

JAMES IRWIN CHARTER HIGH SCHOOL

FINANCIAL STATEMENTS

June 30, 2016

JAMES IRWIN CHARTER HIGH SCHOOL

June 30, 2016

Board of Directors

Steve Hester - President

Lari Jones - Vice-President

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School Management

Jonathan Berg, Chief Executive Officer

Eileen Johnston, Chief Financial Officer

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Board of Directors
James Irwin Charter High School
Colorado Springs, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the James Irwin Charter High School, component unit of El Paso County School District No. 2, 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 High 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 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, the major fund, and the aggregate remaining fund information of the James Irwin Charter High School as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters (Required Supplementary Information)

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and 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 opinions on the financial statements that collectively comprise the James Irwin Charter High School’s 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.

Ernst & Young LLP

September 20, 2016

JAMES IRWIN CHARTER HIGH SCHOOL
Management's Discussion and Analysis

Unaudited

For the Year Ended June 30, 2016

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

FINANCIAL HIGHLIGHTS

The year ended June 30, 2016 is the sixteenth year of operations for the James Irwin Charter High School. On June 30, 2016 the School's net position was \$1,136,499.

The School reported an increase of \$183,492 in net position for the year ended June 30, 2016.

School operations are primarily funded by per pupil revenue from the State of Colorado as provided for in the Colorado State School Finance Act. Total per pupil revenue received for the year ended June 30, 2016 was \$3,114,752. This represents an increase of \$176,836 from the fiscal year ended June 30, 2015.

Overview of Financial Statements

The School's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-Wide Financial Statements

Government-wide financial statements are prepared to provide interested parties with a broad overview of the School's financial reporting in similar format to a private-sector business. The statement of net position presents information related to assets and liabilities and remaining net position. With historical data, increases and decreases in net position may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The statement of activities presents information showing how the School's net position changed during the 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 (for example, salaries and benefits earned but unpaid as of fiscal year end).

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 as designated by Colorado State statute. James Irwin Charter High School monitors these funds 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, except that the focus of the governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the School's programs.

Notes to Financial Statements

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

Other Information

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

Government-Wide Financial Analysis

The two summary statements below report the fiscal year 2016 and the prior year, fiscal year 2015. The net position on June 30, 2016 was \$1,136,499. The 2015 numbers have been restated to exclude the James Irwin Educational Foundation (JIEF) (See Note 8).

Condensed Statement of Net Position		
	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and investments	\$ 1,372,734	\$ 1,100,967
Receivables		500
Prepaid Expenses	5,384	3,669
Capital Assets, Net	5,697,143	
Total assets	7,075,261	1,105,136
Liabilities:		
Accounts payable	56,407	35,603
Accounts payable - related parties	122,887	77,554
Unearned Revenue	28,988	38,972
Current Debt Service	147,496	
Noncurrent Debt Service	5,582,984	
Total liabilities	5,938,762	152,129
Net position:		
Net Investment in Capital Assets	\$ (14,244)	
Restricted for TABOR	103,000	101,000
Unrestricted	1,047,743	852,007
Total net position	\$ 1,136,499	\$ 953,007

Condensed Statement of Activities		
	2016	2015
Revenues:		
Program revenues:		
Charges for service	\$ 174,373	\$ 135,567
Operating grants, and contributions	16,953	14,412
General revenues:		
Per pupil revenue	3,114,752	2,937,916
Capital Construction	108,825	69,833
Other general revenue	71,662	47,045
Total revenue	3,486,565	3,204,773
Expense:		
Instruction	1,496,895	1,312,266
Support Services	1,611,243	1,614,859
Interest Expense	194,935	
Total expenses	3,303,073	2,927,125
Change in net position	183,492	277,648
Net position, beginning of year	953,007	675,359
Net position, end of year	\$ <u>1,136,499</u>	\$ <u>953,007</u>

Analysis of Operations

Revenues - Total revenues for the period of July 1, 2015 through June 30, 2016 were \$3,486,565. The majority of income was received in the form of per pupil revenue allocated to the James Irwin Charter High School from the State of Colorado through their charter authorizer Harrison School District 2. The School had 421 full time students and received \$3,114,752 (\$7,398 per pupil). The rate of per pupil funding increased \$274 from 2014/2015 to 2015/2016. The School received \$108,825 in Capital Construction funding from the State of Colorado that supported the building lease expense (an increase of \$38,992 above the previous year).

