

JAMES IRWIN CHARTER SCHOOLS

FINANCIAL STATEMENTS

June 30, 2016



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JAMES IRWIN CHARTER SCHOOLS

June 30, 2016

Board of Directors

Jonathan Berg - President

Steve Hester - Secretary

Vernard Gant

Andy Holloman

Robin Vanderwel

Management

Jonathan Berg, Chief Executive Officer

Eileen Johnston, Chief Financial Officer

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Board of Directors
James Irwin Charter Schools
Colorado Springs, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the James Irwin Charter Schools as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements of the James Irwin Charter Schools, 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 an opinion 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 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 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the James Irwin Charter Schools as of June 30, 2016, and the changes in financial position and cash flows 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 the required supplementary information 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 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 Matters (Supplementary Information)

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the James Irwin Charter Schools' basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling the information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



December 15, 2016

JAMES IRWIN CHARTER SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Year Ended June 30, 2016

This section of James Irwin Charter School's annual financial report presents our discussion and analysis of the financial performance during the fiscal year ended June 30, 2016. Please read this discussion in conjunction with additional information provided in the accompanying financial statements.

FINANCIAL HIGHLIGHTS

The year ended June 30, 2016 is the fourth year of operations for the James Irwin Charter Schools as a Charter Management Organization, and the third year of operating as a Collaborative together with the four James Irwin charter schools (the James Irwin Charter High School; the James Irwin Charter Middle School; the James Irwin Charter Elementary School and the James Irwin Charter Academy).

James Irwin implemented GASB 68 for the 14-15 school year. This requires James Irwin Charter Schools to recognize its proportionate share of the School Division Trust Fund (SCHDTF) defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado ("PERA"). This change in accounting principle caused liabilities and deferred inflows to exceed its assets and deferred outflows by \$15,163,988 during the year resulting in a negative net position. Please see Note 8.

Total assets increased \$2,267,974 to \$3,418,443 representing a 197 percent increase from 2015. This significant increase was primarily due to the fact that JICS is opening a fifth school in 2016 – 2017, and entered into a capital lease for the school building, valued at \$2,183,235, with James Irwin Educational Foundation. Please refer to Note 6. The new school is named Power Technical Early College, (PTEC), and will include grades six through ten the first year, and will grow by one grade each year until it has reached full capacity at grade fourteen.

This fiscal year, James Irwin's expenses of \$9,706,454 exceeded revenue of \$8,522,148 by \$1,184,306. This includes the change in the pension liability and related deferred inflows and outflows of \$1,203,421. The pension liability aside, the annual change to net position from operations was \$19,115; this included \$70,935 of direct expenses for PTEC, that were not covered by the PTEC Start-up grant.

James Irwin's operations were primarily funded by revenues received for providing educational, business and administrative management services to the James Irwin Collaborative Schools. Total fees collected from the four James Irwin schools were \$8,269,211. PTEC also was awarded a start-up grant of up to \$215,000 per year from the State of Colorado for three years. 2015-2016 was the first year of this grant. James Irwin received \$209,936 that was used to purchase educational materials in preparation for the 2016 – 2017 school year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the basic financial statements, which are comprised of the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, Statement of Cash Flows, and Notes to Financial Statements.

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how James Irwin's net position changed during the most recent fiscal year. Changes to net position are reported at the primary occurrence, regardless of the timing of related cash flows. Thus, some revenues and expenses are reported in the statement that will only result in cash flows in future periods.

Fund Financial Statements

A fund is a group of accounts used to maintain control for specific activities or objectives. James Irwin uses fund accounting to account for all financial activities and to ensure and demonstrate compliance with finance related legal requirements. James Irwin maintains only one fund, a proprietary fund, which accounts for all financial activity financed by fees and charges from various charter schools. This year, the proprietary fund also includes a grant of \$209,936 which was the first year of a three-year grant for the new school. The grant was used to purchase start-up expenses for the new school opening for the 2016 – 2017 school year.

Notes to the financial statements

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

Other Information

In addition to the basic financial statements and accompanying notes, the Supplementary Information presents a detailed budgetary comparison schedule to demonstrate compliance with the budget.

FINANCIAL ANALYSIS OF JAMES IRWIN CHARTER SCHOOLS

The two summary statements below report the fiscal year 2016 and the prior year, fiscal year 2015.

