

LIBERTY CHARTER SCHOOL, INC.

FINANCIAL STATEMENTS

Year Ended June 30, 2011

LIBERTY CHARTER SCHOOL, INC.

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FINANCIAL SECTION

Independent Auditor's Report

Board of Directors
Liberty Charter School, Inc.

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Liberty Charter School, Inc. (the School) as of and for the year ended June 30, 2011, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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 School as of June 30, 2011 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 4, 2011 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the budgetary information listed as required supplemental information in the table of contents be presented to supplement the basic financial statements. Such information, although not required to be 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, and historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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, and historical context. Our opinion on the basic financial statements is not affected by this missing information.

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

Folke CPAs, P.C.

August 4, 2011

BASIC FINANCIAL STATEMENTS

LIBERTY CHARTER SCHOOL, INC.

Statement of Net Assets

June 30, 2011

	Governmental Activities
Assets	
Current Assets	
Cash & Investments	\$1,077,714
Receivables:	
Local Sources	96,177
State Sources	147,841
Federal Sources	25,384
Total Current Assets	<u>1,347,116</u>
Noncurrent Assets	
Nondepreciable Capital Assets	146,316
Depreciable Net Capital Assets	4,484,756
Deferred Charges	321,554
Total Noncurrent Assets	<u>4,952,626</u>
Total Assets	<u><u>\$6,299,742</u></u>
Liabilities	
Current Liabilities	
Accounts Payable	\$51,570
Salaries & Benefits Payable	154,800
Deferred Revenue	0
Accrued Interest	18,792
Long-Term Debt, Current	60,000
Total Current Liabilities	<u>285,162</u>
Noncurrent Liabilities	
Long-Term Debt, Noncurrent	3,795,000
Total Noncurrent Liabilities	<u>3,795,000</u>
Total Liabilities	<u><u>4,080,162</u></u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	1,078,834
Restricted:	
Special Programs	31,345
Debt Service	295,305
Capital Projects	156,752
Unrestricted	657,344
Total Net Assets	<u>2,219,580</u>
Total Liabilities and Net Assets	<u><u>\$6,299,742</u></u>

LIBERTY CHARTER SCHOOL, INC

Statement of Activities Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue And Changes in Net Assets
		Charges For Services	Operating Grants And Contributions	Capital Grants And Contributions	Governmental Activities
Governmental Activities					
Instructional Programs					
Elementary School	\$1,018,142		\$53,386		(\$964,756)
Secondary School	532,157		80		(532,077)
Exceptional Child	124,924		124,924		0
School Activity	31,527				(31,527)
Support Service Programs					
Special Services	38,562				(38,562)
Instructional Improvement	156,200		153,879		(2,321)
Board of Education	5,952				(5,952)
District Administration	159,918				(159,918)
Buildings - Care	168,322				(168,322)
Maintenance - Non-Student Occupied	0				0
Maintenance - Student Occupied	23,997				(23,997)
Maintenance - Grounds	3,070				(3,070)
Pupil-To-School Transportation	193,019				(193,019)
Pupil-Activity Transportation	14,846				(14,846)
Non-Instructional Programs					
Other Support Services	6,048				(6,048)
Child Nutrition	155,560	\$58,697	71,130		(25,733)
Capital Assets - Student Occupied	183,657				(183,657)
Capital Assets - Non-Student Occupied	0				0
Debt Service - Principal	0				0
Debt Service - Interest	242,830				(242,830)
Total	\$3,058,731	\$58,697	\$403,399	\$0	(2,596,635)
General Revenues					
					37,978
Local Revenues					2,496,521
State Revenues					96,506
Federal Revenues					2,631,005
Total					2,631,005
Change in Net Assets					
					34,370
Net Assets - Beginning					
					2,185,210
Net Assets - Ending					
					\$2,219,580

LIBERTY CHARTER SCHOOL, INC

Balance Sheet - Governmental Funds

June 30, 2011

	General Fund	Child Nutrition Fund	Debt Service Fund	Other Governmental Funds
Assets				
Cash & Investments	\$588,460	\$36,271	\$387,305	\$65,678
Receivables:				
Local Sources	93,677	2,500		0
State Sources	147,841			0
Federal Sources				25,384
Due From Other Funds	18,428			0
Total Assets	<u>\$848,406</u>	<u>\$38,771</u>	<u>\$387,305</u>	<u>\$91,062</u>
Liabilities				
Accounts Payable	\$47,574	\$3,996		\$0
Due To Other Funds				18,428
Salaries & Benefits Payable	143,488	3,430		7,882
Deferred Revenue				0
Total Liabilities	<u>191,062</u>	<u>7,426</u>	<u>\$0</u>	<u>26,310</u>
Fund Balances				
Restricted:				
Special Programs		31,345		0
Debt Service			295,305	0
Capital Projects			92,000	64,752
Unassigned	657,344			0
Total Fund Balances	<u>657,344</u>	<u>31,345</u>	<u>387,305</u>	<u>64,752</u>
Total Liabilities and Fund Balances	<u>\$848,406</u>	<u>\$38,771</u>	<u>\$387,305</u>	<u>\$91,062</u>

