

**JAMES IRWIN CHARTER SCHOOLS**

**FINANCIAL STATEMENTS**

**June 30, 2015**

**JAMES IRWIN CHARTER SCHOOLS**

**June 30, 2015**

**Board of Directors**

Jonathan Berg - President

Steve Hester - Secretary

Vernard Gant

Andy Holloman

**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, 2015, 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, 2015, 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.

**Emphasis of Matter**

As discussed in Note 10 to the financial statements, in the year ended June 30, 2015, the James Irwin Charter Schools adopted new accounting guidance as required by Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

**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.



November 24, 2015

**JAMES IRWIN CHARTER SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

As of and for the Year Ended June 30, 2015

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, 2015. Please read this discussion in conjunction with additional information provided in the accompanying financial statements.

**FINANCIAL HIGHLIGHTS**

The year ended June 30, 2015 is the third year of operations for the James Irwin Charter Schools as a Charter Management Organization and the second 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 required restating the June 30, 2014 ending balance as James Irwin recognized its proportionate share of the School Division Trust Fund (SCHDTF) 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 \$13,979,682 during the year resulting in a negative net position. Please see Note 7 and 10.

Total assets decreased by \$77,227 to \$1,150,469, representing a 6.3 percent decrease from 2014. This was primarily due to a decrease in Related Parties Accounts Receivable.

For this fiscal year, James Irwin's expenses of \$8,208,796 exceeded revenue of \$7,527,073 by \$681,723. This includes the pension liability change of \$850,435. The pension liability aside, the annual change to the net position from operations was (a positive) \$168,712.

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 \$7,478,469.

**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 of services that have been set aside 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.

## 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 2015 and the prior year, fiscal year 2014. Information presented for the fiscal year 2014 has not been restated because comparable information is not available.

	<b>Condensed Statement of Net Position</b>		
	<u>2015</u>	<u>2014</u>	<u>Change</u>
Current and other assets	\$ 1,133,136	\$ 1,206,363	\$ (73,227)
Capital assets	<u>17,333</u>	<u>21,333</u>	<u>(4,000)</u>
<b>Total Assets</b>	<u>1,150,469</u>	<u>1,227,696</u>	<u>(77,227)</u>
Deferred Outflows - Pensions	<u>1,592,709</u>	<u>-</u>	<u>1,592,709</u>
Current Liabilities	515,564	706,252	(190,688)
Net Pension Liability	<u>16,206,086</u>	<u>-</u>	<u>16,206,086</u>
<b>Total Liabilities</b>	<u>16,721,650</u>	<u>706,252</u>	<u>16,015,398</u>
Deferred Inflows - Pensions	<u>1,210</u>	<u>-</u>	<u>1,210</u>
Investment in capital assets	17,333	21,333	(4,000)
Restricted Funds	225,000	221,000	4,000
Unrestricted Funds	<u>(14,222,015)</u>	<u>279,111</u>	<u>(14,501,126)</u>
<b>Total Net Position</b>	<u>\$ (13,979,682)</u>	<u>\$ 521,444</u>	<u>\$ (14,501,126)</u>

## Revenues, Expenses, and Changes in Net Position

<b>Revenues:</b>	<u>2015</u>	<u>2014</u>	<u>Change</u>
Program revenues:			
Charges for services	\$ 7,510,798	\$ 7,382,825	\$ 127,973
Operating grants and contributions	16,275	19,465	(3,190)
<b>Total Revenues</b>	<u>7,527,073</u>	<u>7,402,290</u>	<u>124,783</u>
<b>Expenses:</b>			
Instructional	5,427,918	4,852,677	575,241
Support services	2,780,878	2,604,931	175,947
<b>Total Expenses</b>	<u>8,208,796</u>	<u>7,457,608</u>	<u>751,188</u>
Change in net position	(681,723)	(55,318)	(626,405)
Net position, beginning	(13,297,959)	576,762	(13,874,721)
<b>Net position, ending</b>	<u>\$ (13,979,682)</u>	<u>\$ 521,444</u>	<u>\$ (14,501,126)</u>

### Analysis of Operations

Revenues: Total revenue for the period of July 1, 2014 through June 30, 2015 was \$7,527,073; 1.7% higher than the year ending June 30, 2014. The majority of income was received from the four James Irwin Schools for operational and personnel expenses paid by James Irwin on behalf of the schools, and for management fees (5% of per pupil revenue, capital construction funding paid by the State of Colorado and Federal impact aid).

