

## **SPECIAL MEETING AGENDA**

Governing Board  
North Star Charter School  
November 26, 2013

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**PUBLIC SESSION:** This session is a public session for the purpose of conducting school district business in public, patron comment will be provided for in accordance with the established agenda. The Board will consider the regular monthly agenda. This meeting is held at North Star Charter School, 839 N. Linder Rd, Eagle, Idaho.

### **OPENING OF MEETING 6:30 p.m.**

- |    |   |                 |
|----|---|-----------------|
| A. | Call Meeting to Order                     | Chairman Miller |
| B. | Roll Call                                 | Clerk           |
| C. | Approval of Agenda<br>(Discussion/Action) | Chairman Miller |

### **BOARD BUSINESS**

- |    |  |                                     |
|----|--|-------------------------------------|
| A. | Approval of 2012-2013 Financial Audit<br>(Discussion/Approval) | Jo Bolen w/Gibbons,<br>Scott & Dean |
|----|--|-------------------------------------|

### **ADJOURNMENT**

**Note:** The Governing Board meets on the third Thursday of each month at 6:00 p.m. On holidays, or when a conflict occurs, the meeting may be held at an alternate time and/or date that will be posted in the designated places. No special meetings will be held without at least a twenty-four hour meeting and agenda notice.

# *Gibbons, Scott & Dean LLP*

*Certified Public Accountants*

Terry L. Scott, CPA  
John P. Dean, CPA

Professional Building  
1803 Ellis Avenue  
Caldwell, Idaho 83605

(208) 459-4649  
FAX (208) 454-9091

Board of Trustees  
North Star Charter School, Inc.  
Eagle, Idaho

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Star Charter School, Inc. for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope of our audit. We have communicated such information in our letter to you dated July 9, 2013. Professional standards also require that we communicate to you the following information related to our audit.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by North Star Charter School, Inc. are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has not corrected all such misstatements. Some of the misstatements corrected by management were material to the financial statements. Details of the corrected and uncorrected misstatements are available upon request.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representation*

We have requested certain representations from management that are included in the management representation letter dated November 26, 2013.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

As the result of our audit of the accounting records of North Star Charter School, Inc. for the year ended June 30, 2013, we submit the following comments. As reported in the audited financial statements in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, there are two significant internal control deficiencies. Of these, we consider both to be material weaknesses:

1-As is common for small governmental units in Idaho, the accounting staff of North Star Charter School, Inc. do not possess the governmental accounting experience to prepare the annual financial statements in accordance with governmental accounting principles nor are they preparing all the accrual entries nor are they maintaining the depreciation schedule.

2-Due to its relatively small size, North Star Charter School, Inc. has inadequate segregation of duties.

In addition to the above significant deficiencies, we noted the following matters involving the internal control and its operation that are not considered significant deficiencies.

During the testing of payroll expenditures, there were two employees' W-4 that did not agree with what was entered into the payroll system. One did not specify the number of allowances to be withheld. The other did not have the set amounts listed that were being withheld. We recommend when entering the information in the payroll system and before filing the W-4s, they be compared to make sure they agree.

In reviewing the minutes there were a couple of meetings that there are no minutes. It is our understanding that the clerk was not in attendance. The minutes were taken by a board member. We recommend that if the board member cannot produce the minutes that the other board members reconstruct the meeting. It is important that there be minutes of every meeting especially if there was any action taken.

In reviewing Note I.F.2 in the financial statements, you will note there was one fund which overspent their budget. The fund had revenues to cover the expenditures.

Certain information regarding the covenants per the loan agreement and compliance are discussed in Note IV-E in the financial statements. North Star Charter School, Inc. is not in compliance with several bond covenants. As discussed in Note V-D in the financial statements, it is the intent of North Star to negotiate with the trustee at the direction of the majority bondholders to amend the bond documents and the payment terms of the bonds by February 28, 2014 in a manner that will allow the long-term

operation of the school. Absent the renegotiation of the bond documents and the payment terms, these noncompliance issues and the related cash flows problems will continue to result in substantial doubt about the school's ability to continue as a going concern.

As you will note, the general fund revenues exceeded expenditures by \$493,264 before other financing uses of \$544,782. This resulted in a decrease in the fund balance from \$78,801 to \$27,283. Of this, \$23,748 is unassigned fund balance. Unassigned fund balance increased over the prior year by \$52,319. The nonspendable balance is for prepaid expenses. The restricted balance is for revenue stabilization. The Statement of Net Position shows net position of (\$2,348,855). The main difference between fund balance and net position is due to the accounting treatment of capital assets and long-term debt.

We wish to thank your staff for the assistance and cooperation extended to our staff during the course of the audit. We are pleased to have served you in an auditing capacity and hope that we can be of service to you in the future. If you have any questions concerning our comments, we would appreciate the opportunity to discuss them with you.

*Gibbons, Scott & Dean LLP*

GIBBONS, SCOTT & DEAN LLP  
Certified Public Accountants

November 26, 2013

STATE OF IDAHO  
NORTH STAR CHARTER SCHOOL, INC.  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
JUNE 30, 2013

STATE OF IDAHO  
NORTH STAR CHARTER SCHOOL, INC.

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STATE OF IDAHO  
NORTH STAR CHARTER SCHOOL, INC.

