

**VICTORY CHARTER SCHOOL, INC.**

**FINANCIAL STATEMENTS**

**Year Ended June 30, 2011**

VICTORY CHARTER SCHOOL, INC.

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**FINANCIAL SECTION**

## Independent Auditor's Report

Board of Directors  
Victory Charter School, Inc.

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Victory 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 3, 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 3, 2011

## **BASIC FINANCIAL STATEMENTS**

**VICTORY CHARTER SCHOOL, INC.**

## Statement of Net Assets

June 30, 2011

	<b>Governmental Activities</b>
<b>Assets</b>	
Current Assets	
Cash & Investments	\$1,046,349
Receivables:	
Local Sources	39,357
State Sources	157,847
Federal Sources	47,635
Total Current Assets	<u>1,291,188</u>
Noncurrent Assets	
Nondepreciable Capital Assets	1,188,878
Depreciable Net Capital Assets	3,953,102
Total Noncurrent Assets	<u>5,141,980</u>
<b>Total Assets</b>	<u><u>\$6,433,168</u></u>
<b>Liabilities</b>	
Current Liabilities	
Accounts Payable	\$97,676
Salaries & Benefits Payable	114,031
Deferred Revenue, Current	53,593
Accrued Interest	153,900
Long-Term Debt, Current	45,000
Total Current Liabilities	<u>464,200</u>
Noncurrent Liabilities	
Long-Term Debt, Noncurrent	4,690,000
Deferred Revenue, Noncurrent	267,961
Total Noncurrent Liabilities	<u>4,957,961</u>
<b>Total Liabilities</b>	<u><u>5,422,161</u></u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	(68,474)
Restricted:	
Special Programs	0
Debt Service	580,877
Capital Projects	88,000
Unrestricted	410,604
<b>Total Net Assets</b>	<u>1,011,007</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$6,433,168</u></u>

# VICTORY 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
<b>Governmental Activities</b>					
Instructional Programs					
Elementary School	\$763,512		\$59,622		(\$703,890)
Secondary School	456,007				(456,007)
Exceptional Child	106,509		106,509		0
School Activity	33,080				(33,080)
Support Service Programs					
Attendance - Guidance - Health	0				0
Special Services	36,774				(36,774)
Instructional Improvement	159,160		150,916		(8,244)
Instruction-Related Technology	0				0
Board of Education	9,999				(9,999)
District Administration	190,118				(190,118)
Buildings - Care	125,783				(125,783)
Maintenance - Student Occupied	6,822				(6,822)
Maintenance - Grounds	8,526				(8,526)
Pupil-To-School Transportation	128,259				(128,259)
Non-Instructional Programs					
Child Nutrition	134,428	\$50,413	78,300		(5,715)
Capital Assets - Student Occupied	124,802				(124,802)
Capital Assets - Non-Student Occupied	0				0
Debt Service - Principal	0				0
Debt Service - Interest	273,125				(273,125)
<b>Total</b>	<b>\$2,556,904</b>	<b>\$50,413</b>	<b>\$395,347</b>	<b>\$0</b>	<b>(2,111,144)</b>
<b>General Revenues</b>					
Local Revenue					79,370
State Revenue					2,250,423
Federal Revenue					82,741
<b>Total</b>					<b>2,412,534</b>
<b>Change in Net Assets</b>					301,390
<b>Net Assets - Beginning</b>					709,617
<b>Net Assets - Ending</b>					<b>\$1,011,007</b>

**VICTORY CHARTER SCHOOL, INC.**

Balance Sheet - Governmental Funds

June 30, 2011

	<b>General Fund</b>	<b>Child Nutrition Fund</b>	<b>Debt Service Fund</b>	<b>Other Governmental Funds</b>
<b>Assets</b>				
Cash & Investments	\$376,290	\$1,182	\$668,877	\$0
Receivables:				
Local Sources	35,770	3,587		0
State Sources	157,847			0
Federal Sources				47,635
Due From Other Funds	47,635			0
<b>Total Assets</b>	<u>\$617,542</u>	<u>\$4,769</u>	<u>\$668,877</u>	<u>\$47,635</u>
<b>Liabilities</b>				
Accounts Payable	\$95,176	\$2,500		\$0
Due To Other Funds				47,635
Salaries & Benefits Payable	111,762	2,269		0
Deferred Revenue				0
<b>Total Liabilities</b>	<u>206,938</u>	<u>4,769</u>	<u>\$0</u>	<u>47,635</u>
<b>Fund Balances</b>				
Restricted:				
Special Programs				0
Debt Service			580,877	0
Capital Projects			88,000	0
Unassigned	410,604			0
<b>Total Fund Balances</b>	<u>410,604</u>	<u>0</u>	<u>668,877</u>	<u>0</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$617,542</u>	<u>\$4,769</u>	<u>\$668,877</u>	<u>\$47,635</u>