LIBERTY CHARTER SCHOOL, INC
 Balance Sheet - Governmental Funds
 June 30, 2011

	Total Governmental Funds
Assets	
Cash & Investments	\$1,077,714
Receivables:	
Local Sources	96,177
State Sources	147,841
Federal Sources	25,384
Due From Other Funds	18,428
Total Assets	\$1,365,544
 Liabilities	
Accounts Payable	\$51,570
Due To Other Funds	18,428
Salaries & Benefits Payable	154,800
Deferred Revenue	0
Total Liabilities	224,798
 Fund Balances	
Restricted:	
Special Programs	31,345
Debt Service	295,305
Capital Projects	156,752
Unassigned	657,344
Total Fund Balances	1,140,746
Total Liabilities and Fund Balances	\$1,365,544

LIBERTY CHARTER SCHOOL, INC
Balance Sheet - Governmental Funds
June 30, 2011

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Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities

Total Governmental Fund Balances	\$1,140,746
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	4,631,072
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Deferred charges used in governmental activities are not financial resources and therefore are not reported in the funds.	321,554
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Certain liabilities, including accrued interest, are not due and payable in the current period and therefore are not reported in the funds.	(3,873,792)
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Net Assets of Governmental Activities	<u><u>\$2,219,580</u></u>
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LIBERTY CHARTER SCHOOL, INC

Statement of Revenues, Expenditures, and Changes in
Fund Balances - Governmental Funds
Year Ended June 30, 2011

	General Fund	Child Nutrition Fund	Debt Service Fund	Other Governmental Funds
Revenues				
Local Revenue	\$37,925	\$58,697	\$53	\$100,000
State Revenue	2,497,601			0
Federal Revenue	96,506	71,130		231,189
Total Revenues	<u>2,632,032</u>	<u>129,827</u>	<u>53</u>	<u>331,189</u>
Expenditures				
Instructional Programs				
Elementary School	976,534			53,386
Secondary School	532,077			80
Exceptional Child				124,924
School Activity	31,527			0
Support Service Programs				
Special Services	38,562			0
Instructional Improvement	2,321			153,879
Board of Education	5,952			0
District Administration	159,918			0
Buildings - Care	114,730			0
Maintenance - Non-Student Occupied				0
Maintenance - Student Occupied	23,997			0
Maintenance - Grounds	3,070			0
Pupil-To-School Transportation	193,019			0
Pupil-Activity Transportation	14,846			0
Non-Instructional Programs				
Other Support Services	6,048			0
Child Nutrition	4,455	151,105		0
Capital Assets - Student Occupied				0
Capital Assets - Non-Student Occupied				0
Debt Service - Principal			55,000	0
Debt Service - Interest			242,787	0
Total Expenditures	<u>2,107,056</u>	<u>151,105</u>	<u>297,787</u>	<u>332,269</u>
Excess (Deficiency) of Revenues Over Expenditures	524,976	(21,278)	(297,734)	(1,080)
Other Financing Sources (Uses)				
Transfers In	0	0	295,967	0
Transfers Out	(295,967)	0	0	0
Total Other Financing Sources (Uses)	<u>(295,967)</u>	<u>0</u>	<u>295,967</u>	<u>0</u>
Net Change in Fund Balances	229,009	(21,278)	(1,767)	(1,080)
Fund Balances - Beginning	428,335	52,623	389,072	65,832
Fund Balances - Ending	<u>\$657,344</u>	<u>\$31,345</u>	<u>\$387,305</u>	<u>\$64,752</u>

LIBERTY CHARTER SCHOOL, INC
Statement of Revenues, Expenditures, and Changes in
Fund Balances - Governmental Funds
Year Ended June 30, 2011