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Professional Building  
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(208) 459-4649  
FAX (208) 454-9091

## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
North Star Charter School, Inc.  
Eagle, Idaho

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Star Charter School, Inc. as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the North Star Charter School, Inc.'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.

### **Auditor's 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 North Star Charter School, Inc.'s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstance, but not for the purpose of expressing an opinion on the effectiveness of the North Star Charter School, Inc.'s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the accounting principles used and the reasonableness of significant 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 our audit opinions.



## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the North Star Charter School, Inc. as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis-of-Matter Regarding Going Concern**

The accompanying financial statements have been prepared assuming that North Star Charter School, Inc. will continue as a going concern. As discussed in Note V,D to the financial statements, North Star Charter School, Inc. continues to face problems with cash flow, a net deficiency in net position and noncompliance with bond covenants that raise substantial doubt about its ability to continue as a going concern. Management's plans regarding these matters also are described in Note V,D. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

## **Other Matters**

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and budgetary comparison information on page 23 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. Management has omitted management's discussion and analysis. Our opinion on the basic financial statements is not affected by this missing information. 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 the North Star Charter School, Inc.'s basic financial statements. The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 such 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 information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

## Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 26, 2013 on our consideration of North Star Charter School, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering North Star Charter School, Inc.'s internal control over financial reporting and compliance

*Gibbons, Scott & Dean LLP*

GIBBONS, SCOTT & DEAN LLP  
Certified Public Accountants

November 26, 2013

State of Idaho  
North Star Charter School, Inc.  
Statement of Net Position  
June 30, 2013

	Governmental Activities
<b>Assets</b>	
Cash	\$ 217,285
Investments	800
Receivables (net of allowance for uncollectibles)	154,735
Prepaid expenses	6,477
Deferred charges	448,747
Restricted cash/investments	1,219,283
Capital assets (net of accumulated depreciation)	<u>8,231,453</u>
<b>Total assets</b>	<u>10,278,780</u>
<b>Liabilities</b>	
Accounts payable	28,064
Accrued payroll	299,409
Payable from restricted assets:	
Accrued interest payable	555,162
Noncurrent liabilities:	
Due within one year	60,000
Due in more than one year	<u>11,685,000</u>
<b>Total liabilities</b>	<u>12,627,635</u>
<b>Net Position</b>	
Invested in capital assets, net of related debt	(2,400,830)
Restricted for revenue stabilization	151
Restricted for debt service	663,970
Unrestricted	<u>(612,146)</u>
<b>Total net position</b>	<u><u>\$ (2,348,855)</u></u>

The accompanying notes are an integral part of this statement.

State of Idaho  
North Star Charter School, Inc.  
Statement of Activities  
For the Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Education	\$ 4,479,011	\$ 98,997	\$ 351,126	\$ (4,028,888)
Interest on long-term debt	1,110,325			(1,110,325)
Total governmental activities	<u>\$ 5,589,336</u>	<u>\$ 98,997</u>	<u>\$ 351,126</u>	<u>(5,139,213)</u>
General revenues:				
State apportionment				4,104,295
Miscellaneous				15,923
Unrestricted investment earnings				885
Transfers				<u>(4,244)</u>
Total general revenues and transfers				<u>4,116,859</u>
Change in net assets				(1,022,354)
Net position - beginning				<u>(1,326,501)</u>
Net position - ending				<u>\$ (2,348,855)</u>

The accompanying notes are an integral part of this statement.

State of Idaho  
North Star Charter School, Inc.  
Balance Sheet  
Governmental Funds  
June 30, 2013

	<u>Major Funds</u>		<u>Nonmajor Funds</u>	<u>Total</u>
	<u>General</u>	<u>Bond</u>	<u>Other Governmental Funds</u>	<u>Governmental Funds</u>
<u>Assets</u>				
Cash	\$ 195,686	\$	\$ 21,599	\$ 217,285
Investments	800			800
Receivables (net of allowance for uncollectibles)	154,735			154,735
Prepaid expenses	3,384		3,093	6,477
Restricted cash/investments	151			151
Restricted cash with fiscal agent		1,219,132		1,219,132
Total assets	<u>\$ 354,756</u>	<u>\$ 1,219,132</u>	<u>\$ 24,692</u>	<u>\$ 1,598,580</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 28,064	\$	\$	\$ 28,064
Accrued payroll	299,409			299,409
Accrued interest payable		555,162		555,162
Total liabilities	<u>327,473</u>	<u>555,162</u>		<u>882,635</u>
Fund balances:				
Nonspendable	3,384			3,384
Restricted	151	663,970	24,692	688,813
Unassigned	23,748			23,748
Total fund balances	<u>27,283</u>	<u>663,970</u>	<u>24,692</u>	<u>715,945</u>
Total liabilities and fund balances	<u>\$ 354,756</u>	<u>\$ 1,219,132</u>	<u>\$ 24,692</u>	

Amounts reported for governmental activities in the statement  
of net position are different because:

Capital assets used in governmental activities are not financial  
resources and, therefore, are not reported in the funds.

8,231,453

Long-term liabilities, including bonds payable, are not due and payable  
in the current period and therefore are not reported in the funds.

(11,296,253)

Net position of governmental funds

\$ (2,348,855)

The accompanying notes are an integral part of this statement.