Expenses: Total expenses for the period of July 1, 2014 through June 30, 2015 were \$8,208,796; up 10% from the year ended June 30, 2014.

Change in Net Position: The impact of the PERA adjustment aside, \$225,000 of net position is restricted by statute and the remaining balance of \$392,572 is available to be used to meet future obligations.

### Analysis of Budget

James Irwin's 2014-2015 budget was approved by the Board of Directors in May of 2014 and included expenses of \$7,602,295. The Board-approved amended budget included expenses of \$7,923,774. Total expenses for the year ending June 30, 2015 were \$7,354,361; \$569,413 or 7.2% less than budgeted. The expected change in net position was an increase of \$86,382 whereas the actual increase to net position under the budgetary basis of accounting was \$172,712.

### 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, ranging from three to 40 years. On June 30, 2015, James Irwin's capital assets consisted of four busses purchased during the 2013 – 2014 school year for \$24,000.

James Irwin has no outstanding debt.



## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The primary factor driving the budget for the Collaborative is student enrollment in the charter schools that they provide services for. The Collaborative receives 5% of per pupil revenue, capital construction funding and impact aid received by the James Irwin Schools. Projected enrollment in James Irwin Schools for the 2015-16 school year is 1,735 full time students.

The Board of Directors and administration considered many factors when setting the annual budget. The amount of revenue the Collaborative 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 the Collaborative. 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, 2015

ASSETS	
CURRENT ASSETS	
Cash	\$ 770,049
Accounts Receivable	690
Accounts Receivable - Related Parties	<u>362,397</u>
TOTAL CURRENT ASSETS	1,133,136
NONCURRENT ASSETS	
Capital Assets, Net of Accumulated Depreciation	<u>17,333</u>
TOTAL ASSETS	<u>1,150,469</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pensions, Net of Accumulated Amortization	<u>1,592,709</u>
LIABILITIES	
CURRENT LIABILITIES	
Accrued Liabilities	154,552
Accrued Salaries and Benefits	<u>361,012</u>
TOTAL CURRENT LIABILITIES	515,564
NONCURRENT LIABILITIES	
Net Pension Liability	<u>16,206,086</u>
TOTAL LIABILITIES	<u>16,721,650</u>
DEFERRED INFLOWS OF RESOURCES	
Pensions, Net of Accumulated Amortization	<u>1,210</u>
NET POSITION	
Net Investment in Capital Assets	17,333
Restricted for Emergencies	225,000
Unrestricted	<u>(14,222,015)</u>
TOTAL NET POSITION	<u>\$ (13,979,682)</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, 2015

OPERATING REVENUES	
Charges for Services	\$ 7,510,798
Donations and Contributions	16,275
	7,527,073
OPERATING EXPENSES	
Salaries	5,318,398
Benefits	2,586,975
Purchased Services	271,430
Supplies and Materials	13,351
Depreciation	4,000
Property	3,643
Other	10,999
	8,208,796
TOTAL OPERATING EXPENSES	8,208,796
CHANGE IN NET POSITION	(681,723)
NET POSITION, Beginning	(13,297,959)
NET POSITION, Ending	\$ (13,979,682)

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, 2015

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash Received from Charter Schools	\$ 7,739,887
Cash Received from Donors	16,275
Cash Payments to Employees	(5,291,017)
Cash Payments to Suppliers	<u>(2,309,283)</u>
Net Cash Provided by Operating Activities	155,862
CASH, Beginning	<u>614,187</u>
CASH, Ending	<u>\$ 770,049</u>
 <b>RECONCILIATION OF CHANGE IN NET POSITION TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Change in Net Position	\$ (681,723)
Adjustments to Reconcile Change in Net Position to Net Cash Provided by Operating Activities	
Depreciation	4,000
Changes in Assets and Liabilities	
Accounts Receivable	7,860
Accounts Receivable - Related Parties	221,229
Deferred Outflows of Resources	(1,149,549)
Accounts Payable	(79,304)
Accrued Liabilities	(137,465)
Accrued Salaries and Benefits	27,381
Deposits	(1,300)
Net Pension Liability	1,943,523
Deferred Inflows of Resources	<u>1,210</u>
Net Cash Provided by Operating Activities	<u>\$ 155,862</u>

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

JAMES IRWIN CHARTER SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015

**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 appoints a voting majority of the organization’s governing board and is able to impose its will on the organization, or if the organization has the potential 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, 2015

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Assets, Liabilities and Net Position**

*Cash and Investments* - Investments are reported at fair value.

