

**XAVIER CHARTER SCHOOL, INC.**

Financial Statements

Year Ended June 30, 2008

(With Independent Auditors' Report Thereon)

**XAVIER CHARTER SCHOOL, INC.**  
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**Year Ended June 30, 2008**

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## INDEPENDENT AUDITORS' REPORT

### The Board of Directors of Xavier Charter School

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Xavier Charter School (the "School") (a non-profit corporation) as of and for the year ended June 30, 2008, which collectively compromise 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.

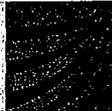
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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 the 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 opinion.

As described in Note 1 to the financial statements, these basic financials were prepared in conformity with the governmental basis of accounting as prescribed by the Idaho State Department of Education. This basis differs from the non-profit basis of accounting, which is required for non-profit entities, such as the School, under accounting principles generally accepted in the United States of America. The effects on the basic financial statements of the variances between the governmental basis of accounting and the non-profit basis of accounting, although not reasonably determinable, are presumed material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the basic financial statements referred to in the first paragraph do not present fairly, in conformity with non-profit accounting under accounting principles generally accepted in the United States of America, the financial position of Xavier Charter School, as of June 30, 2008, and the results of operations for the year then ended.

However, 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, 2008, and the respective changes in financial position thereof for the year then ended, in conformity with the basis of accounting described in Note 1 to the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2008, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

The Management's Discussion and Analysis and other required supplementary information as listed in the table of contents are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Schmitt, Griffiths, Smith & Co.*

November 7, 2008

**XAVIER CHARTER SCHOOL, INC.**  
**Management's Discussion and Analysis**  
**June 30, 2008**

The discussion and analysis of the Xavier Charter School's (the School) financial performance provides an overall review of financial activities for the fiscal year.

**Financial Highlights**

The School's assets exceeded liabilities by \$299,604 at the close of the most recent fiscal year under the GASB 34 reporting model.

The majority of the School's revenue is received from the State of Idaho. As long as the state formula remains stable, the financial position of the School will remain stable.

The School contracted for all its payroll services with Magic Valley Paymaster.

**Overview of the Financial Statements**

This section of the annual financial report consists of three parts: management's discussion and analysis, basic financial statements, and other required supplementary information. The basic financial statements consist of two kinds of statements that present different views of the School's financial activities.

***Government-Wide Financial Statements (GWFS)***

The GWFS (i.e. Statement of Net Assets and Statement of Activities) provide readers with a broad overview of the School's finances. The Statement of Net Assets and the Statement of Activities display information about the reporting government as a whole. The government-wide statements report information about the School as a whole using accounting methods similar to those used by private sector companies.

The *Statement of Net Assets* provides information on all of the assets and liabilities of the School, with the difference between the two providing the *net assets*. Increases or decreases in the net assets may indicate whether the financial position of the School is improving or deteriorating, respectively.

The *Statement of Activities* shows how the net assets of the School have changed throughout the fiscal year. Changes in the net assets occur as soon as the underlying event gives rise.

The statements present an aggregate view of the School's finances. Government-wide statements contain useful long-term information as well as information for the just-completed fiscal year.

**XAVIER CHARTER SCHOOL, INC.**  
**Management's Discussion and Analysis**  
**June 30, 2008**

To assess the overall financial condition of the School, additional non-financial factors, such as changes in the School's property, for example, the condition of the school buildings and other facilities should be considered.

In the Government-Wide Financial Statements, the School's activities are all classified as government activities. Governmental activities include all regular and special education, all educational support activities, administration, custodial, maintenance, transportation, and food services. Most of these activities are supported by property taxes and formula aid from the State of Idaho.

The Government-Wide Financial Statements can be found on pages 9 and 10 of this report.

*Fund Financial Statements*

Funds are accounting devices the School uses to keep track of sources of funding and spending on particular programs and to demonstrate compliance with various regulatory requirements. Fund Financial Statements focus on individual parts of the School. Fund statements generally report operation in more detail than government-wide statements. This statement focuses on its most significant or "major" funds and not on the School as a whole.