**VICTORY CHARTER SCHOOL, INC.**

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## Balance Sheet - Governmental Funds

June 30, 2011

	<b>Total Governmental Funds</b>
<b>Assets</b>	
Cash & Investments	\$1,046,349
Receivables:	
Local Sources	39,357
State Sources	157,847
Federal Sources	47,635
Due From Other Funds	47,635
<b>Total Assets</b>	<u><u>\$1,338,823</u></u>
<b>Liabilities</b>	
Accounts Payable	\$97,676
Due To Other Funds	47,635
Salaries & Benefits Payable	114,031
Deferred Revenue	0
<b>Total Liabilities</b>	<u><u>259,342</u></u>
<b>Fund Balances</b>	
Restricted:	
Special Programs	0
Debt Service	580,877
Capital Projects	88,000
Unassigned	410,604
<b>Total Fund Balances</b>	<u><u>1,079,481</u></u>
<b>Total Liabilities and Fund Balances</b>	<u><u>\$1,338,823</u></u>

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

<b>Total Governmental Fund Balances</b>	\$1,079,481
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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.	5,141,980
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Certain commitments requiring amortization in the government wide financial statements 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.	(4,888,900)
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<b>Net Assets of Governmental Activities</b>	<u><u>\$1,011,007</u></u>
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**VICTORY CHARTER SCHOOL, INC.**

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

	<u>General Fund</u>	<u>Child Nutrition Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>
<b>Revenues</b>				
Local Revenue	\$25,710	\$50,413	\$67	\$100,000
State Revenue	2,250,423			0
Federal Revenue	82,741	78,300		217,047
<b>Total Revenues</b>	<u>2,358,874</u>	<u>128,713</u>	<u>67</u>	<u>317,047</u>
<b>Expenditures</b>				
Instructional Programs				
Elementary School	703,890			59,622
Secondary School	456,007			0
Exceptional Child				106,509
School Activity	38,460			0
Support Service Programs				
Attendance - Guidance - Health				0
Special Services	36,774			0
Instructional Improvement	8,244			150,916
Instruction-Related Technology				0
Board of Education	9,999			0
District Administration	190,118			0
Buildings - Care	125,783			0
Maintenance - Student Occupied	6,822			0
Maintenance - Grounds	8,526			0
Pupil-To-School Transportation	128,259			0
Non-Instructional Programs				
Child Nutrition	3,524	130,904		0
Capital Assets - Student Occupied				0
Capital Assets - Non-Student Occupied				0
Debt Service - Principal			40,000	0
Debt Service - Interest			314,656	0
<b>Total Expenditures</b>	<u>1,716,406</u>	<u>130,904</u>	<u>354,656</u>	<u>317,047</u>
<b>Excess (Deficiency) of Revenues</b>				
<b>Over Expenditures</b>	642,468	(2,191)	(354,589)	0
<b>Other Financing Sources (Uses)</b>				
Transfers In	0	2,191	350,762	0
Transfers Out	(352,953)	0	0	0
<b>Total Other Financing Sources (Uses)</b>	<u>(352,953)</u>	<u>2,191</u>	<u>350,762</u>	<u>0</u>
<b>Net Change in Fund Balances</b>	289,515	0	(3,827)	0
<b>Fund Balances - Beginning</b>	121,089	0	672,704	0
<b>Fund Balances - Ending</b>	<u>\$410,604</u>	<u>\$0</u>	<u>\$668,877</u>	<u>\$0</u>