Expenditures: Total expenditures for the period of July 1, 2015 through June 30, 2016 were \$3,303,073; an increase of \$375,948 (12.8%) from the year ended June 30, 2015. This increase includes increased salary and benefits expenditures, increased special education expenditures through Harrison School District 2, and building improvements of \$139,665. The School's building lease expenditures decreased by \$50,598 (net) this year, (a result of JIEF refinancing property debt). The School reports direct salaries and employee benefits as functional expenses even though these expenses were actually purchased educational services from James Irwin Charter Schools, a charter management company.

Analysis of Budget-General Fund

The Schools' 2015-2016 annual budget was approved by the Board of Directors in March 2015 and included School expenditures of \$3,361,551. The year ended with approved budgeted expenditures of \$3,640,311. The \$278,760 increase included \$268,000 in building improvements (\$136,000 for remodeling the school and \$132,000 for a paved parking lot). Total expenditures for the year ending June 30, 2016, net of the lease and capital outlay transactions, were \$3,269,736; \$370,575 or 10% less than the approved budget. Significant areas that came in

under budget were support services provided by James Irwin Charter Schools and building improvements (the planned improvements to the parking lot were delayed until July 2016).

For the year ended June 30, 2016, JIEF, the entity that owns the School's facilities, refinanced its existing debt and amended its lease agreement with the School. The new lease qualifies as a capital lease. However, the related other financing sources and capital outlay were not budgeted.

Actual School revenue of \$3,486,565 exceeded the revenue budget by \$45,902. The primary areas where actual revenue exceeded budget were \$17,872 in per pupil revenue from the State, \$8,065 from the State for English language learners, and an increase in student fees.

Capital Assets and Long Term Debt

JIEF owns the property where the School is located. The School entered into ten-year capital lease with JIEF, which includes level annual lease payments for the 10 year term of the lease, with a balloon payment at the end of the term. The previous lease with JIEF was an operating lease. The new lease is a capital lease and so a capital asset (net of accumulated amortization) and a corresponding liability for the lease are reported in the government-wide financial statements.

Economic Factors and Next Year's Budget

The primary factor driving the budget for the School is student enrollment. Enrollment for the 2015-2016 school year was 421 and projected enrollment for the 2016-2017 school year remains level at 421. The original 2016-2017 budget was based on per pupil funding of \$7,356, but the revised 2016-2017 budget will include per pupil revenue of \$7,515 (a 2.2% increase in the rate of per pupil funding over 2015-2016).

The Board and School administration acknowledge that the amount of funding for School operations is contingent upon the state of the economy and current and future legislation. Therefore, the School practices conservative budgeting and closely monitors the budget to actual 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 High School's finances for persons interested in the School. 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 HIGH SCHOOL

STATEMENT OF NET POSITION

June 30, 2016

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS	
Cash and Investments	\$ 1,372,734
Prepaid Expenses	5,384
Capital Assets, Net of Accumulated Amortization	<u>5,697,143</u>
TOTAL ASSETS	<u>7,075,261</u>
LIABILITIES	
Accounts Payable	56,407
Accounts Payable - Related Parties	122,887
Unearned Revenues	28,988
Accrued Interest Payable	19,093
Noncurrent Liabilities	
Due Within One Year	128,403
Due in More Than One Year	<u>5,582,984</u>
TOTAL LIABILITIES	<u>5,938,762</u>
NET POSITION	
Net Investment in Capital Assets	(14,244)
Restricted for Emergencies	103,000
Unrestricted	<u>1,047,743</u>
TOTAL NET POSITION	<u>\$ 1,136,499</u>