	Total Governmental Funds
Revenues	
Local Revenue	\$196,675
State Revenue	2,497,601
Federal Revenue	398,825
Total Revenues	3,093,101
Expenditures	
Instructional Programs	
Elementary School	1,029,920
Secondary School	532,157
Exceptional Child	124,924
School Activity	31,527
Support Service Programs	
Special Services	38,562
Instructional Improvement	156,200
Board of Education	5,952
District Administration	159,918
Buildings - Care	114,730
Maintenance - Non-Student Occupied	0
Maintenance - Student Occupied	23,997
Maintenance - Grounds	3,070
Pupil-To-School Transportation	193,019
Pupil-Activity Transportation	14,846
Non-Instructional Programs	
Other Support Services	6,048
Child Nutrition	155,560
Capital Assets - Student Occupied	0
Capital Assets - Non-Student Occupied	0
Debt Service - Principal	55,000
Debt Service - Interest	242,787
Total Expenditures	2,888,217
Excess (Deficiency) of Revenues Over Expenditures	204,884
Other Financing Sources (Uses)	
Transfers In	295,967
Transfers Out	(295,967)
Total Other Financing Sources (Uses)	0
Net Change in Fund Balances	204,884
Fund Balances - Beginning	935,862
Fund Balances - Ending	\$1,140,746

LIBERTY CHARTER SCHOOL, INC
Statement of Revenues, Expenditures, and Changes in
Fund Balances - Governmental Funds
Year Ended June 30, 2011

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Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities

Net Change in Fund Balances - Total Governmental Funds \$204,884

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

Government funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the excess of capital outlays over (under) depreciation expense in the current period.	3,121
Deferred charges are expended in the funds in the year paid, but are amortized over their useful life in the statement of net assets.	(53,592)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term debt in the statement of net assets.	55,000
Bond proceeds from Series B portion of facilities revenue bonds are shown as an increase in long-term debt and capital assets on the statement of net assets and activities, but as they do not generate financial resources, they are not shown on the fund financial statements.	(175,000)
In the statement of activities, interest is accrued on long-term debt, but the expenditure is reported when due in the governmental funds.	(43)
Change in Net Assets of Governmental Activities	<u><u>\$34,370</u></u>

LIBERTY CHARTER SCHOOL, INC

Statement of Fiduciary Net Assets

June 30, 2011

	Agency Funds - Student Activity
Assets	
Cash & Investments	\$38,876
Total Assets	<u>\$38,876</u>
Liabilities	
Due to Student Groups	\$38,876
Total Liabilities	<u>38,876</u>
Net Assets	<u>0</u>
Total Net Assets	<u>0</u>
Total Liabilities and Net Assets	<u>\$38,876</u>

LIBERTY CHARTER SCHOOL, INC.

Notes to Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – Liberty Charter School, Inc. (the School) is organized as a nonprofit corporation providing public charter school educational services as authorized by Section 33 of Idaho Code.

Idaho Code Section 33-5210(3) requires charter schools to comply with the same financial reporting requirements imposed on traditional public school districts, i.e. – on a governmental, rather than nonprofit, basis of accounting. Additionally, enabling legislation creates charter schools as public entities, i.e. – as public schools, subject to provisions common with other governmental entities as set forth in Idaho Code Section 33-5204. Accordingly, the School's basis of presentation follows the governmental, rather than nonprofit, reporting model.

These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental nonprofit organizations. The significant accounting policies of the School are described below.

Basic Financial Statements - Government-Wide Statements – The School's basic financial statements include both government-wide (reporting the School as a whole) and fund financial statements (reporting the School's major funds). Both government-wide and fund financial statements categorize primary activities as either governmental or business type. Currently, all the School's activities are categorized as governmental activities.

In the government-wide statement of net assets, the activities columns (a) are presented on a consolidated basis by column, (b) and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School's net assets may be reported in three parts - invested in capital assets, net of related debt (when related debt exists), restricted net assets, and unrestricted net assets. The School first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the School's functions. The functions are also supported by general government revenues as reported in the statement of activities. The statement of activities reduces gross expenses (including depreciation when recorded) by related program revenues and operating and capital grants. Program revenues must be directly associated with the function. Internal activity between funds (when two or more funds are involved) is eliminated in the government-wide statement of activities. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reports capital-specific grants.

The net costs (by function) are normally covered by general revenues.

The School reports expenditures in accordance with the State Department of Education's "Idaho Financial Accounting Reporting Management System" (IFARMS). IFARMS categorizes all expenditures by function, program and object. Accordingly, there is no allocation of indirect costs.

LIBERTY CHARTER SCHOOL, INC.

Notes to Financial Statements

The government-wide focus is more on the sustainability of the School as an entity and the change in the School's net assets resulting from the current year's activities. Fiduciary funds, when present, are not included in the government-wide statements.

Basic Financial Statements - Fund Financial Statements – The financial transactions of the School are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses.

The emphasis in fund financial statements is on the major funds. Nonmajor funds by category are summarized into a single column. Generally accepted accounting principles set forth minimum criteria (percentage of assets, liabilities, revenues, and expenditures/expenses of the funds) for the determination of major funds. Major governmental funds of the School include:

General Fund – The general fund is the School's primary operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Major special revenue funds include the child nutrition fund, which serves to account for providing nutritional meals to students (including subsidized meals).

Debt Service Fund – The debt service fund is used to account for the accumulation of funds for the periodic payment of principal and interest on long term debt.

Fiduciary funds of the School include:

Agency Funds – Agency funds are used to account for assets held by the School on behalf of students.

Basis of Accounting – Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Activities in the government-wide financial statements are presented on the accrual basis of accounting and are required to follow both governmental accounting standards board pronouncements and financial accounting standards board pronouncements issued through November 30, 1989. Revenues are recognized when earned and expenses are recognized when incurred.

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or within thirty days after year end. Expenditures are recorded when the related

LIBERTY CHARTER SCHOOL, INC.

Notes to Financial Statements

fund liability is incurred. Exceptions to this general rule include principal and interest on long-term debt which, if any, are recognized when due and payable.

The School may report deferred revenue on its financial statements. For the fund financial statements, deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, the revenue is recognized. For both the government-wide and fund financial statements, certain grant revenues are only recognized to the extent they have been used for qualifying expenditures; any excess revenues are reported as deferred revenue.

Cash and Investments – Nearly all the cash and investment balances of the School's funds are pooled for investment purposes. The individual funds' portions of the pooled cash and investments are reported in each fund as cash and investments. Interest earned on pooled cash and investments is allocated to the various funds in proportion to each fund's respective investment balance. Investments include monies invested in the local government investment pool and U.S. government securities and are stated at fair value using either quoted market prices or best available estimate. The reported value of the local government investment pool is materially the same as the fair value of its shares.

Receivables – Receivables are reported net of any estimated uncollectible amounts.

Inventories – Material supplies on hand at year end are stated at cost using the first in, first-out method.

Capital Assets and Depreciation – Significant capital asset acquisitions with an original cost of \$5,000 or more are recorded at cost if purchased or fair value if contributed. Minor repairs and maintenance are expensed as incurred. Depreciation over the estimated useful lives of depreciable assets is recorded using the straight line method.

Compensated Absences and Post-Retirement Benefits – The School provides certain compensated absences to its employees. The estimated amount of compensation for future amounts is deemed to be immaterial and, accordingly, no liability is recorded. Government accounting standards board statement 45 requires employers to accrue future estimated post-retirement benefits on the employer's government-wide financial statements when such benefits are deemed material to the employer. The future estimated post-retirement benefits are deemed immaterial to the School, and accordingly, are not reflected on the government-wide financial statements.

Net Assets – Net assets is the difference between assets and liabilities. Net assets invested in capital assets - net of related debt, are capital assets net of accumulated depreciation and reduced by any outstanding debt related to the financing of those assets. Restricted net assets are net assets less related debt that are subject to constraints on their use by creditors, grantors, contributors, legislation, and other parties. All other net assets are reported as unrestricted.

LIBERTY CHARTER SCHOOL, INC.

Notes to Financial Statements

Fund Balance Classifications – Restrictions of the fund balance indicate portions that are legally or contractually segregated for a specific future use. Nonspendable portions of the fund balance are those amounts that are not expected to be converted into cash. Committed portions represent amounts that can only be used for specific purposes pursuant to formal action (i.e. board approval) of the reporting entity's governing body. Assigned portions represent amounts that are constrained by the government's intent to be used for a specific purpose. Assigned fund balance classifications are not actively used by the entity. Remaining fund balances are reported as unassigned. When expenditures are incurred that qualify for either restricted or unrestricted resources, the School first utilizes restricted resources. When expenditures are incurred that qualify for either committed or assigned or unassigned resources, the School first utilizes committed resources.

Income Taxes – The School is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code except for income, if any, derived from unrelated business activities.

Contingent Liabilities – Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the School expects such amounts, if any, to be immaterial.

Interfund Activity – Interfund activity is reported either as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

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

Concentrations of Credit Risk – The School maintains its cash at insured financial institutions. Periodically, balances may exceed federally insured limits. The School does not have a formal policy concerning concentrations of credit risk.

Risk Management – The School is exposed to various risks related to its operations. Insurance is utilized to the extent practical to minimize these risks.

Nonmonetary Transactions – Items received via food commodities programs are recognized at their stated fair market value.

LIBERTY CHARTER SCHOOL, INC.

Notes to Financial Statements

Subsequent Events – Subsequent events were evaluated through the date of the auditor’s report, which is the date the financial statements were available to be issued.

B. CASH AND INVESTMENTS

Cash and investments consist of the following at year end:

Cash - Deposits	\$212,202
Investments - Local Government Investment Pool	517,083
Investments - U.S. Government Securities	387,305
Total	<u><u>\$1,116,590</u></u>

Deposits – At year end, the carrying amounts of the School's deposits were \$212,202 and the bank balances were \$260,661. The bank balances were insured.

Investments – State statutes authorize government entities to invest in certain bonds, notes, accounts, investment pools, and other obligations of the state, U.S. Treasury, and U.S. corporations pursuant to Idaho Code 67-1210 and 67-1210A. These statutes are designed to help minimize the custodial risk that deposits may not be returned in the event of the failure of the issuer or other counterparty, interest rate risk resulting from fair value losses arising from rising interest rates, or credit risks that an issuer or other counterparty will not fulfill its obligations. The School's investment policy complies with state statutes.

The local government investment pool is managed by the state treasurer's office and is invested in accordance with state statutes and regulations. Government accounting standards board statement 40 requires government entities to disclose credit quality ratings, concentration of credit risk, and interest rate risk on investment balances. Investments in the local government investment pool and U.S. government securities are, due to their nature, not required to be rated in terms of credit quality, and are excluded from the other disclosure requirements. These investments include insured or registered investments or investments for which the securities are held by the School or its agent in the School's name. Collateralized securities in the local government investment pool are held in trust by a safekeeping bank.

LIBERTY CHARTER SCHOOL, INC.

Notes to Financial Statements

C. RECEIVABLES

Receivables consist of the following at year end:

	<u>General Fund</u>	<u>Special Revenue Funds</u>
Local Sources		
Reimbursements & Other Local Sources	\$93,677	\$2,500
Total	<u>\$93,677</u>	<u>\$2,500</u>
State Sources		
Foundation Program	\$34,857	
Special Programs	112,984	
Total	<u>\$147,841</u>	
Federal Sources		
Special Programs		\$25,384
Total		<u>\$25,384</u>

D. DEFERRED CHARGES

In the 2006/07 fiscal year, the School sold land to another charter school. A portion of the consideration was comprised of the use of certain facilities and certain maintenance services to be provided by the buyer for a 10 year period. Accordingly, the stated value of this portion of the consideration, net of amortization which is being charged over a 10 year period to the capital assets program in the statement of activities, is shown as deferred charges in the statement of net assets.

LIBERTY CHARTER SCHOOL, INC.

Notes to Financial Statements

E. CAPITAL ASSETS

A summary of capital assets for the year is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Nondepreciable Capital Assets				
Land	\$146,316			\$146,316
Total	<u>146,316</u>	<u>\$0</u>	<u>\$0</u>	<u>146,316</u>
Depreciable Capital Assets				
Buildings	5,106,597	175,000		5,281,597
Equipment	700,240	11,778		712,018
Subtotal	<u>5,806,837</u>	<u>186,778</u>	<u>0</u>	<u>5,993,615</u>
Accumulated Depreciation				
Buildings	769,539	132,040		901,579
Equipment	555,663	51,617		607,280
Subtotal	<u>1,325,202</u>	<u>183,657</u>	<u>0</u>	<u>1,508,859</u>
Total	<u>4,481,635</u>	<u>3,121</u>	<u>0</u>	<u>4,484,756</u>
Net Capital Assets	<u><u>\$4,627,951</u></u>	<u><u>\$3,121</u></u>	<u><u>\$0</u></u>	<u><u>\$4,631,072</u></u>

Depreciation expense of \$183,657 was charged to the capital assets – student occupied program.

F. LONG-TERM DEBT

At year end, the School's bonded debt was as follows:

	<u>Outstanding</u>
2008 - \$4,005,000 - facilities revenue bonds (taxable and tax exempt issuances) for capital improvements due in semiannual installments with interest at 5.50% - 7.50% through 2037/38, secured by real estate, paid through the debt service fund	\$3,855,000
Total	<u><u>\$3,855,000</u></u>

LIBERTY CHARTER SCHOOL, INC.
Notes to Financial Statements

Maturities on the bonds, exclusive of annual fees and debt service reserve funding, are estimated as follows:

Year Ended	Principal	Interest
6/30/12	\$60,000	\$227,700
6/30/13	65,000	224,000
6/30/14	70,000	220,425
6/30/15	75,000	216,575
6/30/16	80,000	212,450
6/30/17-21	450,000	993,500
6/30/22-26	605,000	848,400
6/30/27-31	820,000	642,300
6/30/32-36	1,095,000	365,100
6/30/37-38	535,000	48,600
Total	\$3,855,000	\$3,999,050

Changes in long-term debt are as follows:

Description	Beginning Balance	Increases*	Decreases	Ending Balance	Due Within One Year
2008 F.R. Bonds	\$3,735,000	\$175,000	\$55,000	\$3,855,000	\$60,000
Total	\$3,735,000	\$175,000	\$55,000	\$3,855,000	\$60,000

*Increases reflect bond proceeds and related adjustments for Series B portion of the 2008 facility revenue bonds.