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

	<u><b>Total Governmental Funds</b></u>
<b>Revenues</b>	
Local Revenue	\$176,190
State Revenue	2,250,423
Federal Revenue	378,088
<b>Total Revenues</b>	<u>2,804,701</u>
<b>Expenditures</b>	
Instructional Programs	
Elementary School	763,512
Secondary School	456,007
Exceptional Child	106,509
School Activity	38,460
Support Service Programs	
Attendance - Guidance - Health	0
Special Services	36,774
Instructional Improvement	159,160
Instruction-Related Technology	0
Board of Education	9,999
District Administration	190,118
Buildings - Care	125,783
Maintenance - Student Occupied	6,822
Maintenance - Grounds	8,526
Pupil-To-School Transportation	128,259
Non-Instructional Programs	
Child Nutrition	134,428
Capital Assets - Student Occupied	0
Capital Assets - Non-Student Occupied	0
Debt Service - Principal	40,000
Debt Service - Interest	314,656
<b>Total Expenditures</b>	<u>2,519,013</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	285,688
<b>Other Financing Sources (Uses)</b>	
Transfers In	352,953
Transfers Out	(352,953)
<b>Total Other Financing Sources (Uses)</b>	<u>0</u>
<b>Net Change in Fund Balances</b>	285,688
<b>Fund Balances - Beginning</b>	793,793
<b>Fund Balances - Ending</b>	<u><u>\$1,079,481</u></u>

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

**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** \$285,688

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. (119,422)

Revenues in the statement of activities that do not provide current financial resources are deferred in the funds. 0

The recognition of certain commitments in the statement of activities are recorded as revenues but as they do not generate financial resources, they are not reported in the funds. 53,593

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term debt in the statement of net assets. 40,000

In the statement of activities, interest is accrued on long-term debt, but the expenditure is reported when due in the governmental funds. 41,531

**Change in Net Assets of Governmental Activities** \$301,390

**VICTORY CHARTER SCHOOL, INC.**

Statement of Fiduciary Net Assets

June 30, 2011

	<b>Agency Funds - Student Activity</b>
<b>Assets</b>	
Cash & Investments	\$13,867
<b>Total Assets</b>	<u>\$13,867</u>
<b>Liabilities</b>	
Due to Student Groups	\$13,867
<b>Total Liabilities</b>	<u>13,867</u>
<b>Net Assets</b>	<u>0</u>
<b>Total Net Assets</b>	<u>0</u>
<b>Total Liabilities and Net Assets</b>	<u>\$13,867</u>

**VICTORY CHARTER SCHOOL, INC.**  
Notes to Financial Statements

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**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity** – Victory 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.

## VICTORY CHARTER SCHOOL, INC.

### Notes to Financial Statements

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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

## VICTORY CHARTER SCHOOL, INC.

### Notes to Financial Statements

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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.

## VICTORY CHARTER SCHOOL, INC.

### Notes to Financial Statements

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**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.

**VICTORY CHARTER SCHOOL, INC.**  
Notes to Financial Statements

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**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	\$112,457
Investments - Local Government Investment Pool	278,882
Investments - U.S. Government Securities	668,877
<b>Total</b>	<b><u><u>\$1,060,216</u></u></b>

**Deposits** – At year end, the carrying amounts of the School's deposits were \$112,457 and the bank balances were \$158,588. 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.

**VICTORY CHARTER SCHOOL, INC.**  
Notes to Financial Statements

**C. RECEIVABLES**

Receivables consist of the following at year end:

	<b>General Fund</b>	<b>Special Revenue Funds</b>
Local Sources		
Reimbursements	\$35,770	\$3,587
<b>Total</b>	<b>\$35,770</b>	<b>\$3,587</b>
State Sources		
Foundation Program	\$50,344	
Special Programs	107,503	
<b>Total</b>	<b>\$157,847</b>	
Federal Sources		
Special Programs		\$47,635
<b>Total</b>		<b>\$47,635</b>

**D. DEFERRED REVENUE**

Deferred revenue consists of the following at year end:

	<b>Fund Financial Statements</b>	<b>Government Wide Financial Statements</b>
<b>Description</b>		
Facility Use / Maintenance Agreement		\$321,554
<b>Total</b>	<b>\$0</b>	<b>\$321,554</b>

**Facility Use / Maintenance Agreement** - In the 2006/07 year, the School bought land from 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 to the seller for a 10 year period. Accordingly, the stated value of this portion of the consideration is being amortized over a 10 year period as general revenue on the statement of activities, with the unamortized balance being shown as deferred revenue on the statement of net assets.

