



**JAMES MADISON CHARTER
ACADEMY**

FINANCIAL STATEMENTS
With Independent Auditors' Report

For the Year Ended June 30, 2016

JAMES MADISON CHARTER ACADEMY
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JUNE 30, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
James Madison Charter Academy

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of James Madison Charter Academy, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of James Madison Charter Academy, as of June 30, 2016, and the respective changes in

financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information as 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 required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Hoelting & Company Inc.

Colorado Springs, Colorado
October 28, 2016

MANAGEMENT’S DISCUSSION AND ANALYSIS

The management of James Madison Charter Academy (JMCA), offers readers of the financial statements this narrative overview and analysis of the financial activities of the Academy for the fiscal year ended June 30, 2016. Readers are encouraged to consider the information presented here in conjunction with additional information that can be found in the notes to the financial statements.

FINANCIAL HIGHLIGHTS

The liabilities and deferred inflows of JMCA exceeded its assets and deferred outflows at the close of fiscal year 2015-2016 by \$1,879,525 with a deficit of \$1,597,855 in unrestricted net position. In comparison, at June 30, 2015, liabilities exceeded assets by \$1,813,350 with a deficit of \$1,851,050 in unrestricted net position on the government-wide basis.

The total liabilities at June 30, 2016 were \$3,647,059 compared to \$3,568,339 at June 30, 2015. For the 2015-2016 fiscal year, JMCA’s revenues were \$1,328,057 compared to \$1,112,672 for fiscal year 2014-2015. Total expenses for the fiscal year 2015-2016 were \$1,443,897 compared to \$1,425,456 for the fiscal year 2014-2015 on the government-wide basis.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management’s discussion and analysis is intended to serve as an introduction to JMCA’s basic financial statements. This report consists of three parts: 1) Management’s Discussion and Analysis, 2) Basic Financial Statements, including Notes to the Financial Statements, and 3) Required and Other Supplemental Information.

SCHOOL-WIDE FINANCIAL STATEMENTS

The School-wide financial statements are designed to provide readers with a broad overview of the school’s finances, in a manner similar to a private sector business.

The Statement of Net Position presents information on all of the School’s assets and liabilities, with the difference between the two reported as net position. Over time, increase or 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 most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g. earned but unpaid salary and benefits).

The School-wide statement of activities distinguishes functions of the School supported primarily by per pupil revenue or other revenues passed through from Widefield School

District No. 3. The governmental activities of the School include instruction and supporting services.

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. The School, like other governmental units or charter schools, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the School-wide financial statements. However, unlike the school-wide financial statements, governmental funds financial statements focus on near term inflows and outflows of resources available to spend at the end of the fiscal year. Such information may be useful in evaluating the school's near term financing requirements.

Because the focus of governmental funds is narrower than that of the School-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the School-wide financial statements. By doing so, readers may better understand the long-term impact of the school's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary funds. JMCA reports one proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The School uses an enterprise fund to account for its building lease activities. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Individual fund data for the Enterprise fund is provided in the other supplemental information in this report.

Notes to the 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.

FINANCIAL ANALYSIS OF THE SCHOOL

One of the most important questions asked about a school's finances is "Is the school as a whole better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Activities report information about the School's activities in a way that can help answer that question. These two statements report the net position of the school and changes in them. The School's net position (the difference between assets and liabilities) are one way to measure financial health or financial position. In addition, readers also need to consider other non-financial factors such as changes in economic conditions, student population growth, or changes in governmental legislation.

NET POSITION

As part of the analysis, below is a summary of the school's comparative Statement of Net Position and Statement of Activities on the government-wide basis below.

Condensed Statement of Net Position						
June 30, 2016 and June 30, 2015						
	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Current assets	\$ 153,935	\$ 193,296	\$ -	\$ 27,773	\$ 153,935	\$ 221,069
Noncurrent assets	-	-	248,494	220,279	248,494	220,279
Capital assets (net)	-	-	1,216,508	1,274,208	1,216,508	1,274,208
Total Assets	153,935	193,296	1,465,002	1,522,260	1,618,937	1,715,556
Deferred outflows	247,640	39,561	-	-	247,640	39,561
Current liabilities	21,997	34,621	57,375	22,750	79,372	57,371
Long-term liabilities	1,840,690	1,720,304	1,726,997	1,790,664	3,567,687	3,510,968
Total Liabilities	1,862,687	1,754,925	1,784,372	1,813,414	3,647,059	3,568,339
Deferred inflows	99,043	128	-	-	99,043	-
Restricted funds	37,700	37,700	(319,370)	-	(281,670)	37,700
Unrestricted funds	(1,597,855)	(1,559,896)	-	(291,154)	(1,597,855)	(1,851,050)
Total Net Position	\$ (1,560,155)	\$ (1,522,196)	\$ (319,370)	\$ (291,154)	\$ (1,879,525)	\$ (1,813,350)