Interest and related costs during the year amounted to \$242,830 and were charged to the debt service – interest program.

G. RETIREMENT 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

LIBERTY CHARTER SCHOOL, INC.

Notes to Financial Statements

allowance is 2.0% (2.3% police/firefighter) 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 the School and its employees are established and may be amended by the PERSI Board of Trustees. For the year ended June 30, 2011, the required contribution rate as a percentage of covered payrolls for members was 6.23% for general members and 7.69% for police/firefighters. The employer rate as a percentage of covered payroll was 10.39% for general members and 10.73% for police/firefighter members. The School's employer contributions required and paid were \$159,120, \$144,773, and \$163,388, for the three years ended June 30, 2011, 2010, and 2009 respectively.

H. INTERFUND BALANCES AND TRANSFERS

Interfund balances at year end consist of the following:

<u>Due To Fund</u>	<u>Due From Fund</u>	
	<u>Nonmajor Governmental</u>	<u>Total</u>
General	\$18,428	\$18,428
Total	<u>\$18,428</u>	<u>\$18,428</u>

These interfund balances resulted from the time lag between when expenditures are incurred in a fund and when the fund is reimbursed for such expenditures.

Interfund transfers during the year consist of the following:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>	<u>Purpose</u>
General		\$295,967	Debt service
Debt Service	\$295,967		Debt service
Total	<u>\$295,967</u>	<u>\$295,967</u>	

REQUIRED SUPPLEMENTAL INFORMATION

LIBERTY CHARTER SCHOOL, INC
 Budgetary Comparison Schedule -
 General and Major Special Revenue Funds
 Year Ended June 30, 2011

General Fund	Budgeted Amounts (GAAP Basis)		Actual Amounts	Final Budget Variance Positive (Negative)
	Original	Final		
Revenues				
Local Revenue	\$110,000	\$32,000	\$37,925	\$5,925
State Revenue	2,387,000	2,391,017	2,497,601	106,584
Federal Revenue	0	96,506	96,506	0
Total Revenues	2,497,000	2,519,523	2,632,032	112,509
Expenditures				
Instructional Programs				
Elementary School	1,009,300	953,750	976,534	(22,784)
Secondary School	649,500	618,208	532,077	86,131
Exceptional Child	0	0	0	0
School Activity	19,000	21,000	31,527	(10,527)
Support Service Programs				
Special Services	38,000	38,085	38,562	(477)
Instructional Improvement	0	2,400	2,321	79
Board of Education	5,500	6,400	5,952	448
District Administration	139,895	157,700	159,918	(2,218)
Buildings - Care	94,500	97,502	114,730	(17,228)
Maintenance - Non-Student Occupied	0	0	0	0
Maintenance - Student Occupied	5,000	20,000	23,997	(3,997)
Maintenance - Grounds	2,000	2,500	3,070	(570)
Pupil-To-School Transportation	184,000	182,500	193,019	(10,519)
Pupil-Activity Transportation	18,000	24,000	14,846	9,154
Non-Instructional Programs				
Other Support Services	500	5,100	6,048	(948)
Child Nutrition	0	4,500	4,455	45
Capital Assets - Student Occupied	385,444	527,852	0	527,852
Capital Assets - Non-Student Occupied	0	0	0	0
Debt Service - Principal	0	0	0	0
Debt Service - Interest	0	0	0	0
Total Expenditures	2,550,639	2,661,497	2,107,056	554,441 *
Excess (Deficiency) of Revenues Over Expenditures	(53,639)	(141,974)	524,976	666,950
Other Financing Sources (Uses)				
Transfers In	0	0	0	0
Transfers Out	(286,361)	(286,361)	(295,967)	(9,606)
Total Other Financing Sources (Uses)	(286,361)	(286,361)	(295,967)	(9,606)
Net Change in Fund Balances	(340,000)	(428,335)	229,009	657,344
Fund Balances - Beginning	340,000	428,335	428,335	0
Fund Balances - Ending	\$0	\$0	\$657,344	\$657,344

*Total expenditures (over) under appropriations.