**VICTORY 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	\$1,188,878			\$1,188,878
<b>Total</b>	<u>1,188,878</u>	<u>\$0</u>	<u>\$0</u>	<u>1,188,878</u>
Depreciable Capital Assets				
Buildings	4,381,270			4,381,270
Equipment	101,511	5,380		106,891
Subtotal	<u>4,482,781</u>	<u>5,380</u>	<u>0</u>	<u>4,488,161</u>
Accumulated Depreciation				
Buildings	333,761	109,532		443,293
Equipment	76,496	15,270		91,766
Subtotal	<u>410,257</u>	<u>124,802</u>	<u>0</u>	<u>535,059</u>
<b>Total</b>	<u>4,072,524</u>	<u>(119,422)</u>	<u>0</u>	<u>3,953,102</u>
<b>Net Capital Assets</b>	<u>\$5,261,402</u>	<u>(\$119,422)</u>	<u>\$0</u>	<u>\$5,141,980</u>

Depreciation expense of \$124,802 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 - \$3,965,000 - facilities revenue bonds (taxable and tax exempt issuances) for capital improvements due in semiannual installments with interest at 5.625% - 7.250% through 2039/40, secured by real estate, paid through the debt service fund	\$3,885,000
2009 - \$855,000 - facilities revenue bonds (taxable and tax exempt issuances) for capital improvements due in semiannual installments with interest at 8.25% - 10.50% through 2038/39, secured by real estate, paid through the debt service fund	850,000
<b>Total</b>	<u>\$4,735,000</u>

**VICTORY CHARTER SCHOOL, INC.**  
Notes to Financial Statements

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

<b>Year Ended</b>	<b>Principal</b>	<b>Interest</b>
6/30/12	\$45,000	\$306,088
6/30/13	50,000	302,481
6/30/14	55,000	298,797
6/30/15	80,000	294,513
6/30/16	85,000	289,384
6/30/17-21	495,000	1,360,044
6/30/22-26	675,000	1,178,203
6/30/27-31	930,000	921,391
6/30/32-36	1,270,000	566,831
6/30/37-39	1,050,000	119,688
<b>Total</b>	<b>\$4,735,000</b>	<b>\$5,637,420</b>

Changes in long-term debt are as follows:

<b>Description</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
2008 F.R. Bonds	\$3,920,000		\$35,000	\$3,885,000	\$40,000
2009 F.R. Bonds	855,000		5,000	850,000	5,000
<b>Total</b>	<b>\$4,775,000</b>	<b>\$0</b>	<b>\$40,000</b>	<b>\$4,735,000</b>	<b>\$45,000</b>

Interest and related costs during the year amounted to \$273,125 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 allowance is 2.0% (2.3% police/firefighter) of the average monthly salary for the highest consecutive 42 months.

**VICTORY CHARTER SCHOOL, INC.**  
Notes to Financial Statements

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

The actuarially determined contribution requirements of 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 \$134,595, \$132,341, and \$111,380, 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:

<b>Due To Fund</b>	<b>Due From Fund</b>	
	Nonmajor Governmental	<b>Total</b>
General	\$47,635	\$47,635
<b>Total</b>	<b>\$47,635</b>	<b>\$47,635</b>

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:

<b>Fund</b>	<b>Transfer In</b>	<b>Transfer Out</b>	<b>Purpose</b>
General		\$352,953	Debt service; support
Child Nutrition	\$2,191		Support
Debt Service	350,762		Debt service
<b>Total</b>	<b>\$352,953</b>	<b>\$352,953</b>	