Condensed Statement of Activities						
For the Years Ended June 30, 2016 and June 30, 2015						
	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues:						
Charges for services	\$ -	\$ -	\$ 166,959	\$ 168,375	\$ 166,959	\$ 168,375
Operating grants and contributions	67,303	53,712	-	-	67,303	53,712
General revenues:						
Property taxes	65,841	56,212	-	-	65,841	56,212
Per pupil revenue	1,019,970	833,699	-	-	1,019,970	833,699
Other	7,971	647	13	27	7,984	674
Total Revenues	1,161,085	944,270	166,972	168,402	1,328,057	1,112,672
Expenses						
Instructional	714,069	672,520	-	-	714,069	672,520
Support services	534,640	555,528	-	-	534,640	555,528
Enterprise operations	-	-	195,188	197,408	195,188	197,408
Total Expenses	1,248,709	1,228,048	195,188	197,408	1,443,897	1,425,456
Change in net position	(87,624)	(283,778)	(28,216)	(29,006)	(115,840)	(312,784)
Beginning net position as restated	(1,472,531)	(1,238,418)	(291,154)	(262,148)	(1,763,685)	(1,500,566)
Ending Net Position	\$ (1,560,155)	\$ (1,522,196)	\$ (319,370)	\$ (291,154)	\$ (1,879,525)	\$ (1,813,350)

GENERAL FUND BUDGETARY HIGHLIGHTS

The School developed its budget for Fiscal Year 2016 in the spring of 2015. The actual expenditures for the year were less than the final budget for expenditures by \$54,673.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The School-wide investment in capital assets for the primary government, including business-type activities, as of June 30, 2016 totaled \$1,216,508 (net of accumulated depreciation of \$514,492).

Long-term debt At the end of the current fiscal year, the School had total long-term debt outstanding of \$1,790,000 including \$35,000 due within the next twelve months. The School's debt is non-rated. For comparison, at the end of the previous fiscal year, the School had total long-term debt outstanding, of \$1,820,000 including \$30,000 due within the next twelve months.

For more detailed information on capital assets and debt administration, see Notes 4 and 5 in the Notes to the Basic Financial Statements.

CAPITAL ASSET 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 life of the assets. JMCA itself does not own any assets that meet these criteria, however, James Madison Building Corporation acquired the building in which JMCA is operating the Charter School, therefore, the cost and accumulated depreciation for this building are reported in the financial statements of the reporting entity.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The primary factor driving the budget for the school is student enrollment. The enrollment projected for the 2016-2017 school year is 153 FTE. The School is also projecting grant revenue of over \$50,000 for the 2016-2017 school year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the James Madison Charter Academy's finances for all those with an interest in them. Questions concerning any of the information provided in this report should be directed to the school at James Madison Charter Academy, 660 Syracuse Street, Colorado Springs, CO 80911.

BASIC FINANCIAL STATEMENTS

JAMES MADISON CHARTER ACADEMY
STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,861	\$ -	\$ 2,861
Intergovernmental receivable	151,074	-	151,074
Restricted cash and cash equivalents	-	248,494	248,494
Capital assets:			
Building	-	1,731,000	1,731,000
Less: accumulated depreciation	-	(514,492)	(514,492)
Total capital assets	-	1,216,508	1,216,508
Total assets	153,935	1,465,002	1,618,937
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows - Pensions	247,640	-	247,640
Total deferred outflows of resources	247,640	-	247,640
LIABILITIES			
Accounts payable	2,507	-	2,507
Accrued salaries and benefits	19,490	-	19,490
Accrued interest payable	-	22,375	22,375
Long-term liabilities:			
Due within one year			
Notes payable	-	35,000	35,000
Due in more than one year			
Note payable	-	1,726,997	1,726,997
Net pension liability	1,840,690	-	1,840,690
Total liabilities	1,862,687	1,784,372	3,647,059
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows - Pensions	99,043	-	99,043
Total deferred inflows of resources	99,043	-	99,043
NET POSITION			
Net investment in capital assets	-	(545,489)	(545,489)
Restricted for:			
Emergency reserve (TABOR)	37,700	-	37,700
Debt service	-	226,119	226,119
Unrestricted	(1,597,855)	-	(1,597,855)
Total net position	\$ (1,560,155)	\$ (319,370)	\$ (1,879,525)

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

**JAMES MADISON CHARTER ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Governmental activities:							
Instruction	\$ 714,069	\$ -	\$ 29,331	\$ -	\$ (684,738)	\$ -	\$ (684,738)
Instructional support	6,743	-	-	-	(6,743)	-	(6,743)
General administration	19,001	-	-	-	(19,001)	-	(19,001)
School administration	228,407	-	-	-	(228,407)	-	(228,407)
Business services	10,462	-	-	-	(10,462)	-	(10,462)
Maintenance and operations	270,027	-	37,972	-	(232,055)	-	(232,055)
Total governmental activities	<u>1,248,709</u>	<u>-</u>	<u>67,303</u>	<u>-</u>	<u>(1,181,406)</u>	<u>-</u>	<u>(1,181,406)</u>
Business-type activities:							
Building Corporation	195,188	166,959	-	-		(28,229)	(28,229)
Total primary government	<u>\$ 1,443,897</u>	<u>\$ 166,959</u>	<u>\$ 67,303</u>	<u>\$ -</u>		<u>(28,229)</u>	<u>(1,209,635)</u>
General revenues:							
Property taxes					65,841	-	65,841
Per pupil revenue					1,019,970	-	1,019,970
Miscellaneous revenues					7,971	13	7,984
Total general revenues					<u>1,093,782</u>	<u>13</u>	<u>1,093,795</u>
Change in net position					(87,624)	(28,216)	(115,840)
Net position - beginning, as restated (deficit)					<u>(1,472,531)</u>	<u>(291,154)</u>	<u>(1,763,685)</u>
Net position - ending (deficit)					<u>\$ (1,560,155)</u>	<u>\$ (319,370)</u>	<u>\$ (1,879,525)</u>

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

**JAMES MADISON CHARTER ACADEMY
BALANCE SHEET
GENERAL FUND
JUNE 30, 2016**

ASSETS

Cash and cash equivalents	\$ 2,861
Intergovernmental receivable	<u>151,074</u>
Total assets	<u><u>\$ 153,935</u></u>

LIABILITIES

Accounts payable	\$ 2,507
Accrued salaries and benefits	<u>19,490</u>
Total liabilities	<u>21,997</u>

FUND BALANCES

Restricted for emergency reserve (TABOR)	37,700
Unassigned	<u>94,238</u>
Total fund balances	<u>131,938</u>
Total liabilities and fund balances	<u><u>\$ 153,935</u></u>

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

**JAMES MADISON CHARTER ACADEMY
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2016**

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Total Fund Balance of Governmental Funds	\$ 131,938
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred outflows of resources.	247,640
Net pension liability, are not due and payable in the current period and, therefore, are not reported in the funds.	(1,840,690)
Other long-term liabilities are not due and payable in the current period and, therefore, are reported as deferred inflows of resources.	<u>(99,043)</u>
Total Net Position of Governmental Activities	<u><u>\$ (1,560,155)</u></u>

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

JAMES MADISON CHARTER ACADEMY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

REVENUES

Local sources	\$ 73,812
State sources	1,065,927
Federal sources	<u>21,346</u>
 Total revenues	 <u>1,161,085</u>

EXPENDITURES

Instruction	671,556
Instructional staff	6,743
General administration	19,001
School administration	212,374
Business services	10,462
Operation and maintenance	<u>267,686</u>
 Total expenditures	 <u>1,187,822</u>
 Net change in fund balance	 <u>(26,737)</u>
 Fund balance - beginning	 <u>158,675</u>
 Fund balance - ending	 <u><u>\$ 131,938</u></u>

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

**JAMES MADISON CHARTER ACADEMY
RECONCILIATION OF THE STATEMENT OF
REVENUE, EXPENDITURES, AND CHANGE IN FUND BALANCE TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Net Change in Fund Balance of Governmental Funds	\$ (26,737)
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 the governmental funds.	<u>(60,887)</u>
Change in Net Position of Governmental Activities	<u><u>\$ (87,624)</u></u>

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

JAMES MADISON CHARTER ACADEMY
STATEMENT OF NET POSITION
ENTERPRISE FUND
JUNE 30, 2016

ASSETS

Noncurrent assets:

Restricted cash and cash equivalents	\$ 248,494
Building	1,731,000
Less: accumulated depreciation	<u>(514,492)</u>
Total noncurrent assets	<u>1,465,002</u>
Total assets	<u>1,465,002</u>

LIABILITIES

Current Liabilities:

Accrued interest payable	22,375
Bonds payable - current portion	<u>35,000</u>
Total current liabilities	<u>57,375</u>

Noncurrent Liabilities:

Bonds payable	<u>1,726,997</u>
Total noncurrent liabilities	<u>1,726,997</u>
Total liabilities	<u>1,784,372</u>

NET POSITION

Net investment in capital assets	(545,489)
Restricted for debt service	<u>226,119</u>
Total net position (deficit)	<u><u>\$ (319,370)</u></u>

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

JAMES MADISON CHARTER ACADEMY
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2016

OPERATING REVENUES

Rental income	\$ 166,959
	<u>166,959</u>
Total operating revenues	<u>166,959</u>

OPERATING EXPENSES

Interest expense	<u>137,488</u>
Total operating expenses	<u>137,488</u>
Operating income (loss)	<u>29,471</u>

NONOPERATING REVENUES (EXPENSES)

Interest income	13
Depreciation expense	<u>(57,700)</u>
Total nonoperating revenues (expenses)	<u>(57,687)</u>
Change in net position	<u>(28,216)</u>
Net position - beginning	<u>(291,154)</u>
Net position - ending	<u><u>\$ (319,370)</u></u>

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

**JAMES MADISON CHARTER ACADEMY
STATEMENT OF CASH FLOWS
ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2016**

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from lessee	\$ 166,959
Interest payments to bondholders	<u>(136,530)</u>
Net cash provided (used) by operating activities	<u>30,429</u>

**CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES**

Principal payment on bonds	<u>(30,000)</u>
Net cash provided (used) by capital and related financing activities	<u>(30,000)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	<u>13</u>
Net cash provided (used) by investing activities	<u>13</u>
Net increase (decrease) in cash and cash equivalents	442
Cash and cash equivalents - beginning	<u>248,052</u>
Cash and cash equivalents - ending	<u><u>\$ 248,494</u></u>

**Reconciliation of operating income (loss) to
net cash provided (used) by operating activities:**

Operating income (loss)	<u>\$ 29,471</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Amortization of bond discount	1,333
Change in assets and liabilities:	
Increase (decrease) in:	
Accrued interest payable	<u>(375)</u>
Total adjustments	<u>958</u>
Net cash provided (used) by operating activities	<u><u>\$ 30,429</u></u>

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

NOTES TO FINANCIAL STATEMENTS

JAMES MADISON CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

James Madison Charter Academy (the School) began operations on July 1, 2005, pursuant to the Colorado Charter Schools Act, to form and operate a charter school within Widefield School District No. 3 (the District).

The financial statements of James Madison Charter Academy (the School) have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the School are described below.

A. REPORTING ENTITY

The accompanying financial statements present the School and its component units, entities for which the government is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government.

Blended component unit. The James Madison Building Corporation (the Corporation) was organized for the purpose of acquiring, leasing, constructing, improving, equipping and financing various facilities, land, equipment and other improvements in connection with property intended to be leased to the School. The Corporation has no financial balances or transactions outside of those reported by the School, and therefore, are not reported separately in the financial statements. The Corporation does not issue separate financial statements.

The School is considered a component unit of the District. The School is deemed to be fiscally dependent upon the District because the District provides the majority of the support to the School in the form of per pupil operating revenue. The School operates under a charter with the District. The current charter runs through June 30, 2020 at which time the School may seek renewal of its charter in accordance with procedures set forth in state law and school district policy and regulations.

B. BASIS OF PRESENTATION – GOVERNMENT-WIDE FINANCIAL STATEMENTS

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds, and enterprise funds.

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the government. Governmental activities are normally supported by per pupil revenue and intergovernmental revenues. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

JAMES MADISON CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. BASIS OF PRESENTATION – FUND FINANCIAL STATEMENTS

The accounts of the School are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds maintained is consistent with legal and managerial requirements.

The School reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, the School reports the following major proprietary fund:

Enterprise Funds are used to account for those operations financed and operated in a manner similar to a private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountabilities. The Building Corp. is accounted for as an enterprise fund.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

JAMES MADISON CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

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 the related cash flows. Grants and similar items are recognized as revenue in the fiscal year in which all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis* of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the period or soon enough thereafter to pay liabilities of the current fiscal period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Intergovernmental revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants recognize revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The enterprise fund is reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE

Cash and cash equivalents

Cash and cash equivalents include cash on hand and in the bank and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables

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, which include a building, are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. The capitalization level for equipment is \$5,000. Donated capital assets are valued at their estimated fair market value on the date received. Major outlays for capital assets and improvements are capitalized as projects are constructed.

JAMES MADISON CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE (CONTINUED)

Capital assets (continued)

The costs of normal maintenance and repairs that do not add to the value of the asset, or materially extend asset lives, are not capitalized. Improvements are capitalized and are depreciated over the remaining useful lives of the related capital assets or remaining period of the lease, as applicable.

Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed.

Capital assets of the government are depreciated using the straight-line method over the following estimated useful lives:

Building	30 years
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Long-term liabilities

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

Pensions

James Madison Charter Academy participates in the School Division Trust Fund (SCHDTF), a cost-sharing multiple-employer defined benefit pension fund 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/deductions from the fiduciary net position of the SCHDTF 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.

Deferred outflows/inflows of resources

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

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

JAMES MADISON CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE (CONTINUED)

Net position flow assumption

The School may fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted—net position and unrestricted—net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the School's policy to consider restricted—net position to have been depleted before unrestricted—net position is applied.

Fund balance classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the School is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications available to be used in the governmental fund financial statements are as follows:

Non-spendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.

Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action that was used when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned – This classification includes amounts that are constrained by the School's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Directors or through the Board of Directors delegating this responsibility to management through the budgetary process. This classification also includes the remaining positive fund balance for any governmental funds except for the General Fund.

Unassigned – This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

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

JAMES MADISON CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. REVENUES AND EXPENDITURES/EXPENSES

Program revenues

Amounts reported as *program revenues* include 1) charges to customers for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as programs revenues. Likewise, general revenues include all state equalization.

Proprietary funds operating and non-operating revenues and expenses

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the School's enterprise funds is rental income. Operating expenses for enterprise funds include interest expense. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

G. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

BUDGET INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all funds. All annual appropriations lapse at fiscal year end. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the preceding year.

Budgets are required by Colorado State Statute for all funds. On or before June 1, management submits to the Board of Directors a proposed budget for all funds for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. Public hearings are conducted by the Board of Directors to obtain taxpayer comments. Prior to June 30, the budget is adopted by formal resolution.

JAMES MADISON CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

BUDGET INFORMATION (CONTINUED)

Formal budgetary integration is employed as a management control device during the year for the Governmental funds. The appropriated budget is prepared by fund. The legal level of control is the fund level.

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.

Appropriations are based on total funds expected to be available in each budget year, including beginning fund balances and reserves as established by the Board of Directors. Variances between budget and actual results from the non-expenditure of reserves, nonoccurrence of anticipated events, and normal operating variances. The Board of Directors may authorize supplemental appropriations during the year. For budgetary management purposes, funds are appropriated for capital outlays.

NOTE 3 - DEPOSITS AND INVESTMENTS

Cash deposits with financial institutions

Custodial credit risk—deposits. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

The carrying amount of cash deposits for the governmental activities at June 30, 2016 was \$2,861 and the bank balances were \$2,861. All of the bank balances were covered by federal deposit insurance.

Investments

Credit Risk

The School is authorized by Colorado statutes to invest in the following:

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

JAMES MADISON CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

At June 30, 2016 the School's investment balances were as follows:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Money market	Less than 60 days	\$ <u>248,494</u>

These investments are Dreyfus money market funds which are not rated by rating agencies.

All investment balances were restricted for debt service.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<i>Business-type Activities</i>				
Depreciable assets:				
Building	\$ 1,731,000	\$ -	\$ -	\$ 1,731,000
Less accumulated depreciation for:				
Building	<u>456,792</u>	<u>57,700</u>	<u>-</u>	<u>514,492</u>
<i>Business-type activities capital assets, net</i>	<u>\$ 1,274,208</u>	<u>\$ (57,700)</u>	<u>\$ -</u>	<u>\$ 1,216,508</u>

NOTE 5 – LONG-TERM LIABILITIES

<i>Series 2007 Charter School Revenue Bonds</i>	<u>Principal Balance</u>
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Bonds to finance acquiring the building the School operates in the original amount of \$2,040,000 due in varying annual installments through May 1, 2037 with a coupon rate of 7.50%

\$ 1,790,000

The changes in long-term debt for the year ended June 30, 2016 were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue Bonds	\$ 1,820,000	\$ -	\$ 30,000	\$ 1,790,000	\$ 35,000
Unamortized bond discount	<u>(29,336)</u>	<u>-</u>	<u>(1,333)</u>	<u>(28,003)</u>	<u>-</u>
Total bonds payable	<u>\$ 1,790,664</u>	<u>\$ -</u>	<u>\$ (28,667)</u>	<u>\$ 1,761,997</u>	<u>\$ 35,000</u>

JAMES MADISON CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 5 – LONG-TERM LIABILITIES (CONTINUED)

Annual debt service requirements to maturity for the note payable are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 35,000	\$ 134,250
2018	35,000	131,625
2019	40,000	129,000
2020	45,000	126,000
2021	45,000	122,625
2022-2026	285,000	556,125
2027-2031	405,000	433,125
2032-2036	585,000	256,125
2037	<u>315,000</u>	<u>23,625</u>
Total	<u>\$ 1,790,000</u>	<u>\$ 1,912,500</u>

NOTE 6 – OPERATING LEASE

On July 1, 2007, James Madison Charter Academy executed a new lease agreement with their blended component unit, James Madison Building Corporation. The lease term includes the initial term from July 1, 2007 through June 30, 2008 and successive one year renewal terms. For the fiscal year ended June 30, 2016, the lease payments were \$166,958.

The future minimum lease payments for this lease are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	
2017	\$ 168,813
2018	167,021
2019	169,333
2020	170,437
2021	167,896
2022-2026	840,896
2027-2031	838,062
2032-2036	841,313
2037	<u>140,521</u>
Total	<u>\$ 3,504,292</u>

JAMES MADISON CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 7 - DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

Plan description. Eligible employees of the James Madison Charter Academy are provided with pensions through the School Division Trust Fund (SCHDTF) – a cost-sharing multiple-employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at www.copera.org/investments/pera-financial-reports.

Benefits provided. PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. §24-51-602, 604, 1713, and 1714.

The lifetime retirement benefit for all eligible retiring employees under the PERA Benefit Structure is the greater of the:

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit
- The value of the retiring employee's member contribution account plus a 100 percent match on eligible amounts as of the retirement date. This amount is then annuitized into a monthly benefit based on life expectancy and other actuarial factors.

In all cases the service retirement benefit is limited to 100 percent of highest average salary and also cannot exceed the maximum benefit allowed by federal Internal Revenue Code.

Members may elect to withdraw their member contribution accounts upon termination of employment with all PERA employers; waiving rights to any lifetime retirement benefits earned. If eligible, the member may receive a match of either 50 percent or 100 percent on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether 5 years of service credit has been obtained and the benefit structure under which contributions were made.

Benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments, referred to as annual increases in the C.R.S. Benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 and all benefit recipients of the DPS benefit structure receive an annual increase of 2 percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve for the SCHDTF.

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. The disability benefit amount is based on the retirement benefit formula shown above considering a minimum 20 years of service credit, if deemed disabled.

JAMES MADISON CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 7 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure(s) under which service credit was obtained, and the qualified survivor(s) who will receive the benefits.

Contributions. Eligible employees and James Madison Charter Academy are required to contribute to the SCHDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. §24-51-401, *et seq.* Eligible employees are required to contribute 8 percent of their PERA-includable salary. The employer contribution requirements are summarized in the table below:

	For the Year Ended December 31, 2015	For the Year Ended December 31, 2016
Employer Contribution Rate	10.15%	10.15%
Amount of Employer Contribution apportioned to the Health Care Trust Fund as specified in C.R.S. §24-51-208(1)(f)	(1.02)%	(1.02)%
Amount Apportioned to the SCHDTF	9.13%	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. §24-51-411	4.20%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. §24-51-411	4.00%	4.50%
Total Employer Contribution Rate to the SCHDTF	17.33%	18.13%

Rates are expressed as a percentage of salary as defined in C.R.S. §24-51-101(42)

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the James Madison Charter Academy is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from James Madison Charter Academy were \$100,753 for the year ended June 30, 2016.

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

At June 30, 2016, the James Madison Charter Academy reported a liability of \$1,840,690 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. Standard update procedures were used to roll forward the total pension liability to December 31, 2015. The James Madison Charter Academy proportion of the net pension liability was based on James Madison Charter Academy contributions to the SCHDTF for the calendar year 2015 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2015, the James Madison Charter Academy's proportion was 0.0120351411 percent, which was a decrease of 0.0006576859 from its proportion measured as of December 31, 2014.

JAMES MADISON CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 7 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

For the year ended June 30, 2016, the James Madison Charter Academy recognized pension expense of \$161,641. At June 30, 2016, the James Madison Charter Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 24,307	\$ 77
Changes of assumptions or other inputs	-	26,012
Net difference between projected and actual earnings on pension plan investments	156,510	-
Changes in proportion and differences between contributions recognized and proportionate share of contributions	14,263	72,954
Contributions subsequent to the measurement date	52,561	N/A
Total	\$ 247,640	\$ 99,043

\$52,561 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	\$ 19,469
2018	\$ 18,707
2019	\$ 25,767
2020	\$ 32,093

Actuarial assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

Actuarial cost method	Entry age
Price inflation	2.80 percent
Real wage growth	1.10 percent
Wage inflation	3.90 percent
Salary increases, including wage inflation	3.90 – 10.10 percent
Long-term investment Rate of Return, net of pension plan investment expenses, including price inflation	7.50 percent
Future post-retirement benefit increases:	
PERA Benefit Structure hired prior to 1/1/07; And DPS Benefit Structure (automatic)	2.00 percent
PERA Benefit Structure hired after 12/31/06; (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

JAMES MADISON CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 7 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with Males set back 1 year, and Females set back 2 years.

The actuarial assumptions used in the December 31, 2014 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 Board on November 13, 2012, and an economic assumption study, adopted by PERA's Board on November 15, 2013 and January 17, 2014.

Changes to assumptions or other inputs since the December 31, 2013 actuarial valuation as follows:

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

The SCHDTF's long-term expected rate of return on pension 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 MADISON CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 7 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

As of the November 15, 2013 adoption of the long-term expected rate of return by the PERA Board, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	10 Year Expected Geometric Real Rate of Return
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 Gov't/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	100.00%	

*In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.50%.

Discount rate. The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.90%.
- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law, including current and estimated future AED and SAED, until the Actuarial Value Funding Ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.

JAMES MADISON CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 7 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan's fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e., the plan's fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

Based on the above actuarial cost method and assumptions, the SCHDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use the Municipal Bond Index Rate. There was no change in the discount rate from the prior measurement date.

Sensitivity of the James Madison Charter Academy proportionate share of the net pension liability to changes in the discount rate. The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of the net pension liability	\$ 2,386,072	\$ 1,840,690	\$ 1,387,034

Pension plan fiduciary net position. Detailed information about the SCHDTF's fiduciary net position is available in PERA's comprehensive annual financial report which can be obtained at www.copera.org/investments/pera-financial-reports.

JAMES MADISON CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 8 – POSTEMPLOYMENT HEALTHCARE BENEFITS

Health Care Trust Fund

Plan description. The James Madison Charter Academy contributes to the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer healthcare trust administered by PERA. The HCTF benefit provides a health care premium subsidy and health care programs (known as PERACare) to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the C.R.S., as amended, establishes the HCTF and sets forth a framework that grants authority to the PERA Board to contract, self-insure and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of health care subsidies. PERA issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the HCTF. That report can be obtained at www.copera.org/investments/pera-financial-reports.

Funding policy. The James Madison Charter Academy is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the James Madison Charter Academy are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended. For the years ending June 30, 2016, 2015, and 2014 the James Madison Charter Academy contributions to the HCTF were \$5,793, \$5,087, and \$5,747, respectively, equal to their required contributions for each year.

NOTE 9 - RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The School carries commercial insurance for these risks of loss, including worker's compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage during the last three fiscal years.

GRANTS

The School has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to a request for reimbursement to grantor agencies for expenditures disallowed under terms of the grant. However, in the opinion of the School, any such adjustments will not have a material adverse affect on the financial position of the School.

JAMES MADISON CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 10 - AMENDMENT TO COLORADO CONSTITUTION

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities and other specific requirements of state and local governments.

The amendment requires emergency reserves be established. These reserves must be at least 3% of fiscal year spending. The School is not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls or salary and benefit increases. At June 30, 2016 there is a \$37,700 reservation of fund balance in the General Fund for the amendment.

The Amendment is complex and subject to judicial interpretation. The School believes it is in compliance with the requirements of the amendment. However, the School has made certain interpretations of the amendment's language in order to determine its compliance.

NOTE 11 - COMPLIANCE

The School has complied with the requirements of the Financial Policies and Procedures Handbook for the 2016 audit period as required by Colorado Statute CRS 22-44-204(3).

NOTE 12 – PRIOR PERIOD ADJUSTMENT

During the year, it was determined that pension contributions subsequent to the measurement date and other pension outflows totaling \$49,665 were not included in deferred outflows. To correct this oversight, the beginning net position for governmental activities of a deficit \$1,522,196, as originally reported, has been decreased to a deficit \$1,472,531.

