

JAMES IRWIN CHARTER MIDDLE SCHOOL

FINANCIAL STATEMENTS

June 30, 2016

JAMES IRWIN CHARTER MIDDLE 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 Middle 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 Middle 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 Middle 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

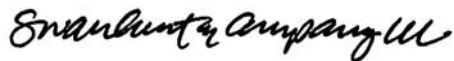
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the James Irwin Charter Middle School as of June 30, 2016, and the respective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



September 20, 2016

JAMES IRWIN CHARTER MIDDLE SCHOOL

Management's Discussion and Analysis

Unaudited

For the Year Ended June 30, 2016

The management of James Irwin Charter Middle School (JICMS) offers this Management Discussion and Analysis (MD&A) of the School's financial performance to provide an overall review of financial activities for 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

June 30, 2016 marked the end of the thirteenth year of operation for James Irwin Middle School. On June 30, 2016 the School's net position was \$1,430,824.

The School reported an increase of \$108,775 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 \$3,314,510. This represents an increase of \$202,100 from the fiscal year ended June 30, 2015.

Overview of Financial Statements

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

Government-Wide Financial Statements

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 Middle 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, the Required Supplementary Information presents a detailed budgetary comparison schedule for the General Fund to demonstrate compliance with the budget.

Government-Wide Financial Analysis of the James Irwin Charter Middle School

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 \$1,430,824.

Condensed Statement of Net Position		
	2016	2015
Current assets:		
Cash and cash equivalents	\$ 1,622,112	\$ 1,424,292
Receivables	17,446	4,840
Prepaid Expenses	25,258	30,776
Capital Assets, Net	<u>5,919,812</u>	
Total assets	7,584,628	1,459,908
Liabilities:		
Accounts payable	51,615	38,695
Accounts payable - related parties	113,678	98,767
Unearned revenue	36,243	397
Current Debt Service	154,554	
Noncurrent Debt Service	<u>5,797,714</u>	
Total liabilities	6,153,804	137,859
Net position:		
Net Investment in Capital Assets	(11,949)	
Restricted for TABOR	106,000	101,000
Unrestricted	<u>1,336,773</u>	<u>1,221,049</u>
Total net position	<u>\$ 1,430,824</u>	<u>\$ 1,322,049</u>

Condensed Statement of Activities		
	2016	2015
Revenues:		
Program revenues:		
Charges services	\$ 110,809	\$ 95,991
Operating grants, and contributions	35,739	31,496
General revenues:		
Per pupil revenue	3,314,510	3,112,410
Capital Construction	115,804	73,981
Other general revenue	<u>27,241</u>	<u>18,016</u>
Total revenues	3,604,103	3,331,894
Expenses:		
Instruction	1,752,718	1,562,632
Supporting Services	1,533,236	1,618,601
Interest Expense	209,374	
Total expenses	<u>3,495,328</u>	<u>3,181,233</u>
Change in Net Position	108,775	150,661
Net Position, beginning of year	<u>1,322,049</u>	<u>1,171,388</u>
Net Position, end of year	<u>\$ 1,430,824</u>	<u>\$ 1,322,049</u>

Analysis of Operations - General Fund

Revenues - Total revenue for the period of July 1, 2015 through June 30, 2016 was \$3,604,103. The majority of income was received in the form of per pupil revenue allocated to the James Irwin Charter Middle School from the State of Colorado through their charter authorizer Harrison School District 2. The School had 448 full time students and received \$3,314,510 (\$7,398 per pupil). The rate of per pupil funding increased \$274 from 2014/2015 to 2015/2016. The School received \$115,804 in Capital Construction funding from the State of Colorado that supported the building lease expense (an increase of \$41,823 above the previous year).

Expenditures - Total expenditures for the period of July 1, 2015 through June 30, 2016 were \$3,495,328; an increase of \$314,095 (or 9.9%) from the year ended June 30, 2015. This increase includes increased salary and benefits expenditures and building improvements of \$102,000. The School's building lease expenditures decreased by \$61,449 (net) this year from the last fiscal year, a result of James Irwin Educational Foundation (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 School's original 2015-2016 budget was approved by the Board of Directors in March 2015 and included expenditures of \$3,491,532. The year ended with approved budgeted operating expenditures of \$3,738,432. The increase included \$200,000 in building improvements and an increase in budgeted instructional expenses. Total expenditures for the year ending June 30, 2016, net of the lease and capital outlay transaction, were \$3,462,872; \$275,560 or 7.4% less than the approved budget. Significant areas that came in under budget were support services provided by

James Irwin Charter Schools and building improvements (planned improvements to a 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 revenue of \$3,604,103 exceeded the revenue budget by \$74,682. The primary causes of the increased revenues were an increase in per pupil revenue from the State, the receipt of \$22,295 from the State for English language learners and an increase in student activity fees.