**REQUIRED SUPPLEMENTAL INFORMATION**

VICTORY 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		
<b>Revenues</b>				
Local Revenue	\$27,318	\$22,300	\$25,710	\$3,410
State Revenue	2,029,637	2,133,155	2,250,423	117,268
Federal Revenue	0	82,741	82,741	0
<b>Total Revenues</b>	<b>2,056,955</b>	<b>2,238,196</b>	<b>2,358,874</b>	<b>120,678</b>
<b>Expenditures</b>				
Instructional Programs				
Elementary School	739,246	689,050	703,890	(14,840)
Secondary School	404,900	482,634	456,007	26,627
Exceptional Child	0	0	0	0
School Activity	27,900	40,900	38,460	2,440
Support Service Programs				
Attendance - Guidance - Health	0	0	0	0
Special Services	36,760	36,770	36,774	(4)
Instructional Improvement	5,000	8,500	8,244	256
Instruction-Related Technology	0	0	0	0
Board of Education	14,850	9,697	9,999	(302)
District Administration	199,900	194,370	190,118	4,252
Buildings - Care	118,300	136,200	125,783	10,417
Maintenance - Student Occupied	13,000	7,000	6,822	178
Maintenance - Grounds	5,000	10,000	8,526	1,474
Pupil-To-School Transportation	116,000	115,000	128,259	(13,259)
Non-Instructional Programs				
Child Nutrition	3,500	3,800	3,524	276
Capital Assets - Student Occupied	0	100,000	0	100,000
Capital Assets - Non-Student Occupied	0	0	0	0
Debt Service - Principal	0	0	0	0
Debt Service - Interest	0	0	0	0
<b>Total Expenditures</b>	<b>1,684,356</b>	<b>1,833,921</b>	<b>1,716,406</b>	<b>117,515 *</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>				
	372,599	404,275	642,468	238,193
<b>Other Financing Sources (Uses)</b>				
Transfers In	10,182	0	0	0
Transfers Out	(361,481)	(363,481)	(352,953)	10,528
<b>Total Other Financing Sources (Uses)</b>	<b>(351,299)</b>	<b>(363,481)</b>	<b>(352,953)</b>	<b>10,528</b>
<b>Net Change in Fund Balances</b>				
	21,300	40,794	289,515	248,721
<b>Fund Balances - Beginning</b>				
	(21,300)	121,089	121,089	0
<b>Fund Balances - Ending</b>				
	\$0	\$161,883	\$410,604	\$248,721

\*Total expenditures (over) under appropriations.

VICTORY CHARTER SCHOOL, INC.

Budgetary Comparison Schedule - General and Major Special Revenue Funds

Year Ended June 30, 2011

	Budgeted Amounts (GAAP Basis)		Actual Amounts	Final Budget Variance Positive (Negative)
	Original	Final		
<b>Child Nutrition Fund</b>				
<b>Revenues</b>				
Local Revenue	\$52,589	\$47,830	\$50,413	\$2,583
Federal Revenue	63,000	59,000	78,300	19,300
<b>Total Revenues</b>	<u>115,589</u>	<u>106,830</u>	<u>128,713</u>	<u>21,883</u>
<b>Expenditures</b>				
Non-Instructional Programs				
Child Nutrition	115,589	123,439	130,904	(7,465)
<b>Total Expenditures</b>	<u>115,589</u>	<u>123,439</u>	<u>130,904</u>	<u>(7,465) *</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	0	(16,609)	(2,191)	14,418
<b>Other Financing Sources (Uses)</b>				
Transfers In	0	0	2,191	2,191
Transfers Out	0	0	0	0
<b>Total Other Financing Sources (Uses)</b>	<u>0</u>	<u>0</u>	<u>2,191</u>	<u>2,191</u>
<b>Net Change in Fund Balances</b>	0	(16,609)	0	16,609
<b>Fund Balances - Beginning</b>	0	0	0	0
<b>Fund Balances - Ending</b>	<u>\$0</u>	<u>(\$16,609)</u>	<u>\$0</u>	<u>\$16,609</u>

\*Total expenditures (over) under appropriations.

**SUPPLEMENTARY INFORMATION**

**VICTORY CHARTER SCHOOL, INC.**  
 Combining Balance Sheet - Nonmajor Governmental Funds  
 June 30, 2011

	<b>Special Revenue Funds</b>			
	<b>Albertsons</b>	<b>Title I-A ESEA IBP</b>	<b>Special Educ. IDEA Part B</b>	<b>Title VI-B ESEA REAP</b>
<b>Assets</b>				
Cash & Investments				
Receivables:				
Local Sources				
State Sources				
Federal Sources			\$47,635	
Due From Other Funds				
<b>Total Assets</b>	<u>\$0</u>	<u>\$0</u>	<u>\$47,635</u>	<u>\$0</u>
<b>Liabilities</b>				
Accounts Payable				
Due To Other Funds			\$47,635	
Salaries & Benefits Payable				
Deferred Revenue				
<b>Total Liabilities</b>	<u>\$0</u>	<u>\$0</u>	<u>47,635</u>	<u>\$0</u>
<b>Fund Balances</b>				
Restricted:				
Special Programs				
Debt Service				
Capital Projects				
Unassigned				
<b>Total Fund Balances</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$0</u>	<u>\$0</u>	<u>\$47,635</u>	<u>\$0</u>