LIBERTY CHARTER SCHOOL, INC
 Budgetary Comparison Schedule -
 General and Major Special Revenue Funds
 Year Ended June 30, 2011

Child Nutrition Fund	Budgeted Amounts (GAAP Basis)		Actual Amounts	Final Budget Variance Positive (Negative)
	Original	Final		
Revenues				
Local Revenue	\$57,500	\$57,081	\$58,697	\$1,616
Federal Revenue	56,000	64,576	71,130	6,554
Total Revenues	<u>113,500</u>	<u>121,657</u>	<u>129,827</u>	<u>8,170</u>
Expenditures				
Non-Instructional Programs				
Child Nutrition	113,450	146,090	0	146,090
Total Expenditures	<u>113,450</u>	<u>146,090</u>	<u>0</u>	<u>146,090</u> *
Excess (Deficiency) of Revenues Over Expenditures				
	50	(24,433)	129,827	154,260
Other Financing Sources (Uses)				
Transfers In	0	0	0	0
Transfers Out	(50)	0	0	0
Total Other Financing Sources (Uses)	<u>(50)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	0	(24,433)	129,827	154,260
Fund Balances - Beginning	<u>0</u>	<u>0</u>	<u>52,623</u>	<u>52,623</u>
Fund Balances - Ending	<u>\$0</u>	<u>(\$24,433)</u>	<u>\$182,450</u>	<u>\$206,883</u>

*Total expenditures (over) under appropriations.

SUPPLEMENTARY INFORMATION

LIBERTY CHARTER SCHOOL, INC
 Combining Balance Sheet - Nonmajor Governmental Funds
 June 30, 2011

	Special Revenue Funds			Title I-A ESEA IBP
	Albertsons	Driver Education	Substance Abuse	
Assets				
Cash & Investments				\$926
Receivables:				
Local Sources				
State Sources				
Federal Sources				97
Due From Other Funds				
Total Assets	\$0	\$0	\$0	\$1,023
Liabilities				
Accounts Payable				
Due To Other Funds				
Salaries & Benefits Payable				\$1,023
Deferred Revenue				
Total Liabilities	\$0	\$0	\$0	1,023
Fund Balances				
Restricted:				
Special Programs				
Debt Service				
Capital Projects				
Unassigned				
Total Fund Balances	0	0	0	0
Total Liabilities and Fund Balances	\$0	\$0	\$0	\$1,023

LIBERTY CHARTER SCHOOL, INC
 Combining Balance Sheet - Nonmajor Governmental Funds
 June 30, 2011

	<u>Special Revenue Funds</u>			<u>Capital Projects</u>
	<u>Special Educ. IDEA Part B</u>	<u>Title VI-B ESEA REAP</u>	<u>Title II-A Improving Teacher Quality</u>	<u>Plant Facilities</u>
Assets				
Cash & Investments				\$64,752
Receivables:				
Local Sources				
State Sources				
Federal Sources	\$25,287			
Due From Other Funds				
Total Assets	<u>\$25,287</u>	<u>\$0</u>	<u>\$0</u>	<u>\$64,752</u>
Liabilities				
Accounts Payable				
Due To Other Funds	\$18,428			
Salaries & Benefits Payable	6,859			
Deferred Revenue				
Total Liabilities	<u>25,287</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Fund Balances				
Restricted:				
Special Programs				
Debt Service				
Capital Projects				64,752
Unassigned				
Total Fund Balances	<u>0</u>	<u>0</u>	<u>0</u>	<u>64,752</u>
Total Liabilities and Fund Balances	<u>\$25,287</u>	<u>\$0</u>	<u>\$0</u>	<u>\$64,752</u>

LIBERTY CHARTER SCHOOL, INC
 Combining Balance Sheet - Nonmajor Governmental Funds
 June 30, 2011

	Total
Assets	
Cash & Investments	\$65,678
Receivables:	
Local Sources	0
State Sources	0
Federal Sources	25,384
Due From Other Funds	0
Total Assets	\$91,062
 Liabilities	
Accounts Payable	\$0
Due To Other Funds	18,428
Salaries & Benefits Payable	7,882
Deferred Revenue	0
Total Liabilities	26,310
 Fund Balances	
Restricted:	
Special Programs	0
Debt Service	0
Capital Projects	64,752
Unassigned	0
Total Fund Balances	64,752
Total Liabilities and Fund Balances	\$91,062

LIBERTY CHARTER SCHOOL, INC
Combining Statement of Revenues, Expenditures, and Changes in
Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2011