REQUIRED SUPPLEMENTARY INFORMATION

JAMES MADISON CHARTER ACADEMY
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY AND COVERED PAYROLL
JUNE 30, 2016

	<u>2013</u>	<u>2014</u>	<u>2015</u>
School's proportion of the net pension liability (asset)	0.0126179931%	0.0126928270%	0.0120351411%
School's proportionate share of the net pension liability (asset)	\$ 1,609,422	\$ 1,720,304	\$ 1,840,690
School's covered-employee payroll	\$ 508,671	\$ 531,738	\$ 524,489
School's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	316.40%	323.52%	350.95%
Plan fiduciary net position as a percentage of the total pension liability	64.1%	62.8%	59.2%

* The amounts presented for each fiscal year were determined as of 12/31.

* Complete 10-year information to be presented in future years as it becomes available.

See the accompanying independent auditors' report.

JAMES MADISON CHARTER ACADEMY
SCHEDULE OF EMPLOYER'S STATUTORY PAYROLL CONTRIBUTIONS AND COVERED PAYROLL
JUNE 30, 2016

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Contractually required contribution	\$ 78,997	\$ 87,365	\$ 90,894
Contributions in relation to the contractually required contribution	<u>(78,997)</u>	<u>(87,365)</u>	<u>(90,894)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 508,671	\$ 531,738	\$ 524,489
Contributions as a percentage of covered-employee payroll	15.53%	16.43%	17.33%

* The amounts presented for each fiscal year were determined as of 12/31.

* Complete 10-year information to be presented in future years as it becomes available.

See the accompanying independent auditors' report.

JAMES MADISON CHARTER ACADEMY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u>
				<u>Positive</u>
				<u>(Negative)</u>
REVENUES				
Local sources	\$ 68,941	\$ 68,941	\$ 73,812	\$ 4,871
State sources	1,019,451	1,019,451	1,065,927	46,476
Federal sources	28,949	28,949	21,346	(7,603)
Total revenues	<u>1,117,341</u>	<u>1,117,341</u>	<u>1,161,085</u>	<u>43,744</u>
EXPENDITURES				
Instruction	662,805	662,805	671,556	(8,751)
Instructional support	16,204	16,204	6,743	9,461
General administration	22,667	22,667	19,001	3,666
School administration	223,674	223,674	212,374	11,300
Business services	15,833	15,833	10,462	5,371
Maintenance and operations	301,312	301,312	267,686	33,626
Total expenditures	<u>1,242,495</u>	<u>1,242,495</u>	<u>1,187,822</u>	<u>54,673</u>
Net change in fund balance	<u>(125,154)</u>	<u>(125,154)</u>	<u>(26,737)</u>	<u>98,417</u>
Fund balance - beginning	<u>158,675</u>	<u>158,675</u>	<u>158,675</u>	<u>-</u>
Fund balance - ending	<u>\$ 33,521</u>	<u>\$ 33,521</u>	<u>\$ 131,938</u>	<u>\$ 98,417</u>

See the accompanying independent auditors' report.

OTHER SUPPLEMENTAL INFORMATION

JAMES MADISON CHARTER ACADEMY
SCHEDULE OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2016

	Actual	Final Budget	Variance Favorable (Unfavorable)
REVENUES			
Beginning fund balance	\$ 225,302	\$ (262,148)	\$ 487,450
Rental income	166,959	170,625	(3,666)
Total revenues	<u>392,261</u>	<u>(91,523)</u>	<u>483,784</u>
EXPENDITURES			
Interest expense	136,155	140,625	4,470
Principal payment on bonds	<u>30,000</u>	<u>57,700</u>	<u>27,700</u>
Total expenses	<u>166,155</u>	<u>198,325</u>	<u>32,170</u>
Operating income (loss)	<u>226,106</u>	<u>(289,848)</u>	<u>515,954</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest income	<u>13</u>	<u>-</u>	<u>13</u>
Total non-operating revenue (expenses)	<u>13</u>	<u>-</u>	<u>13</u>
EXCESS OF REVENUE OVER EXPENDITURES	226,119	<u><u>\$ (289,848)</u></u>	<u><u>\$ 515,967</u></u>
Less:			
Depreciation	(57,700)		
Amortization expense	(1,333)		
Beginning fund balance	(225,302)		
Add:			
Principal payment on bonds	<u>30,000</u>		
CHANGE IN NET POSITION	<u><u>\$ (28,216)</u></u>		

Ending fund balance is calculated as follows:

Restricted cash and cash equivalents	\$ 248,494
Current liabilities	(57,375)
Bonds payable - current portion	<u>35,000</u>
	<u><u>\$ 226,119</u></u>

See the accompanying independent auditors' report.