

COPERNI 3 CHARTER SCHOOL
BASIC FINANCIAL STATEMENTS
June 30, 2019

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JOHN CUTLER & ASSOCIATES

Board of Directors
Coperni 3 Charter School
Colorado Springs, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and the major fund of the Coperni 3 Charter School, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the basic financial statements of the School, 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Coperni 3 Charter School as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof 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, the budgetary comparison information on page 16 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.

John Cutler & Associates, LLC

October 16, 2019

**Third Future Schools
dba Coperni 3
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2019**

As management of Third Future Schools dba Coperni 3 (TFS/C3), we offer readers of TFS/C3's financial statements this narrative overview and analysis of the financial activities of the TFS/C3 for the fiscal year ended June 30, 2019. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the School's financial statements, which follow this narrative.

Financial Highlights

The year ending June 30, 2019, was the start-up year of operations for TFS/C3. Net position amounted to \$611,952 as of June 30, 2019. The start-up activities of TFS/C3 were funded primarily through grants and contributions.

The liabilities of TFS/C3 exceeded its assets at the close of the most recent financial year by \$(41,396). This was due to the FY20 New School Venture Fund grant of \$315,000 being received prior to June 30, 2019. These funds are booked at Unearned Revenue in FY19.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to TFS/C3's basic financial statements. The School's basic financial statements consist 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 board overview of TFS/C3's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of TFS/C3's assets, deferred outflows of resources, liabilities, and deferred inflows or resources with the difference between them 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/C3 is improving or deteriorating.

The statement of activities presents information showing how TFS/C3'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/C3, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements, TFS/C3 maintains one governmental fund – its General Fund – which reports all activity, including that of the Building Corporation.

TFS/C3 adopts an annual budget for its general fund. A budgetary comparison had been provided for the general fund in the financial statements to demonstrate compliance with the budget.

Notes to the Financial Statements

The next section of the basic financial statements is the notes. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, supplemental information is provided to show details about the budgetary information for the school.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. The School’s basic services are accounted for in a governmental fund. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the School’s programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

TFS/C3 adopts an annual budget on a fund basis. The budgetary comparison statements are not included in the basic financial statements but are part of the supplemental statements and schedules that follow the notes. The budget is a legally adopted document that incorporates input from the faculty, management, and the Board of Directors of the School in determining what activities will be pursued and what services will be provided by the School during the year. It also authorizes the School to obtain funds from identified sources to finance these current period activities. The budgetary statement provided demonstrates how well the School has complied with the budget ordinance and whether or not the School has succeeded in providing the services as planned when the budget was adopted

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Management's Discussion and Analysis
As of and for the Year Ended June 30, 2019**

Government-Wide Financial Analysis

As noted previously, net position may serve over time as a useful indicator of TFS/C3's financial position. As of June 30, 2019, TFS/C3's net position was \$611,952. Net investment in capital assets was \$658,744 as of June 30, 2019. TFS/C3 had unrestricted net position deficit of \$(46,792) as of June 30, 2019. Following is a condensed statement of net position as of June 30, 2019:

	<u>2019</u>
<u>ASSETS</u>	
Cash and Investments	\$ 393,990
Accounts Receivable	\$ 35,376
Capital Assets, Depreciated, Net of Accumulated Depreciation	\$ 2,158,744
<i>Total Assets:</i>	\$ 2,588,110
 <u>LIABILITIES</u>	
Accounts Payable	\$ 25,053
Due to Other Schools	\$ 130,709
Unearned Revenues	\$ 315,000
Interest Payable	\$ 5,396
Noncurrent Liabilities	\$ 16,265
Due in One Year	\$ 1,483,735
Due in More than One Year	
<i>Total Liabilities:</i>	\$ 1,976,158
 <u>NET POSITION</u>	
Investment in Capital Assets	\$ 658,744
Restricted for Emergencies (Tabor)	\$ -
Unrestricted	\$ (46,792)
<i>Total Net Position:</i>	\$ 611,952

**Third Future Schools
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Management's Discussion and Analysis
As of and for the Year Ended June 30, 2019**

TFS/C3's primary source of revenue during the year was grants and contributions. TFS/C3 incurred expenses related to instruction, support services, and long term debt (interest only) during the fiscal year-end June 30, 2019.

Condensed Statement of Net Position

	<u>2019</u>
<u>Revenues</u>	
Local Sources	\$ 696,925
State and Federal Sources	\$ 208,488
<i>Total Revenues:</i>	\$ 905,413
<u>Expenses</u>	
Current	
Instructional	\$ 239,091
Supporting Services	\$ 44,599
Debt Services	
Interest	\$ 9,771
<i>Total Expenses:</i>	\$ 293,461
<i>Net Change in Fund Balance:</i>	\$ 611,952
Fund Balance, Beginning	\$ -
Fund Balance, Ending	\$ 611,952

**Third Future Schools
dba Coperni 3
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2019**

Financial Analysis of the School's Funds

As noted earlier, TFS/C3 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the TFS/C3's general fund is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing TFS/C3's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

Capital Asset and Debt Administration

Capital assets. TFS/C3's investment in capital assets is \$2,158,744 at June 30, 2019. It consists primarily of lease improvements. More details can be found in note 4 of the footnotes to the financial statements.

Long-term Debt. The balance of TFS/C3's long term debt is \$1,500,000 as of June 30, 2019. More details can be found in note 5 of the footnotes to the financial statements.

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 2019-2020 school year is 300. This is a major factor in preparing TFS/C3's budget for the fiscal year 2019-2020. In addition to per pupil funding from the state, we will be receiving Year 1 funds from the Colorado Department of Education Colorado Charter School Program grant.

Requests for Information

This report is designed to provide an overview of the School's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Angela Perea, Director of Finance at 431 Sable Blvd, Aurora, CO 80011.

BASIC FINANCIAL STATEMENTS

COPERNI 3 CHARTER SCHOOL

STATEMENT OF NET POSITION

As of June 30, 2019

	<u>Governmental Activities</u>
ASSETS	
Cash and Investments	\$ 393,990
Accounts Receivable	35,376
Capital Assets, Depreciated, Net of Accumulated Depreciation	<u>2,158,744</u>
TOTAL ASSETS	<u>2,588,110</u>
LIABILITIES	
Accounts Payable	25,053
Due to Other Schools	130,709
Unearned Revenues	315,000
Interest Payable	5,396
Noncurrent Liabilities	
Due in One Year	16,265
Due in More than One Year	<u>1,483,735</u>
TOTAL LIABILITIES	<u>1,976,158</u>
NET POSITION	
Net Investment in Capital Assets	658,744
Restricted for Emergencies	-
Unrestricted	<u>(46,792)</u>
TOTAL NET POSITION	<u><u>\$ 611,952</u></u>

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

COPERNI 3 CHARTER SCHOOL

STATEMENT OF ACTIVITIES

Year Ended June 30, 2019

FUNCTIONS/PROGRAMS	Expenses	PROGRAM REVENUES			NET (EXPENSE)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	REVENUE AND CHANGES IN NET POSITION
PRIMARY GOVERNMENT					Governmental Activities
Governmental Activities					
Instructional	\$ 239,091	\$ -	\$ 239,091	\$ -	\$ -
Supporting Services	44,599	-	7,598	658,724	621,723
Interest on Long-Term Debt	9,771	-	-	-	(9,771)
Total Governmental Activities	<u>\$ 293,461</u>	<u>\$ -</u>	<u>\$ 246,689</u>	<u>\$ 658,724</u>	<u>611,952</u>
		GENERAL REVENUES			
		Other			-
		TOTAL GENERAL REVENUES			-
		CHANGE IN NET POSITION			611,952
		NET POSITION, Beginning			-
		NET POSITION, Ending			<u>\$ 611,952</u>

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

COPERNI 3 CHARTER SCHOOL

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2019

	<u>GENERAL FUND</u>
ASSETS	
Cash and Investments	\$ 393,990
Accounts Receivable	<u>35,376</u>
TOTAL ASSETS	<u>\$ 429,366</u>
LIABILITIES AND FUND BALANCES	
LIABILITIES	
Accounts Payable	\$ 25,053
Due to Other Schools	130,709
Unearned Revenues	<u>315,000</u>
TOTAL LIABILITIES	<u>470,762</u>
FUND BALANCES	
Restricted for Emergencies	-
Unassigned	<u>(41,396)</u>
TOTAL FUND BALANCES	(41,396)
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.	2,158,744
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds. This liability includes notes payable (\$1,500,000) and accrued interest payable (\$5,396).	<u>(1,505,396)</u>
Net position of governmental activities	<u>\$ 611,952</u>

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

COPERNI 3 CHARTER SCHOOL

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2019

	<u>GENERAL FUND</u>
REVENUES	
Local Sources	\$ 696,925
State and Federal Sources	<u>208,488</u>
TOTAL REVENUES	<u>905,413</u>
EXPENDITURES	
Current	
Instruction	239,091
Supporting Services	44,599
Capital Outlay	2,158,744
Debt Service	
Interest	<u>4,375</u>
TOTAL EXPENDITURES	<u>2,446,809</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,541,396)</u>
OTHER FINANCING (USES)	
Proceeds from Debt Issuance	<u>1,500,000</u>
NET CHANGE IN FUND BALANCES	(41,396)
FUND BALANCES, Beginning	<u>-</u>
FUND BALANCES, Ending	<u><u>\$ (41,396)</u></u>

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

COPERNI 3 CHARTER SCHOOL

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2019

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ (41,396)
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount of capital outlay in the current year.	2,158,744
Bond proceeds are reported as financing sources in the governmental funds and increase fund balance. In the government-wide financial statements, however, issuing debt increases long-term liabilities in the statement of net assets and does not effect the statement of activities.	(1,500,000)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This includes the change in accrued interest.	<u>(5,396)</u>
Change in net position of governmental activities	<u><u>\$ 611,952</u></u>

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

COPERNI 3 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Coperni 3 Charter School (the “School”) was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school. On February 7, 2019, the School entered into a contract with the Colorado Charter School Institute (the “Institute”) pursuant to the Colorado Charter School Institute Act, for an initial term of three years. The current contract expires June 30, 2022.

The accounting policies of the School conform to generally accepted accounting principles as applicable to governmental units. Following is a summary of the more significant policies.

Reporting Entity

The financial reporting entity consists of the School and organizations for which the School is financially accountable. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the School. In addition, any legally separate organizations for which the School is financially accountable are considered part of the reporting entity. Financial accountability exists if the School appoints a voting majority of the organization’s governing board and is able to impose its will on the organization, or if the organization provides benefits to, or imposes financial burdens on the School.

Based upon the application of these criteria, the following organization is included in the School’s reporting entity.

Third Future Schools Building Corporation #2

The Third Future Schools Building Corporation #2 (“Corporation”), a blended component unit, is considered to be financially accountable to the School. The purpose of the Corporation is to provide a mechanism to issue and pay debt on behalf of the School. The Corporation is considered to be part of the School for financial reporting purposes because its resources are entirely for the direct benefit of the School and is blended into the School’s financial statements. Separate financial statements are not available for the Corporation.

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 activities of the School. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported in a single column.

COPERNI 3 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of the given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to students or others who purchase, use, or directly benefit from goods, services, are restricted to meeting the operational or capital requirements of a particular function or segment.

Unrestricted intergovernmental revenues not properly included among program revenues are reported instead as general revenues.

Major individual governmental funds are reported in separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of 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. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period, not to exceed 60 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Intergovernmental revenues, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the fund's principal ongoing operations.

COPERNI 3 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)

Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Internally dedicated resources are reported as general revenues rather than as program revenues.

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first and the unrestricted resources as they are needed.

The School reports the following major funds:

General Fund – This 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.

Assets, Liabilities and Fund Balance/Net Position

Investments – Investments are recorded at fair value.

Capital Assets – Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the School as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported on the statement of net position in the government-wide financial statements. Depreciation has been provided over the following estimated useful lives of the capital assets using the straight-line method: buildings, 25-50 years; land improvements, 15 years; equipment, 5-10 years.

COPERNI 3 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Fund Balance/Net Position (Continued)

Long-term Debt – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current expenditures.

Unearned Revenues – Unearned revenues include tuition revenues that have been collected but the corresponding expenditure that have not been incurred.

Net Position – The government-wide fund financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted. Net investment in capital assets is intended to reflect the portion of net position which is associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost. Restricted net position is liquid assets, which have third party limitations on their use. Unrestricted net position represents assets that do not have any third party limitations on their use.

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 did not report any nonspendable resources as of June 30, 2019.
- 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.

COPERNI 3 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Fund Balance/Net Position (Continued)

- Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or 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, 2019.
- Unassigned – This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The School would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned

Deferred Outflows/Inflows of Resources

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

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

COPERNI 3 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

A budget is adopted for the General Fund on a basis consistent with generally accepted accounting principles. School management submits to the Board of Directors a proposed budget for the fiscal year commencing the following July 1. The budget is adopted by the Board of Directors prior to June 30. Expenditures may not legally exceed appropriations at the fund level. Revisions must be approved by the Board of Directors. The budget includes proposed expenditures and the means of financing them. All appropriations lapse at fiscal year end.

State Compliance

For the year ended June 30, 2019, actual expenditures exceeded appropriated amounts by \$46,809. This may be a violation of State Statute.

NOTE 3: CASH AND INVESTMENTS

Deposits

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. 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, 2019, State regulatory commissioners have indicated that all financial institutions holding deposits for the School are eligible public depositories.

Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

The School has no policy regarding custodial credit risk for deposits.

COPERNI 3 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 3: CASH AND INVESTMENTS (Continued)

Deposits (Continued)

At June 30, 2019, the School had deposits with financial institutions with a carrying amount of \$393,990. The bank balances with the financial institutions were \$393,990. This amount was covered by collateral held by authorized escrow agents in the financial institutions name (PDPA).

NOTE 4: CAPITAL ASSETS

Capital Assets activity for the year ended June 30, 2019, is summarized below.

	Balance <u>June 30, 2018</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2019</u>
Governmental Activities				
Capital Assets, Not Depreciated				
Construction in Progress	\$ -	\$ 2,158,744	\$ -	\$ 2,158,744
Net Capital Assets	<u>\$ -</u>	<u>\$ 2,158,744</u>	<u>\$ -</u>	<u>\$ 2,158,744</u>

Depreciation will be charged to the Supporting Services program of the School.

NOTE 5: LONG-TERM DEBT

Following is a summary of the School's long-term debt transactions for the year ended June 30, 2019:

	Balance <u>June 30, 2018</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>June 30, 2019</u>	Due In <u>One Year</u>
Note Payable - CFS	\$ -	1,500,000	-	1,500,000	16,265
Total	<u>\$ -</u>	<u>\$ 1,500,000</u>	<u>\$ -</u>	<u>\$ 1,500,000</u>	<u>\$ 16,265</u>

COPERNI 3 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

NOTE 5: LONG-TERM DEBT (Continued)

Note Payable - CFS

In March 2019, the School entered into a loan agreement with the Charter Facility Solutions (the “CFS”) in the amount of \$1,500,000 to finance the payment of the Option Consideration required under the purchase option agreement with the CSDC Property Corporation for the purchase of the School’s leased facility. Interest accrues at a rate 3.50% and payments of principal and interest ranging \$4,375 to \$9,781 are due monthly beginning April 1, 2019 through March 1, 2024, with a balloon payment for the balance due on April 1, 2024.

Future debt service requirements are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 16,265	\$ 52,453	\$ 68,718
2021	66,501	50,871	117,372
2022	68,867	48,405	117,372
2023	71,316	46,056	117,372
2024	<u>1,277,051</u>	<u>36,446</u>	<u>1,313,497</u>
Total	<u>\$ 1,500,000</u>	<u>\$ 234,331</u>	<u>\$ 1,734,331</u>

NOTE 6: RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School carries commercial insurance for these risks of loss. Settled claims have not exceeded any coverages in the last year.

NOTE 7: COMMITMENTS AND CONTINGENCIES

Building Lease and Purchase Option

During the year, the School entered into a lease agreement with an option to purchase with the Charter School Development Corporation – Property Corporation (the “CSDC”) for the School’s building. The monthly lease payments will be based on the total annual cost to the CSDC to finance the project increased by approximately 22% divided into twelve equal monthly payments. Beginning in year three, the monthly lease payments will increase by an amount equal to 1% of the prior year’s annual rent.

COPERNI 3 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

NOTE 7: COMMITMENTS AND CONTINGENCIES (Continued)

Building Lease and Purchase Option (Continued)

The original lease term shall begin on August 1, 2019 and will conclude on June 30, 2029 and the School shall have the option to renew the lease for two additional five-year periods.

The Lease is conditioned upon the execution of a purchase option agreement for the purchase of the property. Per the agreement, the School was required to make a non-refundable payment towards the project in the amount of \$1,500,000 and the purchase option price of shall be 105% of the total project cost plus any accrued but unpaid rent, less the \$1,500,000 option consideration paid by the School.

Estimated future lease payments are as follows:

Year Ended June 30,

2020	\$ 417,559
2021	494,176
2022	494,176
2023	478,853
2024	494,176
2025-2029	<u>2,701,136</u>
Total	<u>\$ 5,080,076</u>

Lease expense for the year ended June 30, 2019 was \$0.

Claims and Judgments

The School participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the School may be required to reimburse the grantor government. As of June 30, 2019, significant amounts of grant expenditures have not been audited, but the School believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the School.

COPERNI 3 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 7: **COMMITMENTS AND CONTINGENCIES** (Continued)

Tabor Amendment

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution, which limits state and local government tax powers and imposes spending limitations. Fiscal year 1993 provides the basis for limits in future years to which may be applied allowable increases for inflation and student enrollment. Revenue received in excess of the limitations may be required to be refunded. The School believes it has complied with the Amendment. As required by the Amendment, the School has established a reserve for emergencies. At June 30, 2019, the reserve of \$0 was recorded as a restriction of fund balance in the General Fund.

NOTE 8: **DEFICIT FUND BALANCE**

As of June 30, 2019, the School reported a deficit fund balance in the amount of \$41,396 primarily due to leasehold improvements and capital outlay related to the School's facility. This deficit is expected to be financed by future operating revenues.

REQUIRED SUPPLEMENTARY INFORMATION

COPERNI 3 CHARTER SCHOOL

GENERAL FUND
 BUDGETARY COMPARISON SCHEDULE
 Year Ended June 30, 2019

	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES			
Local Sources			
Grants and Contributions	\$ 690,000	\$ 696,925	\$ 6,925
State and Federal Sources			
Grants and Donations	229,075	208,488	(20,587)
TOTAL REVENUES	<u>919,075</u>	<u>905,413</u>	<u>(13,662)</u>
EXPENDITURES			
Current			
Purchased Services	45,000	37,564	7,436
Supplies and Materials	55,000	246,126	(191,126)
Property	2,319,075	2,158,744	160,331
Debt Service			
Principal	-	4,375	(4,375)
TOTAL EXPENDITURES	<u>2,419,075</u>	<u>2,446,809</u>	<u>(27,734)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,500,000)</u>	<u>(1,541,396)</u>	<u>(41,396)</u>
OTHER FINANCING (USES)			
Proceeds from Debt Issuance	<u>1,500,000</u>	<u>1,500,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	-	(41,396)	(41,396)
FUND BALANCE (DEFICIT), Beginning	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE (DEFICIT), Ending	<u>\$ -</u>	<u>\$ (41,396)</u>	<u>\$ (41,396)</u>

See the accompanying independent auditors' report.