State of Idaho  
North Star Charter School, Inc.  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2013

	Major Funds		Nonmajor Funds	
	General	Bond	Other Governmental Funds	Total Governmental Funds
Revenues:				
Intergovernmental	\$ 4,373,855	\$	\$ 26,328	\$ 4,400,183
Charges for services	98,997			98,997
Miscellaneous	71,828	181	14	72,023
Total revenues	<u>4,544,680</u>	<u>181</u>	<u>26,342</u>	<u>4,571,203</u>
Expenditures:				
Current:				
Education	4,051,416		23,934	4,075,350
Debt service:				
Principal		30,000		30,000
Interest		1,110,325		1,110,325
Fees		102,097		102,097
Total expenditures	<u>4,051,416</u>	<u>1,242,422</u>	<u>23,934</u>	<u>5,317,772</u>
Excess (deficiency) of revenues over (under) expenditures	493,264	(1,242,241)	2,408	(746,569)
Other financing sources (uses):				
Transfer in (out)	<u>(544,782)</u>	<u>695,553</u>	<u>(155,015)</u>	<u>(4,244)</u>
Net change in fund balances	(51,518)	(546,688)	(152,607)	(750,813)
Fund balances - beginning	<u>78,801</u>	<u>1,210,658</u>	<u>177,299</u>	<u>1,466,758</u>
Fund balances - ending	<u>\$ 27,283</u>	<u>\$ 663,970</u>	<u>\$ 24,692</u>	<u>\$ 715,945</u>

The accompanying notes are an integral part of this statement.

State of Idaho  
North Star Charter School, Inc.  
Reconciliation of the Statement of Revenues, Expenditures,  
And Changes in Fund Balances of Governmental Funds  
To the Statement of Activities  
For the Year Ended June 30, 2013

Amounts reported for governmental activities in the statement of activities  
are different because:

Net change in fund balances - total governmental funds	\$ (750,813)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(284,281)
The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	<u>12,740</u>
Change in net position of governmental activities	<u>\$ (1,022,354)</u>

The accompanying notes are an integral part of this statement.

State of Idaho  
North Star Charter School, Inc.  
Statement of Net Position  
Fiduciary Funds  
June 30, 2013

	<u>Employee Flex Trust Fund</u>	<u>Student Activity Agency Fund</u>	<u>Total Fiduciary Funds</u>
<b>Assets</b>			
Cash	\$ 6,612	\$ 37,511	\$ 44,123
<b>Liabilities</b>			
Accounts payable		<u>37,511</u>	<u>37,511</u>
<b>Net position</b>			
Held in trust for employee benefits	<u>\$ 6,612</u>	<u>\$</u>	<u>\$ 6,612</u>

The accompanying notes are an integral part of this statement.



State of Idaho  
North Star Charter School, Inc.  
Statement of Changes in Net Position  
Fiduciary Funds  
For the Year Ended June 30, 2013

	Employee Flex Trust Fund
	<hr/>
Additions:	
Contributions:	
Members	\$ 24,087
Deductions:	
Benefits	<hr/> 21,591
Change in net position	2,496
Net position - beginning	<hr/> 4,116
Net position - ending	<hr/> <hr/> \$ 6,612

The accompanying notes are an integral part of this statement.

North Star Charter School, Inc.  
Notes to Financial Statements  
June 30, 2013

**I. Summary of significant accounting policies**

**A. Description of government-wide financial statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. All fiduciary activities are reported only in the fund financial statements.

**B. Reporting entity**

North Star Charter School, Inc. is a nonprofit corporation organized to operate a nonprofit charter school as provided for under the Idaho Code. North Star Charter School, Inc. was created as a nonprofit corporation under the provisions of the Idaho Nonprofit Corporation Act on May 14, 2002 and receives the majority of its support from the State Department of Education. The financial statements of the North Star Charter School, Inc. have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units and as mandated by the legislature beginning in 2002.

For financial reporting purposes, management has considered all potential component units which are controlled or whose boards are appointed by the board of trustees. Control by North Star Charter School, Inc. was determined on the basis of budget adoption, the selection of management, the ability to significantly influence operations, accountability for fiscal matters and other factors. Based on this criteria, there were no component units included in North Star Charter School, Inc.'s report.

North Star Charter School, Inc. is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation.

**C. 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. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

**D. Basis of presentation – fund financial statements**

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major

governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

North Star Charter School, Inc. reports the following major governmental funds:

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

The *bond fund* accounts for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

Additionally, the North Star Charter School reports the following fund types:

*Employee flex trust fund* accounts for the resources to be distributed to employees for reimbursement of qualified expenses.

*Student activity agency fund* accounts for resources accumulated and distributed for activities on behalf of students.

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.

#### **E. 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.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 current period or soon enough thereafter to pay liabilities of the current 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. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as

other financing sources.

Interest and intergovernmental revenues 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. All other revenue items are considered to be measurable and available only when cash is received by North Star Charter School, Inc.

The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

## **F. Budgetary information**

### **1. Budgetary basis of accounting**

Prior to June 1, the administrator and clerk prepare a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them. A public hearing is conducted to obtain patrons' comments. Prior to July 1, the budget is passed at a board meeting. Revisions to the budget can be made at anytime after the budget has been adopted by the board of directors. Passage of a motion at a board meeting is required to amend the budget.

The budget is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as amended during the year ended June 30, 2013. North Star Charter School, Inc. does not use the encumbrance method of accounting.

### **2. Excess of expenditures over appropriations**

For the year ended June 30, 2013, expenditures exceeded appropriations in the bond fund by \$84,700. This overexpenditure was funded by additional receipts and fund balance.

## **G. Assets, liabilities, and net position/fund balance**

### **1. Cash and cash equivalents**

North Star Charter School, Inc.'s cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

- 2.** Investments are reported at fair value. State statutes authorize North Star Charter School, Inc. to invest in obligations of the United States, state and local governments; time deposit accounts; and repurchase agreements.

Investments for North Star Charter School, Inc. are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pooled shares.

### **3. Prepaid expenses**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures when consumed rather than when purchased.

#### **4. Capital assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by North Star Charter School, Inc. as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of three years. 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. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Land and construction in progress are not depreciated. Property, plant and equipment of North Star Charter School, Inc. is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Improvements other than buildings	10-40
Equipment	5-20

#### **5. Net position flow assumption**

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) 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 government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

#### **6. Fund balance flow assumptions**

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

#### **7. Fund balance policies**

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing council is the highest level of decision-

making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing council (council) has authorized the clerk to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

In the fund financial statements, governmental funds report fund balance as nonspendable for amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Fund balance is reported as restricted when constraints are placed on the use of resources externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

## **H. Revenues and expenditures**

### **1. Program revenues**

Amounts reported as *program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as *general revenues* rather than as program revenues.

## **II. Reconciliation of government-wide and fund financial statements**

### **A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position**

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$11,296,253 difference are as follows:

Bonds payable	\$ (11,745,000)
Less deferred charge for issuance costs (to be amortized over life of debt)	271,879
Less issuance discount (to be amortized as Interest expense)	<u>176,868</u>

Net adjustment to reduce fund balance – total governmental funds to arrive at net position – governmental activities	<u>\$ (11,296,253)</u>
--	------------------------

**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$284,281 difference are as follows:

Capital outlay	\$ 24,918
Depreciation expense	<u>(309,199)</u>
Net adjustment to decrease net changes in fund balances – total governmental fund to arrive at changes in net position of governmental activities	<u>\$ (284,281)</u>

Another element of that reconciliation states that "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of the \$12,740 difference are as follows:

Principal repayments:	
Bonds	\$ 30,000
Amortization of issuance costs	(10,457)
Amortization of bond discounts	<u>(6,803)</u>
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 12,740</u>

**III. Stewardship, compliance and accountability**

**A. Violations of legal or contractual provisions**

Note I.F.2, on the *Excess of expenditures over appropriations*, describes a budgetary violation that occurred for the year ended June 30, 2013. Note IV.E., on long term debt, describes the noncompliance with the bond covenants. It also explains management's plan to address the noncompliance issues

#### IV. Detailed notes on all activities and funds

##### A. Deposits and investments

As of June 30, 2013, North Star Charter School, Inc. had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Money market accounts	\$ 740	.00
State treasurer's investment pool	<u>60</u>	.28
Total fair value	<u>\$ 800</u>	
Portfolio weighted average		.02

*Credit risk.* The State Treasurer's investment pool is not registered with the Securities and Exchange Commission or any other regulatory body. It also does not have a credit quality rating. North Star Charter School, Inc. does not have a policy regarding credit risk of investments.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, North Star Charter School, Inc.'s deposits may not be returned to it. North Star Charter School, Inc. does not have a deposit policy for custodial credit risk. As of June 30, 2013, \$191,103 of North Star Charter School, Inc.'s bank balance of \$441,103 was exposed to custodial credit risk because it was uninsured and uncollateralized. \$1,219,132 of North Star Charter School, Inc.'s restricted cash balance is on deposit with Wells Fargo trust department in government money market accounts.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, North Star Charter School, Inc. will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2013 the entire bank balance was covered by federal deposit insurance.

##### B. Receivables

Receivables as of year end for North Star Charter School, Inc.'s individual major funds and nonmajor funds and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>
Receivables:	
Accounts	\$ 1,434
Intergovernmental	<u>153,301</u>
Gross receivables	154,735
Less allowance for uncollectibles	<u>          </u>
Net total receivables	<u>\$ 154,735</u>

##### C. Capital assets

Capital asset activity for the year ended June 30, 2013 was as follows:



	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,162,200	\$ _____	\$ _____	\$ 1,162,200
Capital assets being depreciated:				
Buildings	6,144,426			6,144,426
Improvements other than buildings	1,300,074	15,830		1,315,904
Equipment	<u>981,387</u>	<u>9,088</u>		<u>990,475</u>
Total capital assets being depreciated	<u>8,425,887</u>	<u>24,918</u>		<u>8,450,805</u>
Less accumulated depreciation for:				
Buildings	436,255	153,611		589,866
Improvements other than buildings	170,763	60,812		231,575
Equipment	<u>465,335</u>	<u>94,776</u>		<u>560,111</u>
Total accumulated depreciation	<u>1,072,353</u>	<u>309,199</u>		<u>1,381,552</u>
Total capital assets, being depreciated, net	<u>7,353,534</u>	<u>(284,281)</u>		<u>7,069,253</u>
Total	<u>\$ 8,515,734</u>	<u>\$ (284,281)</u>	<u>\$ _____</u>	<u>\$ 8,231,453</u>

Depreciation expense was charged to functions/programs of North Star Charter School, Inc. as follows:

Governmental activities:	
Education	<u>\$ 309,199</u>

#### D. Interfund transfers

The composition of interfund balances as of June 30, 2013, is as follows:

	<u>Transfer in:</u>			
	<u>General</u>	<u>Trust</u>	<u>Debt service</u>	<u>Total</u>
Transfer out:				
General fund	\$ _____	\$ 4,244	\$ 695,553	\$ 699,797
Nonmajor	<u>155,015</u>			<u>155,015</u>
Total	<u>\$ 155,015</u>	<u>\$ 4,244</u>	<u>\$ 695,553</u>	<u>\$ 854,812</u>

Transfers are used to 1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due, and 2) to make contributions from general fund to the student activity agency fund.

## E. Long-term debt

**Revenue Bonds.** North Star Charter School, Inc. issued nonprofit facilities revenue bonds series 2009 in the amount of \$11,775,000 in March 2009. The bond proceeds were used to finance the construction of school facilities. Interest rates range from 9.00% to 10.25%. Debt service requirements to maturity are as follows:

Year Ending June 30,	Principal	Interest
2014	\$ 60,000	\$ 1,107,250
2015	100,000	1,099,050
2016	135,000	1,087,006
2017	170,000	1,071,844
2018	195,000	1,054,825
2019-2023	1,035,000	5,004,162
2024-2028	1,565,000	4,419,969
2029-2033	2,495,000	3,478,018
2034-2038	3,890,000	1,987,876
2039-2040	2,100,000	202,825
	<u>\$ 11,745,000</u>	<u>\$ 20,512,825</u>

Two of the many covenants per the loan agreement that North Star Charter School, Inc. (Borrower) is to comply with follow:

"Minimum Fund Balance/Net Asset Covenants. The Borrower hereby covenants that, so long as any Bonds remain Outstanding, it will:

(a) maintain an Unrestricted Fund Balance in its operating fund (excluding amounts in the Revenue Stabilization Account) which equals not less than an amount calculated as a percentage of Operating Expenses for the prior Fiscal Year as follows:

(i) Such percentage shall be 5.0% for any Fiscal Year if, in the Fiscal Year immediately preceding such Fiscal Year, the total of the Maximum Annual Debt Service plus any similar lease-purchase or loan payment obligations of the Borrower were equal to or less than 10% of Pledged Revenues;

(ii) Such percentage shall be 7.5% for any Fiscal Year if, in the Fiscal Year immediately preceding such Fiscal Year, the total of the Maximum Annual Debt Service plus any similar lease-purchase or loan payment obligations of the Borrower were greater than 10% but less than or equal to 15% of Pledged Revenues; and

(iii) Such percentage shall be 10.0% for any Fiscal Year if, in the Fiscal Year immediately preceding such Fiscal Year, the total of the Maximum Annual Debt Service plus any similar lease-purchase or loan payment obligations of the Borrower were greater than 15% of Pledged Revenues; and..."

"...(ii) Net Income Available for Debt Service as determined by the Borrower's most recent audited financial statements is less than 105% of the combined Maximum Annual Debt Service for currently outstanding Long-Term Indebtedness of the Borrower, and Net Income Available for Debt Service does not increase to at least 105% of combined Maximum Annual Debt Service for currently outstanding Long-Term Indebtedness of the Borrower as determined by the Borrower's next fiscal year's audit, then: the Beneficial Owners of 2/3rds

of the Outstanding Bonds have the right, to direct the Trustee to require the Borrower to engage, at the Borrower's expense, a Management Consultant,..."

At June 30, 2013, North Star Charter School, Inc.'s unassigned (unrestricted) fund balance is \$23,748 and its debt service ratio is 39.47%.

North Star Charter School, Inc. has not been in compliance with several bond covenants, both monetary and non-monetary. These issues of noncompliance with bond covenants represent events of default. On June 6, 2013 North Star Charter School, Inc. entered into the Forbearance Agreement with bond trustee Wells Fargo Bank to allow the School to continue operations. The agreement was approved by the majority of the bondholders, and was subsequently amended on August 15, 2013. This agreement provides protection from any effort to invoke default remedies during the term of the Forbearance Agreement and allows North Star Charter School, Inc. to receive certain concessions (including the release of significant sums of money controlled by the trustee) and continue operations through July 10, 2014 provided there are no new compliance issues with the bond covenants or compliance issues with new requirements described in the Forbearance Agreement. It is the intent of North Star Charter School, Inc. and the bondholders to conduct negotiations through the trustee at the direction of the majority of the bondholders to amend the bond documents and restructure the payment terms of the bonds in a manner that will allow the long-term operation of the School.

#### Changes in long-term liabilities

Long-term liability activity for the year-ended June 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Revenue bonds	<u>\$11,775,000</u>	<u>\$</u>	<u>\$ 30,000</u>	<u>\$ 11,745,000</u>	<u>\$ 60,000</u>

For the fiscal year ended June 30, 2013, the following transactions involving interest expense were incurred in the governmental activities:

Total interest incurred	\$ 1,110,325
Total interest expensed	1,110,325
Total interest capitalized	-0-

#### F. Restricted Assets

The balance of the restricted asset account is as follows:

Revenue stabilization	\$ 151
Cash with fiscal agent per loan agreement	<u>1,219,132</u>
	<u>\$ 1,219,283</u>

## **G. Fund Balance**

Fund balances:	
Nonspendable:	
Prepaid expenses	\$ 3,384
Restricted for:	
Revenue stabilization	151
Bond retirement	663,970
Technology	24,692
Unassigned	<u>23,748</u>
 Total fund balances	 <u>\$ 715,945</u>

## **V. Other information**

### **A. Defined benefit pension plan**

Public Employee Retirement System of Idaho (PERSI) - The PERSI Base Plan, a cost sharing multiple-employer public retirement system, was created by the Idaho State Legislature. It is a defined benefit plan requiring that both the member and the employer contribute. The plan provides benefits based on members' years of service, age and compensation. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries. The authority to establish and amend benefit provisions is established in Idaho Code. Designed as a mandatory system for eligible state and school district employees, the legislation provided for other political subdivisions to participate by contractual agreement with PERSI. After 5 years of credited service, members become fully vested in retirement benefits earned to date. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. For each month of credited service, the annual service retirement allowance is 2.0% of the average monthly salary for the highest consecutive 42 months.

PERSI issues publicly available standalone financial reports that include audited financial statements and required supplementary information. These reports may be obtained from PERSI's website [www.persi.idaho.gov](http://www.persi.idaho.gov).

The actuarially determined contribution requirements of North Star Charter School, Inc. and its employees are established and may be amended by the PERSI Board of Trustees. For the year ended June 30, 2013, the required contribution rate as a percentage of covered payrolls for members was 6.23%. The employer rate as a percentage of covered payroll was 10.39%. North Star Charter School, Inc. employer contributions required and paid were \$246,601; \$215,614; and \$229,403 for the years ended June 30, 2013, 2012 and 2011, respectively.

### **B. Risk management**

North Star Charter School, Inc. is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, and natural disasters for which they carry commercial insurance.

### **C. Contingent liabilities**

North Star Charter School, Inc. is involved in one lawsuit. Although the outcome of the lawsuit is not presently determinable, in the opinion of the attorney, the resolution of this

matter will not have a material adverse effect on the financial condition of North Star Charter School, Inc. and should be covered under insurance.

#### **D. Going Concern**

North Star Charter School, Inc. (North Star) continues to experience problems with cash flow, a net deficiency in net position and noncompliance with bond covenants. The issues of noncompliance with bond covenants represent events of default. Near the end of this fiscal year, it became necessary for North Star to use funds from bond reserve funds to pay operating expenses. In April of 2013 the board of trustees of Joint School District No. 2 (MSD) sent a notice of defect to North Star and subsequently the MSD voted they intended to revoke its charter citing the inability of the school to meet both short term and long term financial obligations. The school developed and executed a plan to eliminate the short term and long term financial needs, cited in the notice of defect, and presented said plan to the MSD Board of Trustees.

As mentioned in Note IV,E, North Star entered into the Forbearance Agreement with bond trustee Wells Fargo Bank. This agreement permits North Star to continue operations through July 10, 2014 if certain specified conditions are met. It is the intent of North Star to negotiate with the trustee at the direction of the majority bondholders to amend the bond documents and the payment terms of the bonds by February 28, 2014 in a manner that will allow the long-term operation of the school. The accompanying financial statements do not include any adjustments that might be necessary if North Star is unable to continue as a going concern.

Management has reduced costs and continues efforts to increase enrollment. In August of 2013 the District school board voted to rescind its intent to revoke North Star's charter. These factors as described above raise substantial doubt about North Star's ability to continue as a going concern.

State of Idaho  
North Star Charter School, Inc.  
Statement of Revenues, Expenditures, and  
Changes in Fund Balances - Budget and Actual  
Major Governmental Funds  
For the Year Ended June 30, 2013

	General Fund			
	Budgeted Amounts			Variance With Final Budget
	Original	Final	Actual	
Revenues:				
Intergovernmental	\$ 4,548,939	\$ 4,309,385	\$ 4,373,855	\$ 64,470
Charges for services	98,325	91,332	98,997	7,665
Miscellaneous	47,745	206,340	71,828	(134,512)
Total revenues	4,695,009	4,607,057	4,544,680	(62,377)
Expenditures:				
Current:				
Education	3,486,229	4,166,418	4,051,416	115,002
Excess (deficiency) of revenues over (under) expenditures	1,208,780	440,639	493,264	52,625
Other financing sources (uses):				
Transfer in (out)	(1,196,544)	(539,639)	(544,782)	(5,143)
Net change in fund balances	12,236	(99,000)	(51,518)	47,482
Fund balances - beginning	78,801	78,801	78,801	
Fund balances - ending	\$ 91,037	\$ (20,199)	\$ 27,283	\$ 47,482

The accompanying notes are an integral part of this statement.