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

JAMES IRWIN CHARTER HIGH SCHOOL

STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>		<u>NET (EXPENSES) REVENUES AND CHANGE IN NET POSITION</u>
		<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>GOVERNMENTAL ACTIVITIES</u>
PRIMARY GOVERNMENT				
Governmental Activities				
Instruction	\$ 1,496,895	\$ 165,499	\$ 9,565	\$ (1,321,831)
Supporting Services	1,611,243	8,874	7,388	(1,594,981)
Interest Expense	<u>194,935</u>	<u>-</u>	<u>-</u>	<u>(194,935)</u>
TOTAL PRIMARY GOVERNMENT	\$ <u>3,303,073</u>	\$ <u>174,373</u>	\$ <u>16,953</u>	<u>(3,111,747)</u>
GENERAL REVENUES				
Per Pupil Revenue				3,114,752
Additional At-Risk Funding				1,930
Capital Construction				108,825
Grants and Contributions not Restricted to Specific Programs				46,440
Investment Income				3,940
Miscellaneous				<u>19,352</u>
TOTAL GENERAL REVENUES				<u>3,295,239</u>
CHANGE IN NET POSITION				183,492
NET POSITION, Beginning				<u>953,007</u>
NET POSITION, Ending				\$ <u>1,136,499</u>

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

JAMES IRWIN CHARTER HIGH SCHOOL

BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2016

	<u>GENERAL</u>
ASSETS	
Cash and Investments	\$ 1,372,734
Prepaid Expenditures	<u>5,384</u>
TOTAL ASSETS	\$ <u>1,378,118</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 56,407
Accounts Payable - Related Parties	122,887
Unearned Revenues	<u>28,988</u>
TOTAL LIABILITIES	<u>208,282</u>
FUND BALANCE	
Nonspendable Prepaid Expenditures	5,384
Restricted for Emergencies	103,000
Committed to Building Improvements	487,840
Unrestricted, Unassigned	<u>573,612</u>
TOTAL FUND BALANCE	<u>1,169,836</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ <u>1,378,118</u>
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Total Fund Balance of the Governmental Fund	\$ 1,169,836
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	5,697,143
Long-term liabilities and related items, including lease payable (\$5,711,387), and accrued interest payable (\$19,093) are not due and payable in the current year and, therefore, are not reported in governmental funds.	<u>(5,730,480)</u>
Total Net Position of Governmental Activities	\$ <u>1,136,499</u>

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

JAMES IRWIN CHARTER HIGH SCHOOL

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
 Year Ended June 30, 2016

	<u>GENERAL</u>
REVENUES	
Local Sources	\$ 3,349,098
State Sources	118,820
Federal Sources	<u>18,647</u>
TOTAL REVENUES	<u>3,486,565</u>
EXPENDITURES	
Current	
Instruction	1,496,895
Supporting Services	1,509,121
Capital Outlay	5,799,265
Debt Service	
Principal	87,878
Interest	<u>175,842</u>
TOTAL EXPENDITURES	<u>9,069,001</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(5,582,436)
OTHER FINANCING SOURCES	
Debt Issued	<u>5,799,265</u>
NET CHANGE IN FUND BALANCE	216,829
FUND BALANCE, Beginning	<u>953,007</u>
FUND BALANCE, Ending	<u>\$ 1,169,836</u>

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

JAMES IRWIN CHARTER HIGH SCHOOL

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

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

Net Change in Fund Balance of the Governmental Fund	\$	216,829
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay \$5,799,265 exceeded amortization expense (\$102,122) in the current year.		5,697,143
Repayments of debt principal are expenditures in governmental funds, but they reduce long-term liabilities in the statement of net position and do not affect the statement of activities.		87,878
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position and does not affect the statement of activities.		(5,799,265)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This amount represents the change in accrued interest payable in the current year.		<u>(19,093)</u>
Change in Net Position of Governmental Activities	\$	<u><u>183,492</u></u>

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

JAMES IRWIN CHARTER HIGH SCHOOL

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
June 30, 2016

	<u>STUDENT ACTIVITY</u>
ASSETS	
Cash and Investments	\$ <u>23,352</u>
TOTAL ASSETS	\$ <u><u>23,352</u></u>
LIABILITIES	
Due to Student Groups	\$ <u>23,352</u>
TOTAL LIABILITIES	\$ <u><u>23,352</u></u>

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The James Irwin Charter High School (the “School”) was organized in 2000 pursuant to the Colorado Charter Schools Act to form and operate a charter school within the El Paso County School District No. 2 (the “District”) in the State of Colorado. The School’s mission is to help guide students in the development of their character and academic potential through an academically rigorous, content rich educational program. The School is governed by a Board of Directors consisting of at least five members.