Capital Assets and Long Term Debt

The James Irwin Educational Foundation (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 448 and projected enrollment for the 2016-2017 school year is 441. 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 Middle 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 MIDDLE SCHOOL

STATEMENT OF NET POSITION

June 30, 2016

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS	
Cash and Investments	\$ 1,622,112
Accounts Receivable - Related Parties	16,548
Grants Receivable	898
Prepaid Expenses	25,258
Capital Assets, Net of Accumulated Amortization	<u>5,919,812</u>
TOTAL ASSETS	<u>7,584,628</u>
LIABILITIES	
Accounts Payable	51,615
Accounts Payable - Related Parties	113,678
Unearned Revenues	36,243
Accrued Interest Payable	20,507
Noncurrent Liabilities	
Due Within One Year	134,047
Due in More Than One Year	<u>5,797,714</u>
TOTAL LIABILITIES	<u>6,153,804</u>
NET POSITION	
Net Investment in Capital Assets	(11,949)
Restricted for Emergencies	106,000
Unrestricted	<u>1,336,773</u>
TOTAL NET POSITION	<u>\$ 1,430,824</u>

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

JAMES IRWIN CHARTER MIDDLE SCHOOL

STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>		<u>NET (EXPENSE) REVENUE 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	\$ 1,752,718	\$ 110,809	\$ 24,756	\$ (1,617,153)
Supporting Services	1,533,236	-	10,983	(1,522,253)
Interest Expense	<u>209,374</u>	<u>-</u>	<u>-</u>	<u>(209,374)</u>
TOTAL GOVERNMENTAL ACTIVITIES	\$ <u>3,495,328</u>	\$ <u>110,809</u>	\$ <u>35,739</u>	<u>(3,348,780)</u>
GENERAL REVENUES				
Per Pupil Revenue				3,314,510
Additional At-Risk Funding				2,319
Capital Construction				115,804
Grants and Contributions not Restricted to Specific Programs				11,227
Investment Income				4,259
Miscellaneous				<u>9,436</u>
TOTAL GENERAL REVENUES				<u>3,457,555</u>
CHANGE IN NET POSITION				108,775
NET POSITION, Beginning				<u>1,322,049</u>
NET POSITION, Ending				\$ <u><u>1,430,824</u></u>

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

JAMES IRWIN CHARTER MIDDLE SCHOOL

BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2016

	<u>GENERAL</u>
ASSETS	
Cash and Investments	\$ 1,622,112
Accounts Receivable - Related Parties	16,548
Grants Receivable	898
Prepaid Expenditures	25,258
TOTAL ASSETS	\$ 1,664,816
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 51,615
Accounts Payable - Related Parties	113,678
Unearned Revenues	36,243
TOTAL LIABILITIES	201,536
FUND BALANCE	
Nonspendable Prepaid Expenditures	25,258
Restricted for Emergencies	106,000
Committed to Building Improvements	828,108
Unrestricted, Unassigned	503,914
TOTAL FUND BALANCE	1,463,280
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,664,816
 Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Total Fund Balance of the Governmental Fund	\$ 1,463,280
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	5,919,812
Long-term liabilities and related items, including lease payable (\$5,931,761), and accrued interest payable (\$20,507) are not due and payable in the current year and, therefore, are not reported in governmental funds.	(5,952,268)
Total Net Position of Governmental Activities	\$ 1,430,824

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

JAMES IRWIN CHARTER MIDDLE SCHOOL

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

	<u>GENERAL</u>
REVENUES	
Local Sources	\$ 3,440,536
State Sources	140,718
Federal Sources	<u>22,849</u>
TOTAL REVENUES	<u>3,604,103</u>
EXPENDITURES	
Current	
Instruction	1,752,718
Supporting Services	1,426,899
Capital Outlay	6,026,149
Debt Service	
Principal	94,388
Interest	<u>188,867</u>
TOTAL EXPENDITURES	<u>9,489,021</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(5,884,918)
OTHER FINANCING SOURCES	
Debt Issued	<u>6,026,149</u>
NET CHANGE IN FUND BALANCE	141,231
FUND BALANCE, Beginning	<u>1,322,049</u>
FUND BALANCE, Ending	<u>\$ 1,463,280</u>

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

JAMES IRWIN CHARTER MIDDLE 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	\$	141,231
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 \$6,026,149 exceeded amortization expense (\$106,337) in the current year.		5,919,812
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.		94,388
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.		(6,026,149)
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>(20,507)</u>
Change in Net Position of Governmental Activities	\$	<u>108,775</u>

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

JAMES IRWIN CHARTER MIDDLE SCHOOL

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

AGENCY FUND

June 30, 2016

	<u>STUDENT ACTIVITY</u>
ASSETS	
Cash and Investments	\$ <u>19,666</u>
TOTAL ASSETS	\$ <u><u>19,666</u></u>
LIABILITIES	
Due to Student Groups	\$ <u>19,666</u>
TOTAL LIABILITIES	\$ <u><u>19,666</u></u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The James Irwin Charter Middle School (the “School”) was organized in 2004 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

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 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.

Buildings 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:

Deposits	\$ 925,888
Investments	<u>715,890</u>
Total	<u>\$ 1,641,778</u>

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

Cash and Investments	\$ 1,622,112
Agency Fund Cash and Investments	<u>19,666</u>
Total	<u>\$ 1,641,778</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 2: CASH AND INVESTMENTS (Continued)

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 \$669,608 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+	-	214,951	214,951
Total		<u>\$ 500,939</u>	<u>\$ 214,951</u>	<u>\$ 715,890</u>

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.