Some funds are required by state law and by bond covenants. The School establishes other funds to control and manage money for particular purposes (i.e. repaying its long-term debt) or to show that it is properly using certain revenues (i.e. capital project funds).

*Governmental Funds* – Governmental Funds account for nearly the same functions as the governmental activities. However, unlike the GWFS, Governmental Funds focus on *near-term inflows and outflows* as well as the *balances left at year-end* that are available for funding future basic services.

It is useful to compare information found in the Governmental Funds with that of the Governmental Activities. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

The basic Governmental Fund Financial Statements can be found on pages 11 and 13 of this report.

**XAVIER CHARTER SCHOOL, INC.**  
**Management's Discussion and Analysis**  
**June 30, 2008**

*Notes* – The notes to the financial statements provide further explanation of some of the information in the statements and provide additional disclosures so statement users have a complete picture of the School's financial activities and position.

Required supplementary information further explains and supports the financial statements by including a comparison of the School's budget data for the year.

**Government-Wide Financial Analysis**

	<u>2008</u>	<u>% of Total</u>	<u>2007</u>	<u>% of Total</u>
<b><u>ASSETS</u></b>				
Current and other assets	\$312,599	70.16%	\$ 3,407	100.00%
Capital assets (net of depreciation)	<u>132,938</u>	<u>29.84%</u>	<u>-</u>	<u>0.00%</u>
Total assets	<u>445,537</u>	<u>100.00%</u>	<u>3,407</u>	<u>100.00%</u>
<b><u>LIABILITIES</u></b>				
Current liabilities	134,269	92.01%	84,505	100.00%
Long-term liabilities	<u>11,664</u>	<u>7.99%</u>	<u>-</u>	<u>0.00%</u>
Total liabilities	<u>145,933</u>	<u>100.00%</u>	<u>84,505</u>	<u>100.00%</u>
<b><u>NET ASSETS</u></b>				
Invested in capital asstes, net of related debt	132,938	44.37%	-	0.00%
Unrestricted	<u>166,666</u>	<u>55.63%</u>	<u>(81,098)</u>	<u>100.00%</u>
Total net assets	<u>\$299,604</u>	<u>100.00%</u>	<u>\$ (81,098)</u>	<u>100.00%</u>

Net assets may serve as a useful indicator of a School's financial position. In the case of the School, assets exceeded liabilities by \$299,604 at the close of the most recent fiscal year.

At the end of the current fiscal year, the School's total net assets increased by \$380,702. This is due to an increase in current assets of \$442,130 and current liabilities and long-term liabilities of \$61,428.

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**XAVIER CHARTER SCHOOL, INC.**  
**Management's Discussion and Analysis**  
**June 30, 2008**

*Changes in Net Assets* – The table below shows the changes in net assets for fiscal years 2007 and 2008. The School relies on state support for 79.8% of its governmental activities. The school had total revenues of \$1,586,813 and total expenses of \$1,339,049 that generated an increase in net assets of \$247,764.

	<b>Years Ended</b>	
	<u>June 30, 2008</u>	<u>June 30, 2007</u>
<b>REVENUES</b>		
Program revenues		
Operating grants and contributions	\$ 70,820	\$ -
Capital grants and contributions	97,850	-
Interest earnings	11,130	-
Grants and contributions not restricted		
State foundation program	1,264,537	-
Local sources	42,476	-
Albertsons foundation grant	100,000	-
Total revenues	<u>1,586,813</u>	<u>-</u>
<b>EXPENSES</b>		
Instruction	772,765	494
Support services	433,346	80,604
Total expenses	<u>1,206,111</u>	<u>81,098</u>
<b>CHANGE IN NET ASSETS</b>	<u>\$ 380,702</u>	<u>\$ (81,098)</u>

**SCHOOL'S FUNDS FINANCIAL ANALYSIS**

As noted earlier, the School uses funds to demonstrate compliance with finance-related legal requirements.

*Governmental Funds*

The focus of the School's governmental funds is to provide balances of spendable resources and to provide data on near-term inflows and outflows.

**XAVIER CHARTER SCHOOL, INC.**  
**Management's Discussion and Analysis**  
**June 30, 2008**

*General Fund* – The general fund is the general operating fund for the School. At the end of the current fiscal year, the general fund balance is \$166,666, which is an increase of \$247,764. This increase is due to first year operations.