Condensed Statement of Net Position

| | <u>2016</u> | <u>2015</u> | <u>Change</u> |
|-----------------------------------|-------------------------------|-------------------------------|------------------------------|
| Current and other assets | \$ 1,190,445 | \$ 1,133,136 | \$ 57,309 |
| Capital assets | <u>2,227,998</u> | <u>17,333</u> | <u>2,210,665</u> |
| Total Assets | 3,418,443 | 1,150,469 | 2,267,974 |
| Deferred Outflows - Pension (net) | <u>2,993,130</u> | <u>1,592,709</u> | <u>1,400,421</u> |
| Current Liabilities | 712,676 | 515,564 | 197,112 |
| Capital Lease Payable | 2,051,747 | | 2,051,747 |
| Net Pension Liability | <u>18,548,256</u> | <u>16,206,086</u> | <u>2,342,170</u> |
| Total Liabilities | 21,312,679 | 16,721,650 | 4,591,029 |
| Deferred Inflows - Pension (net) | <u>\$ 262,882</u> | <u>\$ 1,210</u> | <u>\$ 261,672</u> |
| Investment in capital assets | 69,605 | 17,333 | 52,272 |
| Restricted Funds | 30,000 | 225,000 | (195,000) |
| Unrestricted Funds | <u>(15,263,593)</u> | <u>(14,222,015)</u> | <u>(1,041,578)</u> |
| Total Net Position | <u>\$ (15,163,988)</u> | <u>\$ (13,979,682)</u> | <u>\$ (1,184,306)</u> |

Condensed Statement of Revenues, Expenses, and Changes in Net Position

| Revenues: | <u>2016</u> | <u>2015</u> | <u>Change</u> |
|-----------------------------|------------------------|------------------------|-----------------------|
| Program revenues: | | | |
| Charges for services | \$ 8,305,812 | \$ 7,510,798 | \$ 795,014 |
| Grants | 209,936 | | 209,936 |
| Contributions | 6,400 | 16,275 | (9,875) |
| Total Revenues | 8,522,148 | 7,527,073 | 995,075 |
| Expenses: | | | |
| Instructional | 6,383,368 | 5,427,918 | 955,450 |
| Support services | 3,323,086 | 2,780,878 | 542,208 |
| Total Expenses | 9,706,454 | 8,208,796 | 1,497,658 |
| Change in net position | (1,184,306) | (681,723) | (502,583) |
| Net position, beginning | (13,979,682) | (13,297,959) | (681,723) |
| Net position, ending | \$ (15,163,988) | \$ (13,979,682) | \$ (1,184,306) |

Analysis of Operations

Revenues: Total revenue for the period of July 1, 2015 through June 30, 2016 was \$8,522,148; 13% higher than the year ending June 30, 2015. The majority of income was fees and charges received from the four James Irwin Schools. The 2015 – 2016 revenue also included a grant from the State of Colorado of \$209,936 for PTEC, the fifth James Irwin School.

Expenses: Total expenses for the period of July 1, 2015 through June 30, 2016 were \$9,706,454; up 18% from the year ended June 30, 2015.

Change in Net Position: The impact of the PERA balances aside, \$30,000 of net position is restricted by statute for emergency reserves and \$69,605 was the investment in capital assets. The remaining balance of \$554,415 is available to be used to meet future obligations.

Analysis of Budget

James Irwin's 2015-2016 budget was approved by the Board of Directors in May of 2015 and included expenses of \$8,733,164. The Board-approved amended budget included expenses of \$9,186,797. Total expenses for the year ending June 30, 2016 were \$8,555,305; \$631,492 or 6.9% less than budgeted. The expected change in net position was \$ (183,794) whereas the actual change to net position under the budgetary basis of accounting was \$ (33,157).

CAPITAL ASSETS AND DEBT ADMINISTRATION

Assets with a useful life of more than one year and a unit cost of greater than \$5,000 are capitalized. Assets are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the assets. As of June 30, 2016, James Irwin's capital assets included four busses purchased during the 2013 – 2014 school year and two mini-busses purchased during 2015-2016 for a total combined total of \$60,500.

During the year, James Irwin entered into a \$2,183,235 capital lease agreement to purchase and renovate a building for the new school. Additional information on the lease and the related capital assets are provided in Notes 5 and 6.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The primary factor driving the budget for James Irwin Charter Schools is student enrollment in the charter schools that they provide services for. Projected enrollment in the James Irwin Schools for the 2016-17 school year is 1,832.5 full time students; an increase of 173.24 above the 2015-16 enrollment of 1,659.26.

The Board of Directors and administration considered many factors when setting the annual budget. The amount of revenue James Irwin receives from operations is dependent upon the state of the economy and current and future legislation. Thus, management practices conservative budgeting and closely monitors the budget in comparison with actual spending, in order to proactively adjust planned spending when necessary.