**VICTORY CHARTER SCHOOL, INC.**  
 Combining Balance Sheet - Nonmajor Governmental Funds  
 June 30, 2011

	<b>Special Revenue Funds</b>	
	<b>Title II-A</b>	<b>Total</b>
	<b>Improving Teacher Quality</b>	
<b>Assets</b>		
Cash & Investments		\$0
Receivables:		
Local Sources		0
State Sources		0
Federal Sources		47,635
Due From Other Funds		0
<b>Total Assets</b>	<b>\$0</b>	<b>\$47,635</b>
<b>Liabilities</b>		
Accounts Payable		\$0
Due To Other Funds		47,635
Salaries & Benefits Payable		0
Deferred Revenue		0
<b>Total Liabilities</b>	<b>\$0</b>	<b>47,635</b>
<b>Fund Balances</b>		
Restricted:		
Special Programs		0
Debt Service		0
Capital Projects		0
Unassigned		0
<b>Total Fund Balances</b>	<b>0</b>	<b>0</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$0</b>	<b>\$47,635</b>

**VICTORY CHARTER SCHOOL, INC.**

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

	<b>Special Revenue Funds</b>			
	<b>Albertsons</b>	<b>Title I-A ESEA IBP</b>	<b>Special Educ. IDEA Part B</b>	<b>Title VI-B ESEA REAP</b>
<b>Revenues</b>				
Local Revenue	\$100,000			
State Revenue				
Federal Revenue		\$59,622	\$106,509	\$38,581
<b>Total Revenues</b>	<u>100,000</u>	<u>59,622</u>	<u>106,509</u>	<u>38,581</u>
<b>Expenditures</b>				
Instructional Programs				
Elementary School		59,622		
Secondary School				
Exceptional Child			106,509	
School Activity				
Support Service Programs				
Attendance - Guidance - Health				
Special Services				
Instructional Improvement	100,000			38,581
Instruction-Related Technology				
Board of Education				
District Administration				
Buildings - Care				
Maintenance - Student Occupied				
Maintenance - Grounds				
Pupil-To-School Transportation				
Non-Instructional Programs				
Child Nutrition				
Capital Assets - Student Occupied				
Capital Assets - Non-Student Occupied				
Debt Service - Principal				
Debt Service - Interest				
<b>Total Expenditures</b>	<u>100,000</u>	<u>59,622</u>	<u>106,509</u>	<u>38,581</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	0	0	0	0
<b>Other Financing Sources (Uses)</b>				
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
<b>Total Other Financing Sources (Uses)</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Net Change in Fund Balances</b>	0	0	0	0
<b>Fund Balances - Beginning</b>	0	0	0	0
<b>Fund Balances - Ending</b>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

**VICTORY 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>Title II-A</u>	
	<u>Improving</u>	
	<u>Teacher Quality</u>	<u>Total</u>
<b>Revenues</b>		
Local Revenue		\$100,000
State Revenue		0
Federal Revenue	\$12,335	217,047
<b>Total Revenues</b>	<u>12,335</u>	<u>317,047</u>
<b>Expenditures</b>		
Instructional Programs		
Elementary School		59,622
Secondary School		0
Exceptional Child		106,509
School Activity		0
Support Service Programs		
Attendance - Guidance - Health		0
Special Services		0
Instructional Improvement	12,335	150,916
Instruction-Related Technology		0
Board of Education		0
District Administration		0
Buildings - Care		0
Maintenance - Student Occupied		0
Maintenance - Grounds		0
Pupil-To-School Transportation		0
Non-Instructional Programs		
Child Nutrition		0
Capital Assets - Student Occupied		0
Capital Assets - Non-Student Occupied		0
Debt Service - Principal		0
Debt Service - Interest		0
<b>Total Expenditures</b>	<u>12,335</u>	<u>317,047</u>
<b>Excess (Deficiency) of Revenues</b>		
<b>Over Expenditures</b>	0	0
<b>Other Financing Sources (Uses)</b>		
Transfers In	0	0
Transfers Out	0	0
<b>Total Other Financing Sources (Uses)</b>	<u>0</u>	<u>0</u>
<b>Net Change in Fund Balances</b>	0	0
<b>Fund Balances - Beginning</b>	0	0
<b>Fund Balances - Ending</b>	<u>\$0</u>	<u>\$0</u>

**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  
Victory Charter School, Inc.

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Victory 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 3, 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 3, 2011

**VICTORY CHARTER SCHOOL, INC.**

Schedule of Findings and Responses

Year Ended June 30, 2011

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**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.