Expenditures for general School purposes totaled \$1,064,422, which is an increase of \$983,324. This was primarily due to first year operations.

General fund salaries totaled \$571,353 while the associated fringe benefits of retirement, social security, unemployment, workers compensation, health, dental, vision, and life added \$91,804 to arrive at 53.6% of the School's general fund expenditures.

*General Fund Budgetary Highlights*

The School adopts an original budget in June for the subsequent year.

*Capital Assets*

The School has invested \$142,734 in a wide range of capital assets. The total accumulated depreciation on these assets amounts to \$9,796.

*Long-Term Debt*

At year-end, the School has a long-term debt payable in the form of a capital lease. The lease is secured by musical instruments and has annual installments of \$5,171 through 2011 and bears interest at 14.7%. At June 30, 2008, the balance on the lease was \$11,664.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The School is looking into options for increasing its enrollment by more than 100% and leasing a new facility consisting of approximately 46,000 square feet to accommodate its students and programs. The estimated cost for this expansion is \$157,000.

**XAVIER CHARTER SCHOOL, INC.**  
**Management's Discussion and Analysis**  
**June 30, 2008**

**CONTACTING THE SCHOOL SCHOOL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide citizens, taxpayers, customers, and investors and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Cindy Fulcher, Xavier Charter School, 771 North College Road, Twin Falls, Idaho, 83301, by phone at (208) 933-9287, or by email at [cfulcher@xaviercharter.org](mailto:cfulcher@xaviercharter.org).

**XAVIER CHARTER SCHOOL, INC.**  
**Statement of Net Assets**  
**June 30, 2008**

	<u>Governmental Activities</u>
<b><u>ASSETS</u></b>	
Current assets:	
Cash	\$ 296,078
Receivables	16,521
Depreciable capital assets (net of depreciation)	132,938
Total assets	445,537
<b><u>LIABILITIES</u></b>	
Current liabilities:	
Accounts payable	25,744
Salaries and benefits payable	108,525
Lease payable, current portion	3,335
Total current liabilities	137,604
Lease payable, less current portion	8,329
Total liabilities	145,933
<b><u>NET ASSETS</u></b>	
Invested in capital assets	132,938
Unrestricted	166,666
Total net assets	\$ 299,604

**XAVIER CHARTER SCHOOL, INC.**  
Statement of Activities  
Year Ended June 30, 2008

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	
<b>Governmental activities:</b>				
Instructional	\$ 772,765	\$ -	\$ 22,500	\$ (750,265)
Support services				
School administration	187,104	-	48,320	(138,784)
Maintenance and custodial	246,242	-	-	(246,242)
Capital improvements	-	-	-	97,850
Total governmental activities	\$ 1,206,111	\$ -	\$ 70,820	\$ (1,037,441)
General revenues:				
Grants and contributions not restricted to specific programs:				
State foundation program				1,264,537
Alberstons Foundation grant				100,000
Local sources				42,476
Interest and investment earnings:				
General fund				11,130
Total general revenue				1,418,143
Change in net assets				380,702
Net assets, beginning				(81,098)
Net assets, ending				\$ 299,604

The notes to the financial statements are an integral part of this statement.

**XAVIER CHARTER SCHOOL, INC.**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2008**

	General	Implementation Grant	Other Governmental Funds	Total Governmental Funds
<b><u>ASSETS</u></b>				
Current assets:				
Cash	\$ 296,078	-	-	\$ 296,078
Grants receivable	16,521	-	-	16,521
Total assets	\$ 312,599	-	-	\$ 312,599
<b><u>LIABILITIES AND FUND BALANCE</u></b>				
Current liabilities:				
Accounts payable	\$ 25,744	-	-	\$ 25,744
Lease payable, current portion	3,335	-	-	3,335
Accrued liabilities	108,525	-	-	108,525
Total current liabilities	137,604	-	-	137,604
Lease payable, less current portion	8,329	-	-	8,329
Total liabilities	145,933	-	-	145,933
Fund balances:				
Unreserved				
Undesignated	166,666	-	-	166,666
Total fund balances	166,666	-	-	166,666
	\$ 312,599	-	-	\$ 312,599

The notes to the financial statements are an integral part of this statement.