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

*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 estimated fair market value at the date of donation.

Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported in the statement of net position. Depreciation has been provided over the following estimated useful lives of the capital assets using the straight-line method.

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.

*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. 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.

**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.

JAMES IRWIN CHARTER SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015

**NOTE 2:      STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgets and Budgetary Accounting**

A budget is adopted for JICS on a non-GAAP budgetary basis, whereby depreciation expense and the change in the net pension liability 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 appropriations lapse at fiscal year end.

**Accountability**

At June 30, 2015, JICS had a negative net position of \$13,979,682, primarily as a result JICS reporting its proportionate share of PERA's unfunded pension liability as a liability in the financial statements in the amount of \$16,206,086.

**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, 2015, JICS had bank deposits of \$793,014 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, 2015

**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, 2015, JICS had no investments.

**NOTE 4: RELATED PARTIES**

**Accounts Receivable**

Accounts receivable between related parties at June 30, 2015, consisted of the following. All receivables resulted from routine operating activities.

James Irwin Charter High School	\$ 93,922
James Irwin Charter Middle School	114,311
James Irwin Charter Elementary School	71,533
James Irwin Charter Academy	<u>82,631</u>
Total	<u><u>\$ 362,397</u></u>

**NOTE 5: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2015, is summarized below.

	<u>Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u>
	<u>6/30/14</u>			<u>6/30/15</u>
<b>Business-type Activities</b>				
Capital Assets, Being Depreciated				
Vehicles	\$ 24,000	\$ -	\$ -	\$ 24,000
Accumulated Depreciation	<u>(2,667)</u>	<u>(4,000)</u>	<u>-</u>	<u>(6,667)</u>
Business-type Activities Capital Assets, Net	<u><u>\$ 21,333</u></u>	<u><u>\$ (4,000)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 17,333</u></u>

JAMES IRWIN CHARTER SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
 June 30, 2015

**NOTE 6: 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, facilities 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. All costs incurred and paid by JICS on behalf of the Schools will be reimbursed by the Schools. In addition, the agreement requires the Schools to pay JICS an annual management fee of 5% of the state and local school funds that the Schools receive. For the year ended June 30, 2015, the Schools paid the following fees and charges to JICS.

James Irwin Charter High School	\$ 1,763,112
James Irwin Charter Middle School	2,068,970
James Irwin Charter Elementary School	2,213,011
James Irwin Charter Academy	<u>1,433,376</u>
Total	<u><b>\$ 7,478,469</b></u>

**NOTE 7: 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](http://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 the plan 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.

JAMES IRWIN CHARTER SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
 June 30, 2015

**NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)**

**General Information** (Continued)

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 2014 and 2015 was 17.45% and 18.35%, respectively. However, a portion of JICS' contribution (1.02% of covered salaries) is allocated to the Health Care Trust Fund (See Note 8). JICS' contributions to the SDTF for the year ended June 30, 2015, were \$922,987, equal to the required contributions.

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

At June 30, 2015, JICS reported a net pension liability of \$16,206,806, representing its proportionate share of the net pension liability of the SDTF. The net pension liability was measured at December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation at December 31, 2013. Standard update procedures were used to roll forward the total pension liability to December 31, 2014. JICS' proportion of the net pension liability was based on the JICS' contributions to the SDTF for the calendar year ended December 31, 2014, relative to the contributions of all participating employers. At December 31, 2014, the JICS' proportion was 0.1195724723%, which was an increase of 0.0077528509% from its proportion measured at December 31, 2013.

For the year ended June 30, 2015, JICS recognized pension expense of \$1,673,452. At June 30, 2015, JICS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,210
Net difference between projected and actual earnings on plan investments	372,687	-
Change in proportion	721,611	-
Contributions subsequent to the measurement date	498,411	-
Total	<b>\$ 1,592,709</b>	<b>\$ 1,210</b>

JAMES IRWIN CHARTER SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
 June 30, 2015

**NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)**

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

JICS contributions subsequent to the measurement date of \$498,411 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,

2016	\$ 359,987
2017	359,987
2018	279,944
2019	<u>93,170</u>
Total	<b><u>\$ 1,093,088</u></b>

*Actuarial Assumptions* - The actuarial valuation at December 31, 2013, 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	7.50%
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.