State of Idaho  
North Star Charter School, Inc.  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2013

	Special Revenue		Total
		School	Nonmajor
	Technology	Building	Governmental
		Maintenance	Funds
<u>Assets</u>			
Cash	\$ 21,599	\$	\$ 21,599
Prepaid expenses	3,093		3,093
Total assets	<u>\$ 24,692</u>	<u>\$ -</u>	<u>\$ 24,692</u>
 <u>Liabilities and fund balances</u>			
Liabilities	\$	\$	\$
Fund balances:			
Restricted	<u>24,692</u>		<u>24,692</u>
Total liabilities and fund balances	<u>\$ 24,692</u>	<u>\$ -</u>	<u>\$ 24,692</u>

The accompanying notes are an integral part of this statement.

State of Idaho  
North Star Charter School, Inc.  
Combining Schedule of Revenues, Expenditures, and  
Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2013

	Special Revenue		Total Nonmajor Governmental Funds
	Technology	School Building Maintenance	
Revenues:			
Intergovernmental	\$ 26,328	\$	\$ 26,328
Miscellaneous		14	14
Total revenues	<u>26,328</u>	<u>14</u>	<u>26,342</u>
Expenditures:			
Current:			
Education	<u>23,934</u>		<u>23,934</u>
Excess (deficiency) of revenues over (under) expenditures	2,394	14	2,408
Other financing uses:			
Transfer out		<u>(155,015)</u>	<u>(155,015)</u>
Net change in fund balances	2,394	(155,001)	(152,607)
Fund balances - beginning	<u>22,298</u>	<u>155,001</u>	<u>177,299</u>
Fund balances - ending	<u>\$ 24,692</u>	<u>\$ -</u>	<u>\$ 24,692</u>

The accompanying notes are an integral part of this statement.



State of Idaho  
North Star Charter School, Inc.  
Schedule of Revenues - Budget and Actual  
Major Funds  
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
General:				
Intergovernmental:				
State apportionment	\$ 4,530,731	\$ 4,127,660	\$ 4,104,295	\$ (23,365)
State I.R.I.	800	724		(724)
Meridian School District			50,086	50,086
Other state support	17,408	181,001	219,474	38,473
Total intergovernmental	<u>4,548,939</u>	<u>4,309,385</u>	<u>4,373,855</u>	<u>64,470</u>
Charges for services:				
Registration fees	<u>98,325</u>	<u>91,332</u>	<u>98,997</u>	<u>7,665</u>
Miscellaneous:				
Interest	2,245	686	690	4
Miscellaneous	45,500	139,120	15,923	(123,197)
Donations		66,534	55,215	(11,319)
Total miscellaneous	<u>47,745</u>	<u>206,340</u>	<u>71,828</u>	<u>(134,512)</u>
Total general	4,695,009	4,607,057	4,544,680	(62,377)
Bond:				
Miscellaneous:				
Interest		151	181	30
Total major funds	<u>\$ 4,695,009</u>	<u>\$ 4,607,208</u>	<u>\$ 4,544,861</u>	<u>\$ (62,347)</u>

State of Idaho  
North Star Charter School, Inc.  
Schedule of Expenditures - Budget and Actual  
Major Funds  
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
General:				
Education:				
Instructional:				
Elementary:				
Salaries	\$ 1,017,627	\$ 1,115,161	\$ 1,122,337	\$ (7,176)
Benefits	276,261	310,238	306,240	3,998
Supplies	13,000	14,500	16,267	(1,767)
Other	8,721	13,231	17,236	(4,005)
Capital assets		2,475		2,475
Total elementary	1,315,609	1,455,605	1,462,080	(6,475)
Secondary:				
Salaries	759,627	841,888	884,433	(42,545)
Benefits	208,691	242,248	235,491	6,757
Supplies	18,860	25,475	29,803	(4,328)
Other	27,851	15,902	21,347	(5,445)
Capital assets	500	1,800		1,800
Total secondary	1,015,529	1,127,313	1,171,074	(43,761)
		1,127,313		
Total instructional	2,331,138	2,582,918	2,633,154	(50,236)
Support services:				
Special education:				
Salaries	77,685	137,110	134,470	2,640
Benefits	23,572	39,446	34,499	4,947
Supplies	1,000	2,516	2,516	-
Other	53,100	44,907	25,583	19,324
Total special education	155,357	223,979	197,068	26,911
Instruction improvement:				
Purchased services	800	16,832	17,889	(1,057)
Library:				
Supplies	510	3,578	3,578	-
Other	3,500	7,909	3,625	4,284
Total library	4,010	11,487	7,203	4,284
Board of Education:				
Purchased services	29,965	128,128	91,228	36,900
District administration:				
Salaries	313,135	328,396	342,633	(14,237)
Benefits	76,158	80,335	83,065	(2,730)
Supplies	7,500	13,500	13,339	161
Purchased services	93,130	139,857	100,109	39,748
Capital assets			15,830	(15,830)
Total	489,923	562,088	554,976	7,112

State of Idaho  
North Star Charter School, Inc.  
Schedule of Expenditures - Budget and Actual  
Major Funds  
For the Year Ended June 30, 2013  
(Continued)

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
General (continued):				
Education (continued):				
Support services (continued):				
Buildings:				
Salaries	\$ 5,959	\$ 18,045	\$ 19,083	\$ (1,038)
Benefits	456	3,609	3,599	10
Supplies	10,340			-
Purchased services	53,391	58,926	54,755	4,171
Insurance	18,500	20,900	19,158	1,742
Total	<u>88,646</u>	<u>101,480</u>	<u>96,595</u>	<u>4,885</u>
Maintenance-buildings:				
Purchased services	<u>5,086</u>	<u>28,186</u>	<u>24,705</u>	<u>3,481</u>
Maintenance-grounds:				
Purchased services	<u>7,810</u>	<u>14,920</u>	<u>13,728</u>	<u>1,192</u>
Loan payment		<u>86,500</u>	<u>3,500</u>	<u>83,000</u>
Transportation	<u>373,494</u>	<u>409,900</u>	<u>411,370</u>	<u>(1,470)</u>
Total support services	<u>1,155,091</u>	<u>1,583,500</u>	<u>1,418,262</u>	<u>165,238</u>
Total general	<u>3,486,229</u>	<u>4,166,418</u>	<u>4,051,416</u>	<u>115,002</u>
Bond:				
Debt service:				
Principal	30,000	30,000	30,000	-
Interest	1,110,325	1,111,863	1,110,325	1,538
Fees	26,219	15,859	102,097	(86,238)
Total bond	<u>1,166,544</u>	<u>1,157,722</u>	<u>1,242,422</u>	<u>(84,700)</u>
Total major funds	<u>\$ 4,652,773</u>	<u>\$ 5,324,140</u>	<u>\$ 5,293,838</u>	<u>\$ 30,302</u>

State of Idaho  
North Star Charter School, Inc.  
Combining Schedule of Revenues and Expenditures- Budget and Actual  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2013

	Budgeted Amounts			Variance With Final Budget
	Original	Final	Actual	
Revenues:				
Technology:				
Intergovernmental:				
State support	\$ 30,000	\$ 26,328	\$ 26,328	\$ -
School building maintenance:				
Miscellaneous:				
Interest			14	14
Total nonmajor governmental funds	<u>\$ 30,000</u>	<u>\$ 26,328</u>	<u>\$ 26,342</u>	<u>\$ 14</u>
Expenditures:				
Technology:				
Education:				
Salaries	\$	\$ 11,500	\$ 10,606	\$ 894
Benefits		900	811	89
Purchased services	40,000		4,220	(4,220)
Capital assets		14,199	8,297	5,902
Total technology	<u>\$ 40,000</u>	<u>\$ 26,599</u>	<u>\$ 23,934</u>	<u>\$ 2,665</u>

# *Gibbons, Scott & Dean LLP*

*Certified Public Accountants*

Terry L. Scott, CPA  
John P. Dean, CPA

Professional Building  
1803 Ellis Avenue  
Caldwell, Idaho 83605

(208) 459-4649  
FAX (208) 454-9091

## **Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards**

Board of Trustees  
North Star Charter School, Inc.  
Eagle, Idaho

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Star Charter School, Inc. as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise North Star Charter School, Inc.'s basic financial statements and have issued our report thereon dated November 26, 2013.

### **Internal Control over Financial Reporting**

In planning and performing our audit, we considered North Star Charter School, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of North Star Charter School, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of North Star Charter School, Inc.'s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described below to be material weaknesses.

1-As is common for small governmental units in Idaho, the accounting staff of North Star Charter School, Inc. do not possess the governmental accounting experience to prepare the annual financial statements in accordance with governmental accounting principles nor are they preparing all the accrual entries nor are they maintaining the depreciation schedule.

2-Due to its relatively small size, North Star Charter School, Inc. has inadequate segregation of duties.

We noted certain matters that we reported to the management of North Star Charter School, Inc. in a separate letter dated November 26, 2013.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether North Star Charter School, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

1-The 2009 Series revenue bonds and related documents contain certain covenants and agreements, and as described in Note V,D of the audited financial statements, North Star Charter School, Inc. has not been in compliance with several bond covenants and agreements. These issues of noncompliance represent instances of default and were caused primarily by inadequate cash flow. In the absence of additional agreements, these issues could result in the bondholders exercising the rights under the bond documents and could result in the loss of the state charter.

### **North Star Charter School, Inc.'s Response to Findings**

#### *Internal Control over Financial Reporting*

Based on the size of North Star Charter School, Inc., management believes the cost of correcting the two items listed above will exceed the benefits to be derived from doing so.

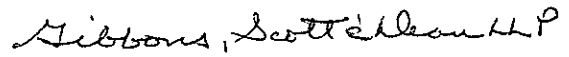
#### *Compliance and Other Matters*

As described in Note V,D, North Star Charter School, Inc. entered into the Forbearance Agreement with bond trustee Wells Fargo Bank to allow the School to continue operations. This agreement provides protection from any effort to invoke default remedies during the term of the Forbearance Agreement and allows North Star Charter School, Inc. to receive certain concessions (including the release of significant sums of money controlled by the trustee) and continue operations through July 10, 2014 provided there are no new compliance issues with the bond covenants or compliance issues with new requirements described in the Forbearance Agreement. It is the intent of North Star Charter School, Inc. and the bondholders to conduct negotiations through the trustee at the direction of the majority of the bondholders to amend the bond documents and restructure the payment terms of the bonds in a manner that will allow the long-term operation of the School.

North Star Charter School, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



GIBBONS, SCOTT & DEAN LLP  
Certified Public Accountants

November 26, 2013