ (85,052)
Support services	525,391	-	-	(525,391)
Interest on long-term debt	<u>3,503</u>	<u>-</u>	<u>-</u>	<u>(3,503)</u>
Total governmental activities	<u><u>\$ 613,946</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>(613,946)</u></u>
General Revenues				
Grants - unrestricted				<u>931,073</u>
Total general revenues				<u>931,073</u>
Change in Net Position				317,127
Net Position - Beginning				<u>-</u>
Net Position - Ending				<u><u>\$ 317,127</u></u>

Third Future Schools aka Academy of Advanced Learning
(A Component Unit of the Joint School District No. 28-J of the
Counties of Adams and Arapahoe, Colorado)
Balance Sheet – Governmental Fund – General Fund
June 30, 2017

Assets

Cash	\$ 63,250
Grants receivable - CDE	13,000
Prepays	7,601
Lease deposit	<u>61,500</u>
Total assets	<u><u>\$ 145,351</u></u>

Liabilities

Accounts payable	\$ 34,936
Construction contracts payable	<u>357,526</u>
Total liabilities	<u>392,462</u>

Fund Balance

Nonspendable	
Prepays and deposits	69,101
Restricted	
TABOR	25,650
Unassigned (Deficit)	<u>(341,862)</u>
Total fund balance (deficit)	<u>(247,111)</u>
Total liabilities and fund balance	<u><u>\$ 145,351</u></u>
Total fund balance (deficit) for governmental fund	\$ (247,111)
Long-term debt is not included in the governmental fund statements but is included in the statement of net position	(791,483)
Accrued interest is not included in the governmental fund statements but is included in the statement of net position	(3,503)
Capital assets are not included in the governmental fund statements but are included in the statement of net position.	<u>1,359,224</u>
Net position of governmental activities	<u><u>\$ 317,127</u></u>

Third Future Schools aka Academy of Advanced Learning
(A Component Unit of the Joint School District No. 28-J of the
Counties of Adams and Arapahoe, Colorado)
Statement of Revenues, Expenditures and Changes in
Fund Balance – Governmental Fund – General Fund
Year Ended June 30, 2017

Revenues	
Grant revenue	\$ 931,073
	<u>931,073</u>
Total revenues	<u>931,073</u>
Expenditures	
Current	
Instruction	85,052
Support services	485,391
Debt issuance costs	40,000
Capital outlay	<u>1,359,224</u>
Total expenditures	<u>1,969,667</u>
Deficiency of Revenues Over Expenditures	(1,038,594)
Other Financing Sources	
Proceeds from loan	<u>791,483</u>
Net Change in Fund Balance	<u>(247,111)</u>
Fund Balance - Beginning	<u>-</u>
Fund Balance (Deficit) - Ending	<u><u>\$ (247,111)</u></u>
Net change in fund balance - governmental fund	\$ (247,111)
Debt proceeds provide current financial resources to the governmental funds but increase long-term liabilities in the statement of net position	(791,483)
Interest expense is not included in the governmental fund but is included in the statement of activities	(3,503)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of assets capitalized is allocated over their estimated useful lives and reported as depreciation expense	<u>1,359,224</u>
Change in net position (deficit) of governmental activities	<u><u>\$ 317,127</u></u>

Third Future Schools aka Academy of Advanced Learning

(A Component Unit of the Joint School District No. 28-J of the
Counties of Adams and Arapahoe, Colorado)

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund

Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Grants - CSGF	\$ 200,000	\$ 200,000	\$ 200,000	\$ -
Grants - B&M Gates	100,000	100,000	100,000	-
Grants - Gates Family	100,000	100,000	100,000	-
Grants - Daniels Fund	250,000	250,000	250,000	-
Grants - NSVF	105,000	105,000	105,000	-
Grants - Anschutz	100,000	100,000	100,000	-
Grants - CDE Start-up	195,000	195,000	76,073	(118,927)
Loan proceeds	500,000	1,100,000	791,483	(308,517)
Uncategorized Income	100,000	100,000	-	(100,000)
Total revenues	1,650,000	2,250,000	1,722,556	(527,444)
Expenditures				
Electronic Media	26,000	26,000	23,673	2,327
Furniture - Instruction	152,000	152,000	-	152,000
Technology Equip	102,000	102,000	39,029	62,971
Professional Development	10,000	10,000	19,850	(9,850)
Purchased Services - CEO	85,000	85,000	90,000	(5,000)
Supplies	2,000	2,000	19,840	(17,840)
Legal Fees	30,000	30,000	32,966	(2,966)
Purchased Services - AP	24,000	24,000	24,500	(500)
Purchased Services - Marketing	44,000	44,000	41,400	2,600
Purchased Services - Principal	50,000	50,000	50,000	-
Purchased Services - Other	94,000	94,000	89,112	4,888
Utilities	14,000	14,000	12,187	1,813
Postage	1,000	1,000	238	762
Travel & Registration	5,000	5,000	3,678	1,322
Dues & Fees	1,000	1,000	3,326	(2,326)
Accounting	20,000	20,000	29,400	(9,400)
Building Lease	172,000	172,000	81,538	90,462
Ins-Prop & Liability	1,000	1,000	826	174
Lease Improvements	723,000	1,323,000	1,359,224	(36,224)
Building - Financing Costs	57,000	57,000	40,000	17,000
Miscellaneous	14,000	14,000	8,880	5,120
Other				
Contingency	23,000	23,000	-	23,000
Total expenditures	1,650,000	2,250,000	1,969,667	280,333
Deficiency of Revenues Over Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (247,111)</u>	<u>\$ (247,111)</u>

Third Future Schools aka Academy of Advanced Learning
(A Component Unit of the Joint School District No. 28-J of the
Counties of Adams and Arapahoe, Colorado)
Notes to Financial Statements
June 30, 2017

Note 1: Summary of Significant Accounting Policies

The accounting policies of Third Future Schools aka Academy of Advanced Learning (TFS/AAL) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The year ended June 30, 2017, was TFS/AAL's start-up year of operations. Following is a summary of the more significant accounting policies.

Reporting Entity

Third Future Schools (TFS) was organized as a Colorado Nonprofit Corporation, for the purpose of entering into one or more charter school contracts with Colorado school districts. TFS is a public charter school network that includes the Academy of Advanced Learning (AAL). This approved public charter school was Third Future Schools only approved charter school during fiscal year 2017. TFS/AAL is a component unit of the Joint School District No. 28-J of the Counties of Adams and Arapahoe, Colorado (Aurora Public Schools or APS). It is the administrative position of the Colorado Department of Education that a charter school has the same relationship to a public school district as does any other school program or school building within a district. A charter school is part of a local school district that is a political subdivision of the State of Colorado. In accordance with Colorado state statute, Aurora Public Schools approved the original charter of AAL on July 1, 2016 for its first year of student enrollment in fiscal year 2017/2018. TFS/AAL is currently operating under a five-year charter contract which runs through June 30, 2022.

As required by accounting principles generally accepted in the United States of America, these basic financial statements present the financial activities of TFS/AAL and its component units. A component unit is a legally separate organization for which TFS/AAL is financially accountable or that provide services to TFS/AAL. TFS/AAL follows the Governmental Accounting Standards Board (GASB) accounting pronouncements, which provide guidance for determining the governmental activities, organizations, and functions that should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

Third Future Schools Building Corporation (TFSBC), a blended component unit, leases a building that houses the school (Note 5) and has financed leasehold improvements (Note 4). TFSBC has no financial balances or transactions outside of those reported by TFS/AAL and is not reported separately in the financial statements. TFSBC does not issue separate financial statements.

Under current GASB pronouncements, TFS/AAL has been determined to be a component unit of Aurora Public Schools – the primary government. As such, TFS/AAL's financial results are included in Aurora Public Schools' Comprehensive Annual Financial Report.

Third Future Schools aka Academy of Advanced Learning
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Counties of Adams and Arapahoe, Colorado)
Notes to Financial Statements
June 30, 2017

Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements (*i.e.*, the statement of net position and the statement of activities) report information on all of TFS/AAL's financial activities. Governmental activities are normally supported by taxes and intergovernmental revenue. Business-type activities rely to a significant extent on fees and charges for support. TFS/AAL has no business-type activities. The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function.

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 recognized when a liability is incurred, regardless of the timing of the related cash flows.

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

Under 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; 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. Expenditures are recorded when the related fund liability is incurred and expected to be paid with current available resources.

Program revenues are those that are derived directly from the program itself. Program revenues are divided into three groups: charges for services, program-specific operating grants and contributions, and program-specific capital grants and contributions. Charges for services are exchange or exchange-like transactions including fees. Program-specific grants and contributions include revenues arising from mandatory and voluntary nonexchange transactions with other governments, private organizations or individuals where monies are required by the grantor/contributor to be used for a particular program or activity. Program-specific grants and contributions that are required to be used to purchase or construct capital assets are shown in the capital grants and contributions column.

General revenues include state per pupil funding under the School Finance Act reported as state categorical revenue, revenues received from local sources and unrestricted investment earnings.

When both restricted and unrestricted resources are available for use, it is TFS/AAL's policy to use restricted resources first, then unrestricted resources as they are needed.

Third Future Schools aka Academy of Advanced Learning
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Notes to Financial Statements
June 30, 2017

Fund Accounting

The accounts of TFS/AAL are organized on the basis of funds. The operations of the General Fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue and expenditures. Resources are allocated to and accounted for in the General Fund 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 the General Fund. The General Fund is used to account for TFS/AAL's general operational governmental activities.

Compliance

Budget

An annual budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America.

TFS/AAL prepares the annual budget and presents it to its Board and to the Board of Education of Aurora Public Schools for approval. During the year ended June 30, 2017, one budget amendment was presented to and approved by the Board. Budgets are required by state statutes for all governmental funds. Total expenditures for each fund may not legally exceed the amount appropriated.

Deficit Fund Balance

As of June 30, 2017, the general fund had a deficit fund balance due primarily to the initial capital outlays required to start-up the school prior to the receipt of per pupil revenue.

Assets, Liabilities and Equity

Cash

The definition of cash for purposes of the statement of cash flows is restricted and/or unrestricted cash held in checking accounts and money market accounts.

Capital Assets

Capital assets are utilized for general operations and are capitalized at cost if purchased or fair market value if donated, at the time of purchase or donation. Capital assets are reported in the government-wide financial statements.

The monetary threshold for capitalization of assets is \$5,000. Leasehold improvements financed by the Building Corporation will be depreciated over the life of the lease which is 15 years.

Third Future Schools aka Academy of Advanced Learning
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Notes to Financial Statements

June 30, 2017

Revenue and Expenditures

Revenue for the governmental funds are recorded when they are determined to be both measurable and available. Generally, State of Colorado per pupil funding, donations and other income are recognized when received. Grants are recognized when qualifying expenditures are incurred. Expenditures for the governmental funds are recorded when the related fund liability is incurred and expected to be paid with current available resources. TFS/AAL does not utilize encumbrance accounting.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net position during the reporting period. Actual results could differ from those estimates.

Note 2: Cash

Investment Policy and Compliance

TFS/AAL's investment policy conforms to state statute for governmental entities. All accounts established at financial institutions should, in the aggregate, total less than \$250,000 so as to provide maximum insurance coverage provided by the FDIC. If, however, deposits exceed the \$250,000 insurance coverage level, the excess must be (1) fully collateralized at face value with government securities, (2) separately segregated in TFS/AAL's name, and (3) held at a Federal Reserve Bank or another depository.

Colorado State statutes govern TFS/AAL's deposit of cash. The Colorado Public Deposit Protection Act (PDPA) requires TFS/AAL to make deposits only in eligible public depositories as defined by the regulators. Amounts on deposits in excess of federal insurance levels must be collateralized. The PDPA requires the eligible depository with public deposits in excess of the federal insurance levels to create single institution collateral pools for all public funds. The pool is to be maintained by another institution or held in trust for all uninsured public deposits as a group. Up to \$250,000 of daily deposit balances on hand at banking institutions is covered by federal depository insurance. Under the provision of GASB 40, *Deposit and Investment Risk Disclosure – an amendment of GASB Statement No. 3*, deposits are not deemed exposed to custodial credit risk if they are collateralized with securities held by the pledging financial institutions under PDPA, as discussed above. Custodial credit risk is the risk that in the event of bank failure, TFS/AAL's deposits may not be returned. As of June 30, 2017, TFS/AAL had no deposits deemed to be exposed to custodial credit risk.

Third Future Schools aka Academy of Advanced Learning
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Notes to Financial Statements
June 30, 2017

	Carrying Value	Bank Balance
Checking - General Fund	<u>\$ 63,250</u>	<u>\$ 73,682</u>

Note 3: Capital Assets

As of June 30, 2017, capital assets of TFS/AAL consisted of the following:

	July 1, 2016	Additions	Deletions	June 30, 2017
Governmental Activities				
Capital assets not being depreciated				
Construction in progress	\$ -	\$ 1,359,224	\$ -	\$ 1,359,224
Capital assets, net	<u>\$ -</u>	<u>\$ 1,359,224</u>	<u>\$ -</u>	<u>\$ 1,359,224</u>

Note 4: Notes Payable

Long-term debt activity for the fiscal year was as follows:

	July 1, 2016	Additions	Deletions	June 30, 2017	Amounts Due Within One Year
Notes payable - related parties	\$ -	\$ 405,000	\$ -	\$ 405,000	\$ -
Note payable - CSDC	-	386,483	-	386,483	276,517
Total	<u>\$ -</u>	<u>\$ 791,483</u>	<u>\$ -</u>	<u>\$ 791,483</u>	<u>\$ 276,517</u>

One note payable is with the CEO for \$205,000 with an interest rate of 3%. Principal and interest payments are due periodically beginning July 31, 2018 through May 5, 2022.

One note payable is with a relative of the CEO for \$200,000 with an interest rate of 3.75%. Principal and interest payments are due periodically beginning July 31, 2018 with a final payment due on December 31, 2018.

TFSBC has entered into a loan agreement with Charter School Development Corporation (CSDC) for \$700,000 of which only \$386,483 had been drawn as of June 30, 2017. The interest rates on this notes payable is 6.25%. Interest payments are due monthly beginning June 30, 2017. Principal payments are due monthly beginning September 30, 2017. Final payment is due on August 31, 2022.

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Future maturities, including the remainder of the CSDC note are as follows:

Fiscal Year	Principal Due	Interest	Total Payment
2018	\$ 276,517	\$ 24,153	\$ 300,670
2019	285,339	37,113	322,452
2020	37,612	23,194	60,806
2021	140,032	20,774	160,806
2022	97,606	41,450	139,056
Thereafter	267,894	2,771	270,665
	<u>\$ 1,105,000</u>	<u>\$ 149,455</u>	<u>\$ 1,254,455</u>

Note 5: Leases

TFSBC entered into a lease agreement with an unrelated party which commenced on July 1, 2017 and expires on June 30, 2032. The lease agreement allows for expansion as TFS/AAL expands. The total lease payments for fiscal year 2017 were \$81,538. Future commitments under the lease are as follows:

Fiscal Year	Total Payment
2018	\$ 346,115
2019	371,490
2020	396,865
2021	498,365
2022	549,115
2023 - 2027	3,274,897
2028 - 2032	3,519,512
	<u>\$ 8,956,359</u>

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Note 6: Risk Management

TFS/AAL is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. TFS/AAL carries commercial insurance for risks of loss, including liability, property, errors and omissions, workers' compensation, fidelity (employee dishonesty), fiduciary, and abuse or molestation.

Note 7: Contingencies and Compliance

Tabor Amendment

Article X, Section 20 of the Colorado Constitution (TABOR Amendment) requires state and local governments to establish an emergency reserve, limits spending to a predefined benchmark and places restrictions on multiple fiscal year debt. The TABOR Amendment is complex and subject to judicial interpretation. While the amount required to be restricted under TABOR is presented as such in the financial statements, the result is deficit unrestricted fund balance and therefore TFS/AAL may not be in compliance with this requirement.

Claims and Judgments

TFS/AAL is subject to other claims and lawsuits that arise primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a materially adverse effect on the financial statements. In addition, federal and state grants are subject to audit which could result in disallowed costs, the amount of which is undeterminable at June 30, 2017. If any costs are disallowed in the future, management expects them to be insignificant.

Note 8: Net Investment in Capital Assets

Net investment in capital assets is comprised of the following as of June 30, 2017:

	Governmental Activities
Total capital assets, net of accumulated depreciation	\$ 1,359,224
Less: Notes payable	791,483
Less: Accounts payable incurred for capital asset purchases	<u>357,526</u>
	<u><u>\$ 210,215</u></u>

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

Board of Directors
Third Future Schools aka Academy of Advanced Learning
Joint School District No. 28-J of the
Counties of Adams and Arapahoe, Colorado
Aurora, 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 Third Future Schools aka Academy of Advanced Learning (TFS/AAL), a component unit of the Joint School District No. 28-J of the Counties of Adams and Arapahoe, Colorado, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which, collectively comprise TFS/AAL's basic financial statements.

Internal Control Over Financial Reporting

Management of TFS/AAL is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered TFS/AAL's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of TFS/AAL's internal control. Accordingly, we do not express an opinion on the effectiveness of TFS/AAL'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 TFS/AAL'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.

Board of Directors
Third Future Schools aka Academy of Advanced Learning

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether TFS/AAL's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including the Colorado Department of Education's *Financial Policies and Procedures Handbook*, 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 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 TFS/AAL's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Denver, Colorado
September 26, 2017