

STATE OF IDAHO

NORTH STAR CHARTER SCHOOL, INC.

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2014

STATE OF IDAHO
NORTH STAR CHARTER SCHOOL, INC.

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STATE OF IDAHO
NORTH STAR CHARTER SCHOOL, INC.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
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, 2014, 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, 2014, 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.

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 22 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 10, 2014 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 10, 2014

State of Idaho
North Star Charter School, Inc.
Statement of Net Position
June 30, 2014

	Governmental Activities
Assets	
Cash	\$ 318,873
Investments	241
Receivables (net of allowance for uncollectibles)	205,342
Prepaid expenses	5,993
Restricted cash/investments	43,821
Capital assets (net of accumulated depreciation)	8,036,908
Total assets	8,611,178
Liabilities	
Accounts payable	123,882
Accrued payroll	348,130
Payable from restricted assets:	
Accrued interest payable	61,254
Noncurrent liabilities:	
Due within one year	-
Due in more than one year	12,143,156
Total liabilities	12,676,422
Net Position	
Invested in capital assets, net of related debt	(4,092,494)
Restricted for debt service	13,754
Unrestricted	13,496
Total net position	\$ (4,065,244)

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, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
Governmental activities:			
Education	\$ 5,222,572	\$ 433,958	\$ (4,788,614)
Interest on long-term debt	<u>942,723</u>		<u>(942,723)</u>
Total governmental activities	<u>\$ 6,165,295</u>	<u>\$ 433,958</u>	<u>(5,731,337)</u>
General revenues:			
State apportionment			4,424,231
Miscellaneous			38,537
Unrestricted investment earnings			<u>927</u>
Total general revenues			<u>4,463,695</u>
Change in net assets			(1,267,642)
Net position - beginning as restated			<u>(2,797,602)</u>
Net position - ending			<u>\$ (4,065,244)</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, 2014

	Major Funds		Nonmajor Funds	Total Governmental Funds
	General	Bond	Other Governmental Funds	
<u>Assets</u>				
Cash	\$ 273,094	\$	\$ 45,779	\$ 318,873
Investments	241			241
Receivables (net of allowance for uncollectibles)	205,342			205,342
Prepaid expenses	4,336		1,657	5,993
Restricted cash with fiscal agent		43,821		43,821
Total assets	\$ 483,013	\$ 43,821	\$ 47,436	\$ 574,270
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 93,815	\$ 30,067	\$	\$ 123,882
Accrued payroll	347,513		617	348,130
Total liabilities	441,328	30,067	617	472,012
Fund balances:				
Nonspendable	4,336			4,336
Restricted		13,754	46,819	60,573
Unassigned	37,349			37,349
Total fund balances	41,685	13,754	46,819	102,258
Total liabilities and fund balances	\$ 483,013	\$ 43,821	\$ 47,436	

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.	8,036,908
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(12,204,410)
Net position of governmental funds	\$ (4,065,244)

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, 2014

	Major Funds		Nonmajor Funds	Total Governmental Funds
	General	Bond	Other Governmental Funds	
Revenues:				
Intergovernmental	\$ 4,705,952	\$	\$ 55,865	\$ 4,761,817
Miscellaneous	129,605	79		129,684
Total revenues	4,835,557	79	55,865	4,891,501
Expenditures:				
Current:				
Education	4,416,155		33,738	4,449,893
Debt service:				
Principal		60,000		60,000
Interest		881,469		881,469
Fees		571,982		571,982
Total expenditures	4,416,155	1,513,451	33,738	5,963,344
Excess (deficiency) of revenues over (under) expenditures	419,402	(1,513,372)	22,127	(1,071,843)
Other financing sources (uses):				
Refunding bonds issued		12,143,156		12,143,156
Payment to refunded bond escrow agent		(11,685,000)		(11,685,000)
Transfer in (out)	(405,000)	405,000		-
Other financing sources (uses)	(405,000)	863,156	-	458,156
Net change in fund balances	14,402	(650,216)	22,127	(613,687)
Fund balances - beginning	27,283	663,970	24,692	715,945
Fund balances - ending	\$ 41,685	\$ 13,754	\$ 46,819	\$ 102,258

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, 2014

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

Net change in fund balances - total governmental funds	\$ (613,687)
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.	(194,545)
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 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.	(398,156)
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. This amount is interest payable.	<u>(61,254)</u>
Change in net position of governmental activities	<u><u>\$ (1,267,642)</u></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, 2014

	Employee Flex Trust Fund	Student Activity Agency Fund	Total Fiduciary Funds
Assets			
Cash	\$ 12,198	\$ 34,849	\$ 47,047
Receivables (net of allowance for uncollectibles)		50	50
Total assets	12,198	34,899	47,097
Liabilities			
Accounts payable		34,899	34,899
Total liabilities		34,899	34,899
Net position			
Held in trust for employee benefits	\$ 12,198	\$ -	\$ 12,198

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, 2014

	Employee Flex Trust Fund
Additions:	
Contributions:	
Members	\$ 12,986
Deductions:	
Benefits	7,400
Change in net position	5,586
Net position - beginning	6,612
Net position - ending	\$ 12,198

The accompanying notes are an integral part of this statement.

North Star Charter School, Inc.
Notes to Financial Statements
June 30, 2014

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 administration and the 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 any time 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, 2014. 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, 2014, expenditures exceeded appropriations in the general fund by \$64,254, in the bond fund by \$1,108,451 and in the technology fund by \$8,738. 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 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.

I. Impact of Recently Issued Accounting Principles

During 2014, North Star Charter School, Inc. implemented GASB Statement No. 65 – Items Previously Reported as Assets and Liabilities. As a result of this statement, they restated beginning net position to write-off bond issuance costs as required by this Statement (see Note IV C).

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 \$12,204,410 difference are

as follows:

Bonds payable	\$ (12,143,156)
Interest payable	<u>(61,254)</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net position – governmental activities	<u>\$ (12,204,410)</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 \$194,545 difference are as follows:

Capital outlay	\$ 113,010
Depreciation expense	<u>(307,555)</u>
Net adjustment to decrease net changes in fund balances – total governmental fund to arrive at changes in net position of governmental activities	<u>\$ (194,545)</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 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 \$398,156 difference are as follows:

Debt issued:	
Refunding bonds	\$ (12,143,156)
Principal repayments:	
Bonds	60,000
Payment to escrow agent for refunding	<u>11,685,000</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	<u>\$ (398,156)</u>

III. Detailed notes on all activities and funds

A. Deposits and investments

As of June 30, 2014, 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	\$ 30	.00
State treasurer's investment pool	211	.30
Total fair value	<u>\$ 241</u>	
Portfolio weighted average		.26

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, 2014, \$255,640 of North Star Charter School, Inc.'s bank balance of \$505,640 was exposed to custodial credit risk because it was uninsured and uncollateralized. \$43,821 of North Star Charter School, Inc.'s restricted cash balance is on deposit with UMB Bank.

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, 2014 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 in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>
Receivables:	
Accounts	\$ 17,358
Intergovernmental	<u>187,984</u>
Gross receivables	205,342
Less allowance for uncollectibles	<u>-0-</u>
Net total receivables	<u>\$ 205,342</u>

C. Capital assets

Capital asset activity for the year ended June 30, 2014 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
Construction in progress		<u>50,254</u>		<u>50,254</u>
Total capital assets not being depreciated	<u>1,162,200</u>	<u>50,254</u>		<u>1,212,454</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets being depreciated:				
Buildings	\$ 6,144,426	\$	\$	\$ 6,144,426
Improvements other than buildings	1,315,904	14,184		1,330,088
Equipment	<u>990,475</u>	<u>48,572</u>		<u>1,039,047</u>
Total capital assets being depreciated	<u>8,450,805</u>	<u>62,756</u>		<u>8,513,561</u>
Less accumulated depreciation for:				
Buildings	589,866	153,611		743,477
Improvements other than buildings	231,575	60,956		292,531
Equipment	<u>560,111</u>	<u>92,988</u>		<u>653,099</u>
Total accumulated depreciation	<u>1,381,552</u>	<u>307,555</u>		<u>1,689,107</u>
Total capital assets, being depreciated, net	<u>7,069,253</u>	<u>(244,799)</u>		<u>6,824,454</u>
Total	<u>\$ 8,231,453</u>	<u>\$ (194,545)</u>	<u>\$</u>	<u>\$ 8,036,908</u>

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

Governmental activities:	
Education	<u>\$ 307,555</u>

D. Interfund transfers

The composition of interfund balances as of June 30, 2014, is as follows:

	<u>Transfer in:</u>	
	<u>Debt service</u>	<u>Total</u>
Transfer out:		
General fund	<u>\$ 405,000</u>	<u>\$ 405,000</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.

E. Long-term debt

Revenue Refunding 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 ranged from 9.00% to 10.25%. North Star Charter School was not in compliance with some of the bond covenants and faced difficulties with debt service, and consequently these bonds were called in May 2014 and refunded by issuance of the following refunding bonds:

Series 2014A Nonprofit Facilities Revenue Refunding Bonds

Series 2014B Nonprofit Facilities Revenue Refunding Capital Appreciation Subordinate Bonds

Series 2014C Nonprofit Facilities Revenue Refunding Bonds

These bonds are secured by virtually all assets of North Star Charter School. The Series 2014A and 2014C bonds are secured on a parity basis. The Series 2014B bonds were issued junior and subordinate to the other bonds.

The reacquisition price exceeded the net carrying amount of the old debt and accrued interest by \$128,775. This amount was paid out as issuance costs. The new debt issue results in an increase in future debt service requirements of approximately \$18,241,000 due in large part to compounding interest and no payments being required for the Series 2014B bonds until 2049. The new debt issues resulted in an economic gain of approximately \$4,440,000.

	<u>Issue Date</u>	<u>Original Borrowing</u>	<u>Interest Rate</u>	<u>Final Maturity</u>	<u>Outstanding Balance</u>
Series 2014A	5/1/14	\$6,000,000	6.75%	2048	\$6,000,000
Series 2014B	5/1/14	5,798,156	5.00%	2049	5,798,156
Series 2014C	5/1/14	345,000	6.00%	2024	345,000

The first bond interest payment is due January 1, 2015 and subsequent payments are due each July 1 and January 1. The first bond principal payment is due July 1, 2016 and are due each July 1 thereafter. As such, debt service requirements to maturity are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2015	\$	\$ 249,508
2016		425,700
2017	50,000	424,162
2018	55,000	420,919
2019	55,000	417,506
2020-2024	340,000	2,027,719
2025-2029	490,000	1,897,313
2030-2034	775,000	1,683,281
2035-2039	1,080,000	1,372,950
2040-2044	1,500,000	941,625
2045-2049	2,000,000	345,262
2050	<u>5,798,156</u>	<u>26,996,844</u>
	<u>\$ 12,143,156</u>	<u>\$ 37,202,789</u>

Changes in long-term liabilities

Long-term liability activity for the year-ended June 30, 2014, 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:					
2009 Revenue bonds	\$11,745,000	\$	\$ 11,745,000	\$ -0-	\$ -0-
2014A Revenue bonds		6,000,000		6,000,000	-0-
2014B Revenue bonds		5,798,156		5,798,156	-0-
2014C Revenue bonds		345,000		345,000	-0-
Total	<u>\$11,745,000</u>	<u>\$ 12,143,156</u>	<u>\$ 11,745,000</u>	<u>\$ 12,143,156</u>	<u>\$ -0-</u>

For the fiscal year ended June 30, 2014, the following transactions involving interest expense were incurred in the governmental activities:

Total interest incurred	\$ 942,723
Total interest expensed	942,723
Total interest capitalized	-0-

F. Restricted Assets

The balance of the restricted asset account is as follows:

Cash with fiscal agent per loan agreement	<u>\$ 43,821</u>
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G. Fund Balance

Fund balances:	
Nonspendable:	
Prepaid expenses	\$ 4,336
Restricted for:	
Bond retirement	13,754
Technology	28,208
Building maintenance	18,611
Unassigned	<u>37,349</u>
Total fund balances	<u>\$ 102,258</u>

IV. 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.

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. At June 30, 2014, the required contribution rates as a percentage of covered payrolls for

general members was 6.78% and employer rates as a percentage of covered payroll was 11.32% for general members. Prior to July 1, 2013 the required rates for general members was 6.23% and for employer was 10.39% for general members. North Star Charter School, Inc. employer contributions required and paid were \$258,279; \$246,601; and \$215,614 for the years ended June 30, 2014, 2013 and 2012, 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. Change in Accounting Principle

During the year ended June 30, 2014 North Star Charter School, Inc. implemented GASB Statement No. 65 – Items Previously Reported as Assets and Liabilities. As a result, bond issuance costs previously capitalized on the Statement of Net Position and amortized in the Statement of Activities were written off, as those costs are now expensed in the year of the debt issuance. As a result of the change in accounting principle, beginning net position, the change in net position, and ending net position for the year ended June 30, 2013 have been restated as follows:

	<u>2013</u>
Net Position, beginning of year – as previously stated	\$ (2,348,855)
Less adjustment to remove deferred charges as of June 30, 2013	<u>(448,747)</u>
Net Position, beginning of year – as restated	<u>\$ (2,797,602)</u>

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, 2014

	General Fund			Variance With Final Budget
	Budgeted Amounts		Actual	
	Original	Final		
Revenues:				
Intergovernmental	\$ 4,569,257	\$ 4,680,043	\$ 4,705,952	\$ 25,909
Charges for services	47,500	-	-	-
Miscellaneous	50,000	115,553	129,605	14,052
Total revenues	4,666,757	4,795,596	4,835,557	39,961
Expenditures:				
Current:				
Education	4,239,920	4,351,901	4,416,155	(64,254)
Excess (deficiency) of revenues over (under) expenditures	426,837	443,695	419,402	(24,293)
Other financing sources (uses):				
Transfer in (out)	(386,219)	(405,000)	(405,000)	-
Net change in fund balances	40,618	38,695	14,402	(24,293)
Fund balances - beginning	27,283	27,283	27,283	
Fund balances - ending	\$ 67,901	\$ 65,978	\$ 41,685	\$ (24,293)

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, 2014

	Special Revenue		Total
<u>Assets</u>	<u>Technology</u>	<u>School Building Maintenance</u>	<u>Nonmajor Governmental Funds</u>
Cash	\$ 27,168	\$ 18,611	\$ 45,779
Prepaid expenses	1,657		1,657
Total assets	<u>\$ 28,825</u>	<u>\$ 18,611</u>	<u>\$ 47,436</u>
<u>Liabilities and fund balances</u>			
Liabilities			
Accrued payroll	\$ 617	\$	\$ 617
Fund balances:			
Restricted	28,208	18,611	46,819
Total liabilities and fund balances	<u>\$ 28,825</u>	<u>\$ 18,611</u>	<u>\$ 47,436</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, 2014

	Special Revenue		Total
	Technology	School Building Maintenance	Nonmajor Governmental Funds
Revenues:			
Intergovernmental	\$ 37,254	\$ 18,611	\$ 55,865
Expenditures:			
Current:			
Education	33,738		33,738
Excess (deficiency) of revenues over (under) expenditures	3,516	18,611	22,127
Fund balances - beginning	24,692		24,692
Fund balances - ending	\$ 28,208	\$ 18,611	\$ 46,819

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, 2014

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
General:				
Intergovernmental:				
State apportionment	\$ 4,362,838	\$ 4,438,030	\$ 4,424,231	\$ (13,799)
Meridian School District	-	-	57,249	57,249
Other state support	206,419	242,013	224,472	(17,541)
Total intergovernmental	<u>4,569,257</u>	<u>4,680,043</u>	<u>4,705,952</u>	<u>25,909</u>
Charges for services:				
Registration fees	47,500	-	-	-
Miscellaneous:				
Interest	-	852	848	(4)
Miscellaneous	50,000	56,325	38,537	(17,788)
Donations	-	58,376	90,220	31,844
Total miscellaneous	<u>50,000</u>	<u>115,553</u>	<u>129,605</u>	<u>14,052</u>
Total general	4,666,757	4,795,596	4,835,557	39,961
Bond:				
Miscellaneous:				
Interest	-	-	79	79
Total major funds	<u>\$ 4,666,757</u>	<u>\$ 4,795,596</u>	<u>\$ 4,835,636</u>	<u>\$ 40,040</u>

State of Idaho
North Star Charter School, Inc.
Schedule of Expenditures - Budget and Actual
Major Funds
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
General:				
Education:				
Instructional:				
Elementary:				
Salaries	\$ 1,115,952	\$ 1,166,513	\$ 1,253,997	\$ (87,484)
Benefits	323,728	324,231	318,776	5,455
Supplies	14,123	20,178	15,862	4,316
Other	4,523	4,387	18,025	(13,638)
Capital assets	-	161		161
Total elementary	<u>1,458,326</u>	<u>1,515,470</u>	<u>1,606,660</u>	<u>(91,190)</u>
Secondary:				
Salaries	929,536	958,474	900,379	58,095
Benefits	260,450	260,518	242,852	17,666
Supplies	21,179	22,417	24,127	(1,710)
Other	32,233	11,534	47,820	(36,286)
Capital assets	1,800	27,779	23,673	4,106
Total secondary	<u>1,245,198</u>	<u>1,280,722</u>	<u>1,238,851</u>	<u>41,871</u>
Total instructional	<u>2,703,524</u>	<u>2,796,192</u>	<u>2,845,511</u>	<u>(49,319)</u>
Support services:				
Special education:				
Salaries	145,500	150,727	144,095	6,632
Benefits	45,302	46,110	50,863	(4,753)
Supplies	3,077	-	1,758	(1,758)
Other	40,317	40,112	36,686	3,426
Capital assets	814	798	798	-
Total special education	<u>235,010</u>	<u>237,747</u>	<u>234,200</u>	<u>3,547</u>
Instruction improvement:				
Purchased services	<u>7,896</u>	<u>10,801</u>	<u>12,225</u>	<u>(1,424)</u>
Library:				
Supplies		108	108	-
Other	909		550	(550)
Total library	<u>909</u>	<u>108</u>	<u>658</u>	<u>(550)</u>
Board of Education:				
Purchased services	<u>87,048</u>	<u>134,768</u>	<u>94,440</u>	<u>40,328</u>
District administration:				
Salaries	347,846	320,177	349,752	(29,575)
Benefits	92,252	65,799	65,438	361
Supplies	13,930	23,107	22,392	715
Purchased services	86,113	68,516	157,023	(88,507)
Capital assets	70,924	95,513	7,101	88,412
Total	<u>611,065</u>	<u>573,112</u>	<u>601,706</u>	<u>(28,594)</u>

State of Idaho
North Star Charter School, Inc.
Schedule of Expenditures - Budget and Actual
Major Funds
For the Year Ended June 30, 2014
(Continued)

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
General (continued):				
Education (continued):				
Support services (continued):				
Buildings:				
Salaries	\$ 27,360	\$ 30,788	\$ 33,034	\$ (2,246)
Benefits	2,093	7,839	9,058	(1,219)
Supplies		9,729	8,935	794
Purchased services	58,605	65,054	65,383	(329)
Insurance	22,990	22,898	22,899	(1)
Total	<u>111,048</u>	<u>136,308</u>	<u>139,309</u>	<u>(3,001)</u>
Maintenance-buildings:				
Purchased services	<u>24,212</u>	<u>21,657</u>	<u>19,424</u>	<u>2,233</u>
Maintenance-grounds:				
Purchased services	<u>15,115</u>	<u>12,313</u>	<u>11,748</u>	<u>565</u>
Transportation	<u>412,093</u>	<u>391,796</u>	<u>393,240</u>	<u>(1,444)</u>
Capital assets	<u>32,000</u>	<u>37,099</u>	<u>63,694</u>	<u>(26,595)</u>
Total support services	<u>1,536,396</u>	<u>1,555,709</u>	<u>1,570,644</u>	<u>(14,935)</u>
Total general	<u>4,239,920</u>	<u>4,351,901</u>	<u>4,416,155</u>	<u>(64,254)</u>
Bond:				
Debt service:				
Principal		30,000	60,000	(30,000)
Interest	360,000	375,000	881,469	(506,469)
Fees	26,219		571,982	(571,982)
Total bond	<u>386,219</u>	<u>405,000</u>	<u>1,513,451</u>	<u>(1,108,451)</u>
Total major funds	<u>\$ 4,626,139</u>	<u>\$ 4,756,901</u>	<u>\$ 5,929,606</u>	<u>\$ (1,172,705)</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, 2014

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
Revenues:				
Technology:				
Intergovernmental:				
State support	\$ 25,000	\$ 25,000	\$ 37,254	\$ 12,254
School building maintenance:				
Intergovernmental:				
State support			18,611	18,611
Total nonmajor governmental funds	<u>\$ 25,000</u>	<u>\$ 25,000</u>	<u>\$ 55,865</u>	<u>\$ 30,865</u>
Expenditures:				
Technology:				
Education:				
Salaries	\$ 15,000	\$ 15,000	\$ 11,944	\$ 3,056
Benefits	900	900	914	(14)
Purchased services			3,136	(3,136)
Capital assets	9,100	9,100	17,744	(8,644)
Total technology	<u>\$ 25,000</u>	<u>\$ 25,000</u>	<u>\$ 33,738</u>	<u>\$ (8,738)</u>

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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 Directors
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, 2014, 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 10, 2014.

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 other matters that we reported to the management of North Star Charter School, Inc. in a separate letter dated November 10, 2014.

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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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

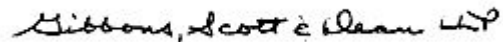
Internal Control over Financial Reporting

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.

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 10, 2014