	Special Revenue Funds			Title I-A ESEA IBP
	Albertsons	Driver Education	Substance Abuse	
Revenues				
Local Revenue	\$100,000			
State Revenue				
Federal Revenue				\$52,386
Total Revenues	<u>\$100,000</u>	<u>\$0</u>	<u>\$0</u>	<u>52,386</u>
Expenditures				
Instructional Programs				
Elementary School			1,000	52,386
Secondary School		80		
Exceptional Child				
School Activity				
Support Service Programs				
Special Services				
Instructional Improvement	100,000			
Board of Education				
District Administration				
Buildings - Care				
Maintenance - Non-Student Occupied				
Maintenance - Student Occupied				
Maintenance - Grounds				
Pupil-To-School Transportation				
Pupil-Activity Transportation				
Non-Instructional Programs				
Other Support Services				
Child Nutrition				
Capital Assets - Student Occupied				
Capital Assets - Non-Student Occupied				
Debt Service - Principal				
Debt Service - Interest				
Total Expenditures	<u>100,000</u>	<u>80</u>	<u>1,000</u>	<u>52,386</u>
Excess (Deficiency) of Revenues				
Over Expenditures	0	(80)	(1,000)	0
Other Financing Sources (Uses)				
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	<u>0</u>	<u>(80)</u>	<u>(1,000)</u>	<u>0</u>
Fund Balances - Beginning	<u>0</u>	<u>80</u>	<u>1,000</u>	<u>0</u>
Fund Balances - Ending	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

LIBERTY CHARTER SCHOOL, INC

Combining Statement of Revenues, Expenditures, and Changes in
Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2011

	<u>Special Revenue Funds</u>			<u>Capital Projects</u>
	<u>Special Educ. IDEA Part B</u>	<u>Title VI-B ESEA REAP</u>	<u>Title II-A Improving Teacher Quality</u>	<u>Plant Facilities</u>
Revenues				
Local Revenue				
State Revenue				
Federal Revenue	\$124,924	\$39,960	\$13,919	
Total Revenues	<u>124,924</u>	<u>39,960</u>	<u>13,919</u>	<u>\$0</u>
Expenditures				
Instructional Programs				
Elementary School				
Secondary School				
Exceptional Child	124,924			
School Activity				
Support Service Programs				
Special Services				
Instructional Improvement		39,960	13,919	
Board of Education				
District Administration				
Buildings - Care				
Maintenance - Non-Student Occupied				
Maintenance - Student Occupied				
Maintenance - Grounds				
Pupil-To-School Transportation				
Pupil-Activity Transportation				
Non-Instructional Programs				
Other Support Services				
Child Nutrition				
Capital Assets - Student Occupied				
Capital Assets - Non-Student Occupied				
Debt Service - Principal				
Debt Service - Interest				
Total Expenditures	<u>124,924</u>	<u>39,960</u>	<u>13,919</u>	<u>0</u>
Excess (Deficiency) of Revenues				
Over Expenditures	0	0	0	0
Other Financing Sources (Uses)				
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balances - Beginning	<u>0</u>	<u>0</u>	<u>0</u>	<u>64,752</u>
Fund Balances - Ending	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$64,752</u>

LIBERTY CHARTER SCHOOL, INC
Combining Statement of Revenues, Expenditures, and Changes in
Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2011

	Total
Revenues	
Local Revenue	\$100,000
State Revenue	0
Federal Revenue	231,189
Total Revenues	331,189
Expenditures	
Instructional Programs	
Elementary School	53,386
Secondary School	80
Exceptional Child	124,924
School Activity	0
Support Service Programs	
Special Services	0
Instructional Improvement	153,879
Board of Education	0
District Administration	0
Buildings - Care	0
Maintenance - Non-Student Occupied	0
Maintenance - Student Occupied	0
Maintenance - Grounds	0
Pupil-To-School Transportation	0
Pupil-Activity Transportation	0
Non-Instructional Programs	
Other Support Services	0
Child Nutrition	0
Capital Assets - Student Occupied	0
Capital Assets - Non-Student Occupied	0
Debt Service - Principal	0
Debt Service - Interest	0
Total Expenditures	332,269
Excess (Deficiency) of Revenues	
Over Expenditures	(1,080)
Other Financing Sources (Uses)	
Transfers In	0
Transfers Out	0
Total Other Financing Sources (Uses)	0
Net Change in Fund Balances	(1,080)
Fund Balances - Beginning	65,832
Fund Balances - Ending	\$64,752

OTHER REPORTS AND SCHEDULES

**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
Liberty Charter School, Inc.

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Liberty Charter School, Inc. (the School) as of and for the year ended June 30, 2011, which collectively comprise the School's basic financial statements and have issued our report thereon dated August 4, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School'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*.

This report is intended solely for the information and use of the management, those charged with governance, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Folke CPAs, P.C.

August 4, 2011

LIBERTY CHARTER SCHOOL, INC.

Schedule of Findings and Responses

Year Ended June 30, 2011

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the School.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Basic Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the School were disclosed during the audit.