The accounting policies of the School 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. The more significant of the School’s accounting policies are as follows.

Reporting Entity

The financial reporting entity consists of the School, organizations for which the School is financially accountable, and organizations that raise and hold economic resources for the direct benefit of the School. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the School. 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 there is a potential for the organization to provide benefits to, or impose financial burdens on, the School. Based on the application of this criteria, the School does not include additional organizations within its reporting entity.

The School is a component unit of the District. The School’s charter was granted by the District and the majority of the School’s funding is provided by the District.

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 nonfiduciary activities of the School. *Governmental activities*, which are normally supported by taxes and intergovernmental revenues, are reported in a single column.

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, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Unrestricted revenues not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for the governmental fund and fiduciary fund, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Available means collected within the current year or soon enough thereafter to pay liabilities of the current year, not to exceed 60 days. Intergovernmental revenues, grants, and interest associated with the current year are considered to be susceptible to accrual and so have been recognized as revenues of the current year. All other revenues are considered to be measurable and available only when cash is received by the School. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

The agency fund financial statements are reported using the accrual basis of accounting.

When both restricted and unrestricted resources are available for a specific 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 governmental fund:

General Fund - This fund is the general operating fund of the School. It is currently used to account for all nonfiduciary financial activities of the School.

Additionally, the School reports the following fund type:

The *Agency Fund* is used to account for resources received to support the School's student activities. The School holds all resources in a purely custodial capacity.

Assets, Liabilities and Net Position/Fund Balance

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

Capital Assets - Capital assets are reported in the government-wide financial statements. 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Capital assets acquired under a capital lease are amortized to the expected value over the term of the related lease. Amortization is recorded as an operating expense, and accumulated amortization is reported in the government-wide financial statements. Amortization has been provided over the following term of the related lease using the straight-line method.

Building 10 years

Unearned Revenues - Unearned revenues represent resources received by the School before it has a legal claim to them, including student fees.

Long-Term Debt - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs are reported as current expenses or expenditures.

Net Position/Fund Balance - In the government-wide and fund financial statements, net position and fund balance are restricted when constraints placed on the use of resources are externally imposed. The Board of Directors is authorized to establish a fund balance commitment through passage of a resolution, and may assign fund balances to a specific purpose through an informal action.

The School has not established a formal policy for its use of restricted and unrestricted fund balances. However, if both restricted and unrestricted fund balances are available for a specific purpose, the School uses restricted fund balance first, followed by committed, assigned, and unassigned balances.

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.

NOTE 2: CASH AND INVESTMENTS

A summary of cash and investments at June 30, 2016, follows:

Petty Cash	\$ 59
Deposits	680,137
Investments	<u>715,890</u>
Total	<u><u>\$ 1,396,086</u></u>

JAMES IRWIN CHARTER HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 2: CASH AND INVESTMENTS (Continued)

Cash and investments are reported in the financial statements as follows:

Cash and Investments	\$ 1,372,734
Agency Fund Cash and Investments	<u>23,352</u>
Total	<u>\$ 1,396,086</u>

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, the School had bank deposits of \$421,468 collateralized with securities held by the financial institutions' agents but not in the School's name.

Investments

The School 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 do not address custodial risk.

- 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, the School had the following investments:

<u>Investment Type</u>	<u>S&P Rating</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>Fair Value</u>
Local Government Investment Pool	AAAm	\$ 500,939	\$ -	\$ 500,939
U.S. Agency Securities	AA+	<u>-</u>	<u>214,951</u>	<u>214,951</u>
Total		<u>\$ 500,939</u>	<u>\$ 214,951</u>	<u>\$ 715,890</u>

NOTE 2: CASH AND INVESTMENTS (Continued)

Investments (Continued)

Fair Value Measurements - The School reports its investments using the fair value measurements established by generally accepted accounting principles. As such, a fair value hierarchy categorizes the inputs used to measure the fair value of the investments into three levels. Level 1 inputs are quoted prices in active markets for identical investments; Level 2 inputs include quoted prices in active markets for similar investments, or other observable inputs; and Level 3 inputs are unobservable inputs. At June 30, 2016, the School's investments in U.S. Agency securities were measured utilizing quoted prices in active markets for similar investments (Level 2 inputs). The external investment pool was reported at the net asset value per share, which is measured using amortized cost.