JAMES IRWIN CHARTER MIDDLE SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 2: CASH AND INVESTMENTS (Continued)

Investments (Continued)

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 the School's 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.

NOTE 3: RELATED PARTIES

Accounts Receivable and Accounts Payable

At June 30, 2016, the James Irwin Charter High School owed \$16,548 to the School. In addition, the School owed \$113,615 and \$63 to the James Irwin Charter Schools and the James Irwin Charter Elementary School, respectively. All balances represent routine operating activities.

NOTE 4: 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				
Buildings	\$ -	\$ 6,026,149	\$ -	\$ 6,026,149
Accumulated Amortization	-	(106,337)	-	(106,337)
Governmental Activities Capital Assets, Net	\$ -	\$ 5,919,812	\$ -	\$ 5,919,812

Amortization expense was charged to the supporting services program.

JAMES IRWIN CHARTER MIDDLE SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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	<u>\$ -</u>	<u>\$ 6,026,149</u>	<u>\$ 94,388</u>	<u>\$ 5,931,761</u>	<u>\$ 134,047</u>

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 \$31,473. In August 2016, the lease agreement was modified and requires monthly principal and interest payments of \$29,630 beginning September 15, 2016, through July 15, 2025, with a balloon payment of \$4,608,320, plus any unpaid interest, due on August 15, 2025. Interest accrues at 3.92% per annum. Assets of \$6,026,149 less accumulated amortization of \$106,337 have been 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	\$ 134,047	\$ 225,200	\$ 359,247
2018	127,429	228,131	355,560
2019	132,586	222,974	355,560
2020	137,354	218,206	355,560
2021	143,513	212,047	355,560
2022 - 2026	5,256,832	818,921	6,075,753
Total	\$ 5,931,761	\$ 1,925,479	\$ 7,857,240

NOTE 6: MANAGEMENT AGREEMENT

Effective July 1, 2012, the School entered into a management agreement with James Irwin Charter Schools, 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.

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 management believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the School.

NOTE 7: 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 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 \$106,000.

REQUIRED SUPPLEMENTARY INFORMATION

JAMES IRWIN CHARTER MIDDLE SCHOOL

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2016

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE Positive (Negative)</u>
REVENUES				
Local Sources				
Per Pupil Revenue	\$ 3,317,160	\$ 3,295,492	\$ 3,314,510	\$ 19,018
Student Fees and Activities	78,410	88,219	110,809	22,590
Contributions	1,000	3,000	1,522	(1,478)
Investment Income	1,300	1,800	4,259	2,459
Miscellaneous	5,000	7,083	9,436	2,353
State Sources				
Additional At-Risk Funding	-	-	2,319	2,319
Capital Construction	88,000	112,000	115,804	3,804
Grants	-	-	22,595	22,595
Federal Sources				
Impact Aid	7,000	7,000	9,705	2,705
Grants	14,827	14,827	13,144	(1,683)
TOTAL REVENUES	<u>3,512,697</u>	<u>3,529,421</u>	<u>3,604,103</u>	<u>74,682</u>
EXPENDITURES				
Current				
Instruction	1,728,294	1,782,746	1,752,718	30,028
Supporting Services	1,283,238	1,559,386	1,426,899	132,487
Capital Outlay	-	-	6,026,149	(6,026,149)
Debt Service				
Principal	480,000	396,300	94,388	301,912
Interest	-	-	188,867	(188,867)
TOTAL EXPENDITURES	<u>3,491,532</u>	<u>3,738,432</u>	<u>9,489,021</u>	<u>(5,750,589)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	21,165	(209,011)	(5,884,918)	(5,675,907)
OTHER FINANCING SOURCES				
Debt Issued	-	-	6,026,149	6,026,149
NET CHANGE IN FUND BALANCE	21,165	(209,011)	141,231	350,242
FUND BALANCE, Beginning	<u>1,141,153</u>	<u>1,322,049</u>	<u>1,322,049</u>	<u>-</u>
FUND BALANCE, Ending	<u>\$ 1,162,318</u>	<u>\$ 1,113,038</u>	<u>\$ 1,463,280</u>	<u>\$ 350,242</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 School 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 \$5,750,589 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 MIDDLE 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	\$ 37,544	\$ 110,318	\$ 128,196	\$ 19,666
TOTAL ASSETS	<u>\$ 37,544</u>	<u>\$ 110,318</u>	<u>\$ 128,196</u>	<u>\$ 19,666</u>
LIABILITIES				
Accounts Payable - Related Parties	\$ 15,544	\$ -	\$ 15,544	\$ -
Due to Student Groups	<u>22,000</u>	<u>110,318</u>	<u>112,652</u>	<u>19,666</u>
TOTAL LIABILITIES	<u>\$ 37,544</u>	<u>\$ 110,318</u>	<u>\$ 128,196</u>	<u>\$ 19,666</u>

See the accompanying Independent Auditors' Report.