JAMES IRWIN CHARTER SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
 June 30, 2015

**NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)**

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

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:

<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 percent, the employer contribution rate will decrease 1% 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 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate, as follows:

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Proportionate share of net pension liability	<u>\$ 21,369,205</u>	<u>\$ 16,206,086</u>	<u>\$ 11,884,468</u>

JAMES IRWIN CHARTER SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015

**NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)**

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

*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](http://www.copera.org/investments/pera-financial-reports).

**NOTE 8: 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, 2015, 2014 and 2013, was \$52,583, \$50,096 and \$41,238, respectively, equal to the required amounts for each year.

**NOTE 9: 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, 2015, the reserve, of \$225,000, was reported as restricted net position in the financial statements.

**NOTE 10: CHANGE IN ACCOUNTING PRINCIPLE**

For the year ended June 30, 2015, JICS adopted the standards of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*. As a result, net position at June 30, 2014, was restated to reflect the cumulative effect of adopting the standards.

JAMES IRWIN CHARTER SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015

**NOTE 10: CHANGE IN ACCOUNTING PRINCIPLE (Continued)**

Certain balances of deferred outflows of resources and deferred inflows of resources related to pensions at June 30, 2014, were not available and have not been reported in the financial statements.

Net Position, June 30, 2014, as Originally Stated	\$ 521,444
Deferred Outflows of Resources	443,160
Net Pension Liability	<u>(14,262,563)</u>
Net Position, June 30, 2014, as Restated	<b><u>\$ (13,297,959)</u></b>

**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, 2015

	12/31/14	12/31/13
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY		
JICS' Proportion of the Net Pension Liability	0.1195724723%	0.1118196214%
JICS' Proportionate Share of the Net Pension Liability	\$ 16,206,086	\$ 14,262,563
JICS' Covered-Employee Payroll	\$ 5,009,323	\$ 4,514,475
JICS' Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	324%	316%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	63%	64%
	6/30/15	6/30/14
JICS' CONTRIBUTIONS		
Statutorily Required Contribution	\$ 870,404	\$ 784,848
Contributions in Relation to the Statutorily Required Contribution	(870,404)	(784,848)
Contribution Deficiency (Excess)	\$ -	\$ -
JICS' Covered-Employee Payroll	\$ 5,155,153	\$ 4,911,358
Contributions as a Percentage of Covered-Employee Payroll	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.

**SUPPLEMENTARY INFORMATION**

JAMES IRWIN CHARTER SCHOOLS  
BUDGETARY COMPARISON SCHEDULE  
PROPRIETARY FUND  
Year Ended June 30, 2015

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
<b>OPERATING REVENUES</b>				
Charges for Services	\$ 7,548,840	\$ 8,002,544	\$ 7,510,798	\$ (491,746)
Donations and Contributions	5,000	7,612	16,275	8,663
<b>TOTAL OPERATING REVENUES</b>	<b>7,553,840</b>	<b>8,010,156</b>	<b>7,527,073</b>	<b>(483,083)</b>
<b>OPERATING EXPENSES</b>				
Salaries	5,278,633	5,314,211	5,318,398	(4,187)
Benefits	2,067,164	2,123,695	1,736,540	387,155
Purchased Services	224,498	412,868	271,430	141,438
Supplies and Materials	18,000	18,000	13,351	4,649
Property	-	5,000	3,643	1,357
Other	14,000	50,000	10,999	39,001
<b>TOTAL OPERATING EXPENSES</b>	<b>7,602,295</b>	<b>7,923,774</b>	<b>7,354,361</b>	<b>569,413</b>
<b>CHANGE IN NET POSITION, Budgetary Basis</b>	<b>\$ (48,455)</b>	<b>\$ 86,382</b>	172,712	<b>\$ 86,330</b>
<b>RECONCILIATION TO GAAP BASIS</b>				
Depreciation			(4,000)	
Change in Net Pension Liability			(850,435)	
<b>CHANGE IN NET POSITION, GAAP Basis</b>			(681,723)	
<b>NET POSITION, Beginning</b>			(13,297,959)	
<b>NET POSITION, Ending</b>			<b>\$ (13,979,682)</b>	

See the accompanying Independent Auditors' Report.