Interest Rate Risk - State statutes generally limit investments to an original maturity of five years unless the governing board authorizes the investment for a period in excess of this limit.

Credit Risk - State statutes limit most investments to those with certain ratings from nationally recognized statistical rating organizations, depending on the type of investment.

Concentration of Credit Risk - State statutes do not limit the amount the School may invest in a single issuer, except for corporate securities. At June 30, 2016, the School's investments in the Federal Home Loan Bank and the Federal Farm Credit Bank represented 23% and 7% of total investments, respectively.

Custodial Credit Risk - At June 30, 2016, the School's investments in U.S. Agency securities were held by the counterparty (broker), but not in the School's name.

Local Government Investment Pool - At June 30, 2016, the School had \$500,939 invested in the Colorado Local Government Liquid Asset Trust (Colotrust), an investment trust established for local government entities in Colorado to pool surplus funds for investment purposes. The Colorado Division of Securities administers and enforces the requirements of creating and operating Colotrust. Colotrust operates in conformity with the Securities and Exchange Commission's Rule 2a-7, with each share valued at \$1. Colotrust is rated AAAM by Standard and Poor's. Investments of Colotrust are limited to those allowed by State statutes. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. The custodian's internal records identify the investments owned by the participating governments.

JAMES IRWIN CHARTER HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 3: 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
Governmental Activities				
Capital Assets, Being Amortized				
Building	\$ -	\$ 5,799,265	\$ -	\$ 5,799,265
Accumulated Amortization	-	(102,122)	-	(102,122)
Governmental Activities Capital Assets, Net	\$ -	\$ 5,697,143	\$ -	\$ 5,697,143

Amortization expense was charged to the supporting services program.

NOTE 4: RELATED PARTIES

Accounts Payable

At June 30, 2016, the School owed \$101,715, \$16,548, and \$4,624 to the James Irwin Charter Schools, the James Irwin Charter Middle School, and the James Irwin Charter Elementary School, respectively. The amounts represent routine operating activities.

NOTE 5: 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
Governmental Activities					
2015 Capital Lease	\$ -	\$ 5,799,265	\$ 87,878	\$ 5,711,387	\$ 128,403

On August 1, 2015, the School entered into a lease agreement with the James Irwin Educational Foundation for use of the School's building. Terms of the initial agreement required monthly principal and interest payments of \$29,302. In August 2016, the lease agreement was modified and requires monthly principal and interest payments of \$28,533 beginning September 15, 2016, through July 15, 2025, with a balloon payment of \$4,437,641, plus any unpaid interest, due on August 15, 2025. Interest accrues at 3.92% per annum. Assets of \$5,799,265 less accumulated amortization of \$102,122 have been capitalized under this lease agreement.

JAMES IRWIN CHARTER HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 5: LONG-TERM DEBT (Continued)

Future debt service requirements are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 128,403	\$ 215,529	\$ 343,932
2018	122,709	219,687	342,396
2019	127,676	214,720	342,396
2020	132,267	210,129	342,396
2021	138,197	204,199	342,396
2022 - 2026	<u>5,062,135</u>	<u>788,899</u>	<u>5,851,034</u>
Total	<u>\$ 5,711,387</u>	<u>\$ 1,853,163</u>	<u>\$ 7,564,550</u>

NOTE 6: MANAGEMENT AGREEMENT

Effective July 1, 2012, the School entered into a management agreement with James Irwin Charter Schools (JICS), a non-profit entity, 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 School. These costs are reported in functional categories in the financial statements for better reporting purposes. The agreement shall continue until termination, or until expiration of the School's charter contract.

NOTE 7: COMMITMENTS AND CONTINGENCIES

Claims and Judgments

The School participates in a number of federal and state programs that are fully or partially funded by revenues received from other governmental entities. Expenditures financed by these revenues are subject to audit by the appropriate government. If expenditures are disallowed due to noncompliance with program regulations, the School may be required to reimburse the other government. At June 30, 2016, significant amounts of related 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.

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 the School believes it is in substantial compliance with the Amendment. In accordance with the Amendment, the School has established an emergency reserve representing 3% of qualifying expenditures. At June 30, 2016, the reserve was reported as restricted fund balance in the General Fund, in the amount of \$103,000.

JAMES IRWIN CHARTER HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 8: CHANGE IN REPORTING ENTITY

In past years, the James Irwin Educational Foundation was reported as a component unit of the School. However, at June 30, 2016, the Foundation no longer qualified as a component unit and has been excluded from the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

JAMES IRWIN CHARTER HIGH SCHOOL

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2016

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	VARIANCE Positive (Negative)
REVENUES				
Local Sources				
Per Pupil Revenue	\$ 3,128,685	\$ 3,096,880	\$ 3,114,752	\$ 17,872
Student Fees and Activities	188,800	161,550	165,499	3,949
Transportation Fees	-	-	8,874	8,874
Contributions and Donations	-	51,800	36,681	(15,119)
Investment Income	1,000	1,000	3,940	2,940
Miscellaneous	5,000	4,183	19,352	15,169
State Sources				
Additional At-Risk Funding	-	-	1,930	1,930
Capital Construction	83,000	105,250	108,825	3,575
Grants	-	-	8,065	8,065
Federal Sources				
Impact Aid	10,000	10,000	9,759	(241)
Grants	10,000	10,000	8,888	(1,112)
TOTAL REVENUES	<u>3,426,485</u>	<u>3,440,663</u>	<u>3,486,565</u>	<u>45,902</u>
EXPENDITURES				
Current				
Instruction	1,591,385	1,609,122	1,496,895	112,227
Supporting Services	1,290,166	1,656,189	1,509,121	147,068
Capital Outlay	-	-	5,799,265	(5,799,265)
Debt Service				
Principal	480,000	375,000	87,878	287,122
Interest	-	-	175,842	(175,842)
TOTAL EXPENDITURES	<u>3,361,551</u>	<u>3,640,311</u>	<u>9,069,001</u>	<u>(5,428,690)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	64,934	(199,648)	(5,582,436)	(5,382,788)
OTHER FINANCING SOURCES				
Debt Issued	-	-	5,799,265	5,799,265
NET CHANGE IN FUND BALANCE	64,934	(199,648)	216,829	416,477
FUND BALANCE, Beginning	<u>783,353</u>	<u>953,007</u>	<u>953,007</u>	<u>-</u>
FUND BALANCE, Ending	<u>\$ 848,287</u>	<u>\$ 753,359</u>	<u>\$ 1,169,836</u>	<u>\$ 416,477</u>

See the accompanying Independent Auditors' Report.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2016

NOTE 1: 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.

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 expenditures and the means of financing them.

Expenditures may not legally exceed appropriations at the fund level. Revisions that alter the total expenditures of any fund must be approved by the Board of Directors.

All appropriations lapse at fiscal year end.

Legal Compliance

For the year ended June 30, 2016, the General Fund expenditures exceeded the amounts budgeted by \$5,428,690 because debt issued during the year and the related capital outlay were not budgeted. This may be a violation of State statutes.

SUPPLEMENTARY INFORMATION

JAMES IRWIN CHARTER HIGH SCHOOL

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

AGENCY FUND

Year Ended June 30, 2016

	<u>BALANCE</u> 6/30/15	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> 6/30/16
Student Activity Fund				
ASSETS				
Cash and Investments	\$ <u>35,920</u>	\$ <u>21,192</u>	\$ <u>33,760</u>	\$ <u>23,352</u>
TOTAL ASSETS	\$ <u><u>35,920</u></u>	\$ <u><u>21,192</u></u>	\$ <u><u>33,760</u></u>	\$ <u><u>23,352</u></u>
LIABILITIES				
Accounts Payable - Related Parties	\$ 16,453	\$ -	\$ 16,453	\$ -
Due to Student Groups	<u>19,467</u>	<u>21,192</u>	<u>17,307</u>	<u>23,352</u>
TOTAL LIABILITIES	\$ <u><u>35,920</u></u>	\$ <u><u>21,192</u></u>	\$ <u><u>33,760</u></u>	\$ <u><u>23,352</u></u>

See the accompanying Independent Auditors' Report.