REQUESTS FOR INFORMATION

This financial report is provided as a general overview of the James Irwin Charter Schools finances for persons interested in James Irwin Schools. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Eileen Johnston, CFO
James Irwin Charter Schools
5525 Astrozon Blvd., Colorado Springs, CO 80916

BASIC FINANCIAL STATEMENTS

JAMES IRWIN CHARTER SCHOOLS

STATEMENT OF NET POSITION

PROPRIETARY FUND

June 30, 2016

| | |
|---|------------------------|
| ASSETS | |
| CURRENT ASSETS | |
| Cash | \$ 629,135 |
| Accounts Receivable | 9,533 |
| Accounts Receivable - Related Parties | 426,672 |
| Grants Receivable | 112,696 |
| Prepaid Expenses | <u>12,409</u> |
| TOTAL CURRENT ASSETS | <u>1,190,445</u> |
| NONCURRENT ASSETS | |
| Capital Assets, Not Being Depreciated | 2,183,235 |
| Capital Assets, Net of Accumulated Depreciation | <u>44,763</u> |
| TOTAL NONCURRENT ASSETS | <u>2,227,998</u> |
| TOTAL ASSETS | <u>3,418,443</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Pensions, Net of Accumulated Amortization | <u>2,993,130</u> |
| LIABILITIES | |
| CURRENT LIABILITIES | |
| Accrued Liabilities | 16,662 |
| Accrued Salaries and Benefits | 576,884 |
| Unearned Revenues | 12,484 |
| Capital Lease Payable, Current Portion | <u>106,646</u> |
| TOTAL CURRENT LIABILITIES | <u>712,676</u> |
| NONCURRENT LIABILITIES | |
| Capital Lease Payable | 2,051,747 |
| Net Pension Liability | <u>18,548,256</u> |
| TOTAL NONCURRENT LIABILITIES | <u>20,600,003</u> |
| TOTAL LIABILITIES | <u>21,312,679</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Pensions, Net of Accumulated Amortization | <u>262,882</u> |
| NET POSITION | |
| Net Investment in Capital Assets | 69,605 |
| Restricted for Emergencies | 30,000 |
| Unrestricted | <u>(15,263,593)</u> |
| TOTAL NET POSITION | <u>\$ (15,163,988)</u> |

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

JAMES IRWIN CHARTER SCHOOLS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUND
Year Ended June 30, 2016

| | |
|------------------------------|------------------------|
| OPERATING REVENUES | |
| Charges for Services | \$ 8,305,812 |
| Grants | 209,936 |
| Donations and Contributions | <u>6,400</u> |
| TOTAL OPERATING REVENUES | <u>8,522,148</u> |
| OPERATING EXPENSES | |
| Salaries | 5,873,963 |
| Benefits | 3,189,574 |
| Purchased Services | 374,920 |
| Supplies and Materials | 175,954 |
| Property | 4,940 |
| Other | 28,421 |
| Depreciation | <u>9,070</u> |
| TOTAL OPERATING EXPENSES | <u>9,656,842</u> |
| NET OPERATING LOSS | (1,134,694) |
| NONOPERATING EXPENSES | |
| Interest Expense | <u>(49,612)</u> |
| CHANGE IN NET POSITION | (1,184,306) |
| NET POSITION, Beginning | <u>(13,979,682)</u> |
| NET POSITION, Ending | <u>\$ (15,163,988)</u> |

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

JAMES IRWIN CHARTER SCHOOLS

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

Increase (Decrease) in Cash
Year Ended June 30, 2016

| | |
|---|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash Received from Charter Schools | \$ 8,236,694 |
| Cash Received from Grants | 105,724 |
| Cash Received from Donors | 6,400 |
| Cash Payments to Employees | (5,658,091) |
| Cash Payments to Suppliers | <u>(2,720,687)</u> |
| Net Cash Provided (Used) by Operating Activities | <u>(29,960)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Capital Assets Purchased | (36,500) |
| Capital Lease Principal Payments | (24,842) |
| Capital Lease Interest Payments | <u>(49,612)</u> |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>(110,954)</u> |
| NET CHANGE IN CASH | (140,914) |
| CASH, Beginning | <u>770,049</u> |
| CASH, Ending | <u>\$ 629,135</u> |
| RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | |
| Net Operating Loss | \$ (1,134,694) |
| Adjustments to Reconcile Net Operating Loss to Net Cash Provided (Used) by Operating Activities | |
| Depreciation | 9,070 |
| Changes in Assets and Liabilities | |
| Accounts Receivable | (4,843) |
| Accounts Receivable - Related Parties | (64,275) |
| Grants Receivable | (116,696) |
| Prepaid Expenses | (12,409) |
| Deferred Outflows of Resources | (1,400,421) |
| Accrued Liabilities | (137,890) |
| Accrued Salaries and Benefits | 215,872 |
| Unearned Revenues | 12,484 |
| Net Pension Liability | 2,342,170 |
| Deferred Inflows of Resources | <u>261,672</u> |
| Net Cash Provided (Used) by Operating Activities | <u>\$ (29,960)</u> |
| NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Capital Assets Purchased with Capital Lease | <u>\$ 2,183,235</u> |

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

JAMES IRWIN CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The James Irwin Charter Schools (“JICS”) was organized to support high quality education, including support for specific charter schools within the State of Colorado as a charter management organization. JICS began operations in the fall of 2012. Effective July 1, 2013, JICS was organized as a charter school collaborative, as defined by State statutes. As such, JICS shall advance and carry out the educational mission of participating schools and support charter school education generally. In addition, JICS will serve as the central office to administer, manage and support the implementation of the schools’ educational programs. JICS is governed by a Board of Directors consisting of at least five members.

The accounting policies of JICS conform to generally accepted accounting principles as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Following is a summary of the more significant policies.

Reporting Entity

The financial reporting entity consists of JICS, organizations for which JICS is financially accountable, and organizations that raise and hold economic resources for the direct benefit of JICS. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of JICS. Legally separate organizations for which JICS is financially accountable are considered part of the reporting entity. Financial accountability exists if JICS a voting majority of the organization’s governing board and is able to impose its will on the organization, or if there is a potential for the organization to provide benefits to, or impose financial burdens on, JICS. Based on the application of this criteria, JICS does not include additional organizations within its reporting entity.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

JICS uses an enterprise fund to account for its operations. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where a fee is charged to external users for goods or services.

The 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.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for a specific use, it is JICS’ policy to use restricted resources first, and the unrestricted resources as they are needed.

JAMES IRWIN CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position

Receivables - All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Prepaid Expenses - Certain payments to vendors reflect costs applicable to future years and are reported as prepaid expenses.

Capital Assets - Capital assets are defined as assets with an initial, individual cost of \$5,000 or more 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 the acquisition value on the date of donation.

Depreciation of exhaustible capital assets and amortization of capital assets acquired under a capital lease are charged as an expense against operations, and accumulated depreciation and amortization are reported in the statement of net position. Capital assets acquired under a capital lease are amortized to the expected value over the term of the related lease. Depreciation and amortization have been provided over the following estimated useful lives of the capital assets or the term of the related capital lease using the straight-line method.

| | |
|-----------|----------|
| Buildings | 10 years |
| Vehicles | 6 years |

Accrued Salaries and Benefits - Salaries and retirement benefits of certain contractually employed personnel are paid over a twelve month period from August to July, but are earned during a school year of approximately nine to ten months. The salaries and benefits earned, but unpaid, are reported as a liability in the financial statements.

Compensated Absences - Employees are allowed to accumulate unused vacation and sick time up to a maximum of five days of vacation time and five days of sick time. Accrued vacation time is paid to certain classified employees upon separation of employment. Accumulated sick leave is not paid upon separation of employment. Accrued vacation time is recognized as a liability in the financial statements when earned.

Unearned Revenues - Unearned revenues consist of grants received before eligibility requirements established by the provider have been met.

Pensions - JICS participates in the School Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado (PERA). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position, and additions to and deductions from the SDTF's fiduciary net position have been determined using the economic resources measurement focus and the accrual basis of accounting, the same basis of accounting used by the SDTF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net Position - Net position is restricted when constraints placed on the use of resources are externally imposed.

JAMES IRWIN CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Risk Management

JICS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. JICS purchases commercial insurance for these risks of loss.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

A budget is adopted for JICS on a non-GAAP budgetary basis, whereby capital outlay and debt principal payments are budgeted as expenses, and depreciation expense and the change in the net pension liability and related items are not budgeted.

Management submits to the Board of Directors a proposed budget for the fiscal year commencing the following July 1, for their approval. The budget includes proposed expenses and the means of financing them.

Revisions that alter the total expenses must be approved by the Board of Directors. All budget appropriations lapse at fiscal year end.

Accountability

At June 30, 2016, JICS had a negative net position of \$15,163,988, primarily as a result of JICS reporting its proportionate share of PERA's unfunded pension liability and the related deferred inflows and outflows of resources in the financial statements, in the net amount of \$15,818,008.

NOTE 3: CASH AND INVESTMENTS

Deposits

The Colorado Public Deposit Protection Act (PDPA) requires all local government entities to deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. The 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 uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At June 30, 2016, JICS had bank deposits of \$576,031 collateralized with securities held by the financial institution's agent but not in JICS' name.

Investments

JICS is required to comply with State statutes which specify investment instruments meeting defined rating, maturity and concentration risk criteria in which local governments may invest, which include the following. State statutes generally limit the maturity of investment securities to five years from the date of purchase, unless the governing board authorizes an investment for a period in excess of five years. State statutes do not address custodial risk.

JAMES IRWIN CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE 3: CASH AND INVESTMENTS (Continued)

Investments (Continued)

- Obligations of the United States and certain U.S. Agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

At June 30, 2016, JICS had no investments.

NOTE 4: RELATED PARTIES

Accounts Receivable

Accounts receivable between related parties at June 30, 2016, consisted of the following. All receivables resulted from routine operating activities.

| | |
|---------------------------------------|-------------------|
| James Irwin Charter High School | \$ 101,715 |
| James Irwin Charter Middle School | 113,615 |
| James Irwin Charter Elementary School | 101,515 |
| James Irwin Charter Academy | 109,827 |
| Total | \$ 426,672 |

NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016, is summarized below.

| | Balances 6/30/15 | Additions | Deletions | Balances 6/30/16 |
|---|---------------------|---------------------|-------------|---------------------|
| Capital Assets, Not Being Depreciated | | | | |
| Construction in Progress | \$ - | \$ 2,183,235 | \$ - | \$ 2,183,235 |
| Capital Assets, Being Depreciated | | | | |
| Vehicles | 24,000 | 36,500 | - | 60,500 |
| Accumulated Depreciation | (6,667) | (9,070) | - | (15,737) |
| Total Capital Assets Being Depreciated, Net | 17,333 | 27,430 | - | 44,763 |
| Total Capital Assets, Net | \$ 17,333 | \$ 2,210,665 | \$ - | \$ 2,227,998 |

JAMES IRWIN CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE 6: LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended June 30, 2016.

| | Balance 6/30/15 | Additions | Payments | Balance 6/30/16 | Due Within One Year |
|---------------|--------------------|---------------------|------------------|---------------------|------------------------|
| Capital Lease | <u>\$ -</u> | <u>\$ 2,183,235</u> | <u>\$ 24,842</u> | <u>\$ 2,158,393</u> | <u>\$ 106,646</u> |

On August 1, 2015, JICS entered into a lease agreement with the James Irwin Educational Foundation (the "Foundation") to purchase and renovate the building for a new school. Terms of the initial agreement required monthly principal and interest payments of \$12,409. In August 2016, JICS borrowed an additional \$3,000,000 to finance the building renovation. In conjunction, the lease agreement was modified and requires monthly principal and interest payments of \$25,818 beginning September 15, 2016, through July 15, 2025, with a balloon payment of \$4,015,386, plus any unpaid interest, due on August 15, 2025. Interest accrues at 3.92% per annum. Assets of \$2,183,235 were capitalized under this lease agreement.

Future debt service requirements are as follows:

| <u>Year Ended June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------|---------------------|---------------------|---------------------|
| 2017 | \$ 106,646 | \$ 176,350 | \$ 282,996 |
| 2018 | 111,033 | 198,780 | 309,813 |
| 2019 | 115,527 | 194,286 | 309,813 |
| 2020 | 119,681 | 190,132 | 309,813 |
| 2021 | 125,047 | 184,766 | 309,813 |
| 2022 - 2026 | 4,580,459 | 713,553 | 5,294,012 |
| Total | \$ 5,158,393 | \$ 1,657,867 | \$ 6,816,260 |

NOTE 7: MANAGEMENT AGREEMENT

JICS has entered into management agreements with the James Irwin Charter High School, James Irwin Charter Middle School, James Irwin Charter Elementary School, and James Irwin Charter Academy (collectively, the "Schools"), to provide all labor, materials, equipment and supervision necessary for the provision of educational services to students, and the management, operation and maintenance of the Schools. The agreements shall continue until termination, or until expiration of each School's charter contract.

JAMES IRWIN CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 8: DEFINED BENEFIT PENSION PLAN

General Information

Plan Description - JICS contributes to the School Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado (PERA). All employees of JICS participate in the SDTF. Title 24, Article 51 of the Colorado Revised Statutes (CRS) assigns the authority to establish and amend plan provisions to the State Legislature. PERA issues a publicly available financial report that includes information on the SDTF. That report may be obtained at www.copera.org/investments/pera-financial-reports.

Benefits Provided - The SDTF provides retirement, disability, and survivor benefits to plan participants or their beneficiaries. Retirement benefits are determined by the amount of service credit earned or purchased, highest average salary, the benefit structure in place, the benefit option selected at retirement, and age at retirement. The retirement benefit is the greater of the a) highest average salary multiplied by 2.5% and then multiplied by years of service credit, or b) the value of the participant's contribution account plus an equal match on the retirement date, annualized into a monthly amount based on life expectancy and other actuarial factors. In no case can the benefit amount exceed the highest average salary or the amount allowed by applicable federal regulations.

Retirees who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments (COLAs) as established by State statutes. Retirees who began employment before January 1, 2007, receive an annual increase of 2%, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2% or the average consumer price index for the prior calendar year. Retirees that began employment after January 1, 2007, receive an annual increase of the lesser of 2% or the average consumer price index for the prior calendar year, with certain limitations.

Disability benefits are available for plan participants once they reach five years of earned service credit and meet the definition of a disability. The disability benefit amount is based on the retirement benefit formula described previously, considering a minimum of twenty years of service credit.

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure in place, and the qualified survivor receiving the benefits.

Contributions - JICS and eligible employees are required to contribute to the SDTF at rates established by Title 24, Article 51, Part 4 of the CRS. These contribution requirements are established and may be amended by the State Legislature. The contribution rate for employees is 8% of covered salaries. JICS' contribution rate for calendar years 2015 and 2016 was 18.35% and 19.15% of covered salaries, respectively. However, a portion of JICS' contribution (1.02% of covered salaries) is allocated to the Health Care Trust Fund (See Note 9). JICS' contributions to the SDTF for the year ended June 30, 2016, were \$1,025,919, equal to the required contributions.

JAMES IRWIN CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE 8: DEFINED BENEFIT PENSION PLAN (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, JICS reported a net pension liability of \$18,548,256, representing its proportionate share of the net pension liability of the SDTF. The net pension liability was measured at December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. Changes in assumptions and other inputs since the prior measurement date did not significantly affect the total pension liability. Standard update procedures were used to roll forward the total pension liability to December 31, 2015. JICS' proportion of the net pension liability was based on the JICS' contributions to the SDTF for the calendar year ended December 31, 2015, relative to the contributions of all participating employers. At December 31, 2015, the JICS' proportion was 0.1212756605%, which was an increase of 0.0017031882% from its proportion measured at December 31, 2014.

For the year ended June 30, 2016, JICS recognized pension expense of \$2,174,216. At June 30, 2016, JICS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences between expected and actual experience | \$ 244,932 | \$ 762 |
| Changes of assumptions and other inputs | - | 262,120 |
| Net difference between projected and actual earnings on plan investments | 1,573,140 | - |
| Changes in proportion | 621,770 | - |
| Contributions subsequent to the measurement date | <u>553,288</u> | <u>-</u> |
| Total | <u>\$ 2,993,130</u> | <u>\$ 262,882</u> |

JICS contributions subsequent to the measurement date of \$553,288 will be recognized as a reduction of the net pension liability in the subsequent fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,

| | |
|-------|----------------------------|
| 2017 | \$ 740,300 |
| 2018 | 660,255 |
| 2019 | 452,998 |
| 2020 | <u>323,407</u> |
| Total | <u>\$ 2,176,960</u> |

JAMES IRWIN CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 8: DEFINED BENEFIT PENSION PLAN (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Actuarial Assumptions - The actuarial valuation as of December 31, 2014, determined the total pension liability using the following actuarial assumptions and other inputs, applied to all periods included in the measurement:

| | |
|---|--------------|
| Price inflation | 2.8% |
| Real wage growth | 1.1% |
| Wage inflation | 3.9% |
| Salary increases, including wage inflation | 3.9% - 10.1% |
| Long-term investment rate of return, net of plan investment expenses, including price inflation | 7.5% |
| Future post-retirement benefit increases: | |
| Hired prior to 1/1/07 | 2% |
| Hired after 12/31/06 | ad hoc |

Mortality rates were based on the RP-2000 Combined Mortality Table for Males and Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with males set back one year, and females set back two years.

The actuarial assumptions used in the December 31, 2013, valuation were based on the results of an actuarial experience study for the period January 1, 2008, through December 31, 2011, adopted by PERA's governing board on November 13, 2012, and an economic study adopted by PERA's governing board on November 15, 2013, and January 17, 2014.

The long-term expected rate of return on plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

The most recent analysis of the long-term expected rate of return was presented to the PERA governing board on November 15, 2013, and included the target allocation and best estimates of geometric real rates of return for each major asset class, as follows:

JAMES IRWIN CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE 8: DEFINED BENEFIT PENSION PLAN (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>10 Year Expected Geometric Real Rate of Return</u> |
|---------------------------------|--------------------------|---|
| U.S. Equity - Large Cap | 26.76% | 5.00% |
| U.S. Equity - Small Cap | 4.40% | 5.19% |
| Non U.S. Equity - Developed | 22.06% | 5.29% |
| Non U.S. Equity - Emerging | 6.24% | 6.76% |
| Core Fixed Income | 24.05% | 0.98% |
| High Yield | 1.53% | 2.64% |
| Long Duration Government/Credit | 0.53% | 1.57% |
| Emerging Market Bonds | 0.43% | 3.04% |
| Real Estate | 7.00% | 5.09% |
| Private Equity | 7.00% | 7.15% |
| Total | <u><u>100.00%</u></u> | |

Discount Rate - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and the employer contributions will be made at the rates specified in State statutes, which currently require annual increases, to a total of 20.15% of covered salaries for the year ended December 31, 2018. When the actuarially determined funding ratio reaches 103%, the employer contribution rate will decrease .5% each year, to a minimum of 10.15%. Based on those assumptions, the SDTF's fiduciary net position was projected to be available to make all projected future benefit payments to current participants. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability. In addition, the discount rate did not change from the prior measurement date.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents JICS' proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as the JICS' proportionate share of the net pension liability if it were calculated using a discount that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate, as follows:

| | 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|--|-----------------------|------------------------------------|-----------------------|
| Proportionate share of the net pension liability | <u>\$ 24,043,961</u> | <u>\$ 18,548,256</u> | <u>\$ 13,976,855</u> |

Pension Plan Fiduciary Net Position - Detailed information about the SDTF's fiduciary net position is available in PERA's separately issued financial report, which may be obtained at www.copera.org/investments/pera-financial-reports.

JAMES IRWIN CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 9: POSTEMPLOYMENT HEALTHCARE BENEFITS

Plan Description - JICS contributes to the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer postemployment healthcare plan administered by PERA. The HCTF provides a health care premium subsidy to PERA benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the CRS, as amended, assigns the authority to establish the HCTF benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the HCTF. That report may be obtained as described previously.

Funding Policy - JICS is required to contribute at a rate of 1.02% of covered salaries for all PERA participants. No employee contributions are required. The contribution requirements for JICS are established under Title 24, Article 51, Part 4 of the CRS, as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208 of the CRS, as amended. JICS' apportionment to the HCTF for the years ended June 30, 2016, 2015 and 2014, was \$55,795, \$52,583 and \$50,096, respectively, equal to the required amounts for each year.

NOTE 10: COMMITMENTS AND CONTINGENCIES

Tabor Amendment

In November 1992, Colorado voters approved the Tabor Amendment to the State Constitution which limits state and local government taxing powers and imposes spending limitations. The Amendment is subject to many interpretations, but JICS believes it is in substantial compliance with the Amendment. In accordance with the Amendment, JICS has established an emergency reserve representing 3% of qualifying expenditures. At June 30, 2016, the reserve was reported as restricted net position in the financial statements, in the amount of \$30,000.

REQUIRED SUPPLEMENTARY INFORMATION

JAMES IRWIN CHARTER SCHOOLS

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AND CONTRIBUTIONS

PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION OF COLORADO SCHOOL DIVISION TRUST FUND

June 30, 2016

| | <u>12/31/15</u> | <u>12/31/14</u> | <u>12/31/13</u> |
|---|------------------|------------------|------------------|
| PROPORTIONATE SHARE OF THE NET PENSION LIABILITY | | | |
| JICS' Proportion of the Net Pension Liability | 0.1212756605% | 0.1195724723% | 0.1118196214% |
| JICS' Proportionate Share of the Net Pension Liability | \$ 18,548,256 | \$ 16,206,086 | \$ 14,262,563 |
| JICS' Covered-Employee Payroll | \$ 5,285,165 | \$ 5,009,323 | \$ 4,514,475 |
| JICS' Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll | 351% | 324% | 316% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 59% | 63% | 64% |
| | | | |
| | <u>6/30/16</u> | <u>6/30/15</u> | <u>6/30/14</u> |
| JICS' CONTRIBUTIONS | | | |
| Statutorily Required Contribution | \$ 970,124 | \$ 870,404 | \$ 784,848 |
| Contributions in Relation to the Statutorily Required Contribution | <u>(970,124)</u> | <u>(870,404)</u> | <u>(784,848)</u> |
| Contribution Deficiency (Excess) | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> |
| JICS' Covered-Employee Payroll | \$ 5,470,091 | \$ 5,155,153 | \$ 4,911,358 |
| Contributions as a Percentage of Covered-Employee Payroll | 17.74% | 16.88% | 15.98% |

This schedule is presented to show information for 10 years. Until information for the full 10-year period is available, information will be presented for the years it is available.

See the accompanying Independent Auditors' Report.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2016

NOTE 1: SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND CONTRIBUTIONS

The Public Employees' Retirement Association of Colorado School Division Trust Fund's net pension liability and associated amounts are measured annually at December 31, based on an actuarial valuation as of the previous December 31. JICS's contributions and related ratios represent cash contributions and any related accruals that coincide with JICS's fiscal year ending on June 30.

Changes in Assumptions and Other Inputs

For the year ended June 30, 2016, the total pension liability was determined by an actuarial valuation as of December 31, 2014. The following programming and methodology changes were made since the prior actuarial valuation as of December 31, 2013.

- Valuation of the full survivor benefit without any reduction for possible remarriage.
- Reflection of the employer match on separation benefits for all eligible years.
- Reflection of one year of service eligibility for survivor annuity benefit.
- Refinement of the 18 month annual increase timing.
- Refinements to directly value certain and life, modified cash refund and pop-up benefit forms.
- Recognition of merit salary increases in the first projection year.
- Elimination of the assumption that 35% of future disabled members elect to receive a refund.
- Removal of the negative value adjustment for liabilities associated with refunds of future terminating members.
- Adjustments to the timing of the normal cost and unfunded actuarial accrued liability payment calculations to reflect contributions throughout the year.

SUPPLEMENTARY INFORMATION

JAMES IRWIN CHARTER SCHOOLS

BUDGETARY COMPARISON SCHEDULE

PROPRIETARY FUND

Year Ended June 30, 2016

| | <u>ORIGINAL BUDGET</u> | <u>FINAL BUDGET</u> | <u>ACTUAL</u> | VARIANCE Positive (Negative) |
|---|----------------------------|-------------------------|------------------------|------------------------------------|
| OPERATING REVENUES | | | | |
| Charges for Services | \$ 8,832,724 | \$ 8,998,003 | \$ 8,305,812 | \$ (692,191) |
| Grants | - | - | 209,936 | 209,936 |
| Donations and Contributions | <u>5,000</u> | <u>5,000</u> | <u>6,400</u> | <u>1,400</u> |
| TOTAL OPERATING REVENUES | <u>8,837,724</u> | <u>9,003,003</u> | <u>8,522,148</u> | <u>(480,855)</u> |
| OPERATING EXPENSES | | | | |
| Salaries | 5,906,360 | 6,237,030 | 5,873,963 | 363,067 |
| Benefits | 2,288,504 | 2,170,467 | 1,986,153 | 184,314 |
| Purchased Services | 463,300 | 604,300 | 374,920 | 229,380 |
| Supplies and Materials | 20,000 | 20,000 | 175,954 | (155,954) |
| Property | 5,000 | 50,000 | 41,440 | 8,560 |
| Other | 50,000 | 30,000 | 28,421 | 1,579 |
| Capital Lease Payments | <u>-</u> | <u>75,000</u> | <u>74,454</u> | <u>546</u> |
| TOTAL OPERATING EXPENSES | <u>8,733,164</u> | <u>9,186,797</u> | <u>8,555,305</u> | <u>631,492</u> |
| CHANGE IN NET POSITION, Budgetary Basis | <u>\$ 104,560</u> | <u>\$ (183,794)</u> | (33,157) | <u>\$ 150,637</u> |
| RECONCILIATION TO GAAP BASIS | | | | |
| Capital Outlay | | | 36,500 | |
| Depreciation | | | (9,070) | |
| Capital Lease Principal Payments | | | 24,842 | |
| Change in Net Pension Liability and Related Items | | | <u>(1,203,421)</u> | |
| CHANGE IN NET POSITION, GAAP Basis | | | (1,184,306) | |
| NET POSITION, Beginning | | | <u>(13,979,682)</u> | |
| NET POSITION, Ending | | | <u>\$ (15,163,988)</u> | |

See the accompanying Independent Auditors' Report.