**XAVIER CHARTER SCHOOL, INC.**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2008**

Total fund balances - govermental funds \$ 166,666

The cost of captial assets (land, buildings, furniture, equipment and construction in process) purchased or constructed is reported as an expenditure in governmental funds. The Statement of Net Assets includes those capital assets among the assets of the School as a whole. The cost of those capital assets is allocated over their estimated useful lifes (as depreciation expense) to the various programs reported as governmental activities in the Statement of Activities. Because depreciation expense does not affect financial resources, it is not reported in governemental funds.

Cost of capital assets	142,734	
Depreication expense to date	<u>(9,796)</u>	
		<u>132,938</u>
<b>Total net assets - governmental activities</b>		<b><u><u>\$ 299,604</u></u></b>

**XAVIER CHARTER SCHOOL, INC.**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended June 30, 2008**

	General	Implementation Grant	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Sources:				
Federal	\$ -	\$ 168,670	\$ -	\$ 168,670
State	1,259,205	-	5,332	1,264,537
Local	52,981	-	100,625	153,606
Total revenues	<u>1,312,186</u>	<u>168,670</u>	<u>105,957</u>	<u>1,586,813</u>
<b>Expenditures:</b>				
Instructional services	694,059	70,268	-	764,327
Student support service	52,962	-	61,625	114,587
Operation and maintenance of facility	246,242	-	-	246,242
Student transportation	71,159	-	-	71,159
Capital expenditures	-	98,402	44,332	142,734
Total expenditures	<u>1,064,422</u>	<u>168,670</u>	<u>105,957</u>	<u>1,339,049</u>
Net change in fund balance	247,764	-	-	247,764
<b>Fund balances, beginning</b>	<u>(81,098)</u>	<u>-</u>	<u>-</u>	<u>(81,098)</u>
<b>Fund balances, ending</b>	<u>\$ 166,666</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 166,666</u>

The notes to the financial statements are an integral part of this statement.

**XAVIER CHARTER SCHOOL, INC.**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended June 30, 2008**

Total net change in fund balances - governmental funds \$ 247,764

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

Capital outlays are reported in governmental funds 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 amount by which capital outlays exceeded depreciation during the

Capital outlays	142,734	
Depreciation expense to date	<u>(9,796)</u>	<u>132,938</u>
<b>Change in net assets of governmental activities</b>		<u><u>\$ 380,702</u></u>

**XAVIER CHARTER SCHOOL, INC.**  
**Notes to the Basic Financial Statements**  
**June 30, 2008**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Entity and School**

Xavier Charter School, Inc. (the School) is organized and operated as a nonprofit corporation in the State of Idaho. The School was incorporated in 2007 to expand choice in public education available within the Twin Falls School District and surrounding areas. The School operates a charter school serving grades K-8.

The School's charter was issued and granted by the State of Idaho, State Department of Education in 2006. A school's charter may be revoked by the authorized chartering entity if the school has failed to cure a defect after receiving reasonable notice and having had a reasonable opportunity to cure the defect. Revocation may not occur until the school has been afforded a public hearing. Defects that could subject a school to revocation of the charter include failure to follow the procedures set forth in the approved charter, failure to substantially meet any of the student educational standards identified in the approved charter, failure to meet generally accepted accounting standards of fiscal management, failure to submit required reports to the authorizing authority, and/or violation of any provision of law. Further, all charters issued or renewed after April 1, 2004 will be for an indefinite period of time. Management of the School believes it has complied with all of the charter requirements.

**Regulatory Reporting**

As required by the enabling legislation, the School is organized as a non-profit corporation. The financial reporting for non-profit entities requires entities to follow the reporting requirements of the Financial Accounting Standards Board (FASB) as set forth in the Statement of Financial Accounting Standards No. 117, "Financial Statements of Not-for-Profit Organizations," dated June 1993. Accordingly, the net assets should be reported in each of the following three classes: (a) unrestricted net assets; (b) temporarily restricted assets; and (c) permanently restricted net assets.

During the 2001 legislative session, the Idaho Legislature passed a bill that requires charter schools to provide financial reporting on a governmental basis of accounting. Therefore, in these financial statements, the accounting policies of the School conform to generally accepted accounting principles and to state laws applicable to governments. The following is a summary of the more significant policies:

**XAVIER CHARTER SCHOOL, INC.**  
**Notes to the Basic Financial Statements, Continued**  
**June 30, 2008**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**Regulatory Reporting, Continued**

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Some of the significant changes in the Statement include the following:

- A Management’s Discussion and Analysis (MD&A) providing an analysis of the School’s overall financial position and results of operations.
- Financial Statements prepared using full-accrual accounting for School’s activities.
- A change in fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements) as of June 30, 2008.

**Financial Reporting Entity**

The School follows Governmental Accounting Standards Board (GASB) Statement Nos. 14 and 39 in determining the reporting entity and component units. The financial reporting entity consists solely of the primary government. Accordingly, the financial statements include all funds and agencies of the primary government whose budgets are controlled or whose boards are appointed by the School’s Board of Trustees.

The School contributes to the multi-employer Public Employee Retirement System of Idaho (PERSI). PERSI is administered by the State of Idaho. A ten-year history is provided in PERSI’s annual report.

**XAVIER CHARTER SCHOOL, INC.**  
**Notes to the Basic Financial Statements, Continued**  
**June 30, 2008**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**Financial Reporting Entity, Continued**

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

The funds of the School are classified as governmental funds. The fund classifications and a description of each existing fund type follow:

*General Fund* – the primary operating fund of the School accounts for all financial resources, except those required to be accounted for in other funds.

*Special Revenue Funds* – account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

*Capital Project Fund* – accounts for the acquisition of fixed assets or construction of major capital projects not being financed by proprietary or nonexpendable trust funds.

**Measurement Focus and Basis of Accounting**

*Government-Wide Financial Statements (GWFS)*

The Statement of Net Assets and the Statement of Activities displays information about the reporting government as a whole. The Statement of Net Assets and the Statement of Activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*.

**XAVIER CHARTER SCHOOL, INC.**  
**Notes to the Basic Financial Statements, Continued**  
**June 30, 2008**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**Measurement Focus and Basis of Accounting, Continued**

*Program Revenues*

Program revenues included in the Statement of Activities derive directly from the program itself or from parties outside the School's student body as a whole; program revenues reduce the cost of the function to be financed from the School's general revenues. Program revenues include charges to students or applicants who purchase, use or directly benefit from the goods or services provided by the given function.

*Allocation of Indirect Expenses*

The School reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Indirect expenses of other functions are not allocated to those functions but are reported separately in the Statement of Activities.

*Fund Financial Statements (FFS)*

*Governmental Funds*

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, defined as measureable and available. Measureable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The government considers all revenues available if they are collected within 30 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured principal and interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources. With this measurement focus, only current assets and current liabilities are generally included on a balance sheet. Operating statements of these funds present increases and decreases in net current assets. The governmental funds use the following practices in recording revenues and expenditures:

**XAVIER CHARTER SCHOOL, INC.**  
**Notes to the Basic Financial Statements, Continued**  
**June 30, 2008**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**Measurement Focus and Basis of Accounting, Continued**

*Revenues*

*Entitlements and shared revenues* (which include state equalization and state revenue sharing) are recorded as unrestricted grants-in-aid at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met and the susceptible to accrual criteria have been met.

*Other receipts* become measurable and available when cash is received by the School and are recognized as revenue at that time.

*Expenditures*

Salaries are recorded as earned and paid. Salaries earned but unpaid for nine-month employees are accrued at June 30.

*Estimates*

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

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**XAVIER CHARTER SCHOOL, INC.**  
**Notes to the Basic Financial Statements, Continued**  
**June 30, 2008**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**Measurement Focus and Basis of Accounting, Continued**

*Capital Assets*

Capital assets are recorded at historical cost and depreciated over their estimated useful lives (excluding salvage value). Donated capital assets are recorded at their estimated fair value at the date of donation. Estimated useful life is management's estimate of how long the asset is expected to meet service demands. Straight-line depreciation is used based on the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements and portable classrooms	30
Furniture	7
Office equipment	7
Computer equipment	3

The School's capitalization threshold is \$1,000 and capital assets are recorded at historical cost.

The cost of normal maintenance and repairs not adding to the value of the asset or materially extending asset lives are not capitalized.

The School does not possess any material amounts of infrastructure capital assets (e.g. roads, bridges, parking lots, sewer). In the future, if such items are built or constructed, and appear to be material in cost compared to all capital assets, they will be capitalized and depreciated over their estimated useful lives.

**XAVIER CHARTER SCHOOL, INC.**  
**Notes to the Basic Financial Statements, Continued**  
**June 30, 2008**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**Measurement Focus and Basis of Accounting, Continued**

**Restricted Net Assets**

For the government-wide statement of net assets, net assets are reported as restricted when constraints placed on net assets are either:

Externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments; or

Imposed by law through constitutional provisions or enabling legislation.

**Fund Balances of Fund Financial Statements**

Reserved fund balance indicates that portion of fund equity, which has been segregated for specific purposes.

Designated fund balance indicates that portion of fund equity for which the School's management has made tentative plans or intentions for the use of the funds, which may be subject to change.

Undesignated fund balance indicates that portion of fund equity, which is available for budgeting in future periods.

**Compensated Absences**

All full-time employees, employed at least 6-months with the school, earn vacation and sick leave in amounts varying with tenure. Employees cannot accumulate more than 30 days of vacation leave. Upon retirement or termination of employment, unused vacation leave up to 30 days is paid to employees based on their daily rate of pay. No reimbursement or accrual is made for unused sick leave.

**XAVIER CHARTER SCHOOL, INC.**  
**Notes to the Basic Financial Statements, Continued**  
**June 30, 2008**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**Measurement Focus and Basis of Accounting, Continued**

**Compensated Absences, Continued**

The School's recognition and measurement criteria for compensated absences follow:

GASB Statement No. 16 provides that vacation leave and other compensated absences with similar characteristics should be accrued as a liability as the benefits are earned by the employees if both the following conditions are met:

1. The employee's right to receive compensation is attributable to services already rendered; and
2. It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported since it cannot be easily determined.

**Grants and Other Intergovernmental Revenues**

Federal and state reimbursement-type grants are recorded as intergovernmental revenues when the related expenditures/expenses are incurred and, in the governmental funds, when the revenues meet the availability criterion.

**XAVIER CHARTER SCHOOL, INC.**  
**Notes to the Basic Financial Statements, Continued**  
**June 30, 2008**

**(2) DEPOSITS AND INVESTMENTS**

The School pools cash of all funds into common bank accounts. The accounting records of each fund reflect its interest in the pooled cash. Any deficiencies in cash of individual funds represent liabilities to other funds for cash borrowed. Cash includes amounts in demand deposits and interest-bearing demand deposits, and time deposit accounts. Cash equivalents include amounts in time deposits and those investments with original maturities of 90 days or less. Under state law, the School may deposit funds in demand deposits, interest-bearing demand deposits, or time deposits with state banks organized under Idaho law and national banks having their principal offices in Idaho.

Investments are stated at fair value, as determined by quoted market prices, except for any certificates of deposit, which are non-participating contracts, and are therefore carried at amortized cost. Interest earned is allocated on a basis of average investment balance. Idaho Code provides authorization for the investment of funds as well as to what constitutes an allowable investment. The School's policy allows for investment of idle funds consistent with Idaho State Code 67-1210 and 67-1210A. The Code limits investments to the following general types:

Certain revenue bonds, general obligation bonds, local improvement district bonds, and registered warrants of state and local governmental entities.

Time deposit accounts, tax anticipation, and interest-bearing notes.

Bonds, treasury bills, debentures, or other similar obligations of the United States Government and United States Government Agencies.

Repurchase agreements secured by the above.

Investments in U.S. Treasury securities are stated at amortized cost. Investments in the Joint Powers Investment Pool and repurchase agreements are at fair value.

**Custodial Credit Risk**

For deposits and investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School will not be able to recover the value of its deposits, investments, or collateral securities that are in the possession of an outside party. The School does not have a policy for custodial credit risk outside of the deposit and investment agreements.

**XAVIER CHARTER SCHOOL, INC.**  
**Notes to the Basic Financial Statements, Continued**  
**June 30, 2008**

**(2) DEPOSITS AND INVESTMENTS, Continued**

**Credit Risk**

Credit risk is the risk that an issuer of debt securities or another counterparty to an investment will not fulfill its obligation is commonly expressed in terms of the credit quality rating issued by a nationally recognized statistical rating organization such as Moody's, Standard & Poor's and Fitch's. The investments of the School are not rated and the School does not have a restrictive policy regarding rated investments.

The School is authorized to invest in the State of Idaho Local Government Investment Pool (LGIP), an external pooled investment fund managed by the Idaho State Treasurer subject to legislative requirements. The LGIP is not registered with the SEC as an investment company, and deposits in the LGIP are not insured or otherwise guaranteed by the State of Idaho. The LGIP operates and reports to participants on an amortized basis. The income, gains, and losses, net of administrative fees, of the LGIP are allocated based upon the participant's average daily balances.

As of June 30, 2008 the School had \$300,147 invested directly with the LGIP.

**Interest Rate Risk**

Investments that are fixed for longer periods are likely to experience greater variability in their fair values due to future changes in interest rates.

**Concentration of Credit Risk**

When investments are concentrated in one issuer, this concentration represents a heightened risk of potential loss. No specific percentage identifies when concentration of risk is present. The GASB has adopted a principal that governments should provide note disclosure when five percent of the total entity's investments are concentrated in any one issuer. Investments in obligations specifically guaranteed by the U.S. government, mutual funds, and other pooled investments are exempt from disclosure. The School has no policy limiting on the amount it may invest in any one issuer.

**XAVIER CHARTER SCHOOL, INC.**  
**Notes to the Basic Financial Statements, Continued**  
**June 30, 2008**

**(3) OTHER RECEIVABLES**

At June 30, 2008, other receivables were \$16,521, which were due from State Agencies.

**(4) CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2008 is as follows:

	<u>2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>2008</u>
Computers and technology	\$ -	\$ 27,733	\$ -	\$ 27,733
Furniture and equipment	-	75,486	-	75,486
Leasehold improvements	-	39,515	-	39,515
	-	142,734	-	142,734
Less accumulated depreciation	-	(9,796)	-	(9,796)
	<u>\$ -</u>	<u>\$ 132,938</u>	<u>\$ -</u>	<u>\$ 132,938</u>

For the year ended June 30, 2008, depreciation expense was charged to functions of the School as follows:

Instructional services	\$ 8,438
Operations and maintenance	1,358
Total depreciation expense, governmental activities	<u>\$ 9,796</u>

**(5) CONCENTRATIONS**

The School's principal source of support is state base support revenue. For the year ended June 30, 2008, this funding source accounted for approximately 79.7% of all revenues.

**XAVIER CHARTER SCHOOL, INC.**  
**Notes to the Basic Financial Statements, Continued**  
**June 30, 2008**

**(6) RISK MANAGEMENT**

The School is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; and errors and omissions. The School purchases insurance for property losses from independent carriers. The School has in effect property insurance coverage up to \$1,000,000 with a \$10,000 deductible per incident. Worker's Compensation insurance is purchased from the State of Idaho in accordance with state requirements. The School maintains a \$100,000 commercial general liability policy per occurrence and a \$500,000 maximum aggregate.

There have been no significant reductions in insurance coverage from the previous year, and no settlements in excess of insurance coverage in the prior fiscal year.

**(7) IN-KIND DONATIONS**

During the year ended June 30, 2008, many individuals volunteered time and performed a variety of tasks that assisted the School, but these services do not meet the criteria for recognition as contributed services.

**(8) OPERATING LEASE AGREEMENT**

The School leases its facility under an operating lease with Verity Property Management. The lease expires on June 30, 2010. Rental expense recognized under this lease for the year ended June 30, 2008 was \$155,202. Rent is adjusted annually during the life of the lease based upon the lease agreement.

The future minimum lease payments under this operating lease are as follows:

<u>Years Ending June 30,</u>	
2009	\$ 154,237
2010	<u>132,699</u>
	<u>\$ 286,936</u>

**XAVIER CHARTER SCHOOL, INC.**  
**Notes to the Basic Financial Statements, Continued**  
**June 30, 2008**

**(9) LEASE PAYABLE**

The School has a capital lease payable to a third party financing company due in annual installments of \$5,171 through 2011. The lease bears interest at 14.7% and is secured by music instruments. As of June 30, 2008, the balance on the lease was \$11,664. Future maturities on this lease are \$3,335, \$3,861, and \$4,468 for the fiscal years ended June 30, 2009, 2010, and 2011, respectively.

**(10) RETIREMENT PLAN**

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

PERSI issues publicly available stand alone 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 contributions requirement of the School and its employees are established and may be amended by the PERSI Board of Trustees. For the year ended June 30, 2008, the required contribution rate as a percentage of covered payrolls for members was 6.23% for general members. The employer rate as a percentage of covered payroll was 10.39% for general members. The School contributions required and paid as an employer totaled \$50,992 for the year ended June 30, 2008.

**XAVIER CHARTER SCHOOL, INC.**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual – General Fund**  
**Year Ended June 30, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget-Positive (Negative)
	Original	Final		
<b>Revenue and gains:</b>				
Sources:				
Federal	\$ -	\$ -	\$ -	\$ -
State	1,177,462	1,177,462	1,259,205	81,743
Local	320,000	320,000	52,981	(267,019)
Total revenue	1,497,462	1,497,462	1,312,186	(185,276)
<b>Expenses:</b>				
Instructional services	767,635	767,635	733,059	(34,576)
Student support service	183,561	183,561	13,962	(169,599)
Operation and maintenance of facility	558,311	558,311	246,242	(312,069)
Student transportation	41,820	41,820	71,159	29,339
Total expenditures	1,551,327	1,551,327	1,064,422	(486,905)
<b>EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES</b>	<b>\$ (53,865)</b>	<b>\$ (53,865)</b>	<b>\$ 247,764</b>	<b>\$ 301,629</b>

**XAVIER CHARTER SCHOOL, INC.**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual – General Fund**  
**Year Ended June 30, 2008**

**(1) Basis of Budgeting**

Xavier Charter School (the School) follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The School annually prepares a budget by estimating the probable amount of money necessary for all purposes for which an appropriation is to be made (including interest and principal due on bonded debt) and by itemizing and classifying the proposed expenditures by department, fund, or service as nearly as may be practicable. To support such proposed expenditures, the School prepares an estimate of the total revenue anticipated during the ensuing fiscal year for which a budget is being prepared and classifies such receipts by source as nearly as may be possible and practicable.
2. The proposed budget is published in the local newspaper.
3. A public hearing is conducted to obtain citizen comments.
4. The budget is formally adopted through approval by the board of trustees.
5. The School may, after school starts and actual enrollment figures are known, amend the budget using the same procedure that was used in adopting the original budget. A budget may be amended downward in any instance. However, amendment to a greater amount than adopted can only happen if the School receives additional revenues in that fiscal year as a result of an increase in non-property tax related receipts. Once change is justified, the process for formal adoption is as described above.
6. Formal budgetary integration is employed as a management control device during the year for all funds. Legal budgetary control is established based upon total revenues and expenditures.
7. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). The level of control (level at which expenditures may not exceed budget) is the fund.
8. All annual appropriations lapse at fiscal year end.

## 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

To the Board of Directors of  
Xavier Charter School

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Xavier Charter School, (the "School"), a nonprofit corporation, as of and for the year ended June 30, 2008, which collectively comprise the Charter's basic financial statements and have issued our report thereon dated November 7, 2008. In our report, our opinion was qualified because, as described in the third paragraph on page 1, the School did not prepare the financial statements on the non-profit basis of accounting. 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 Xavier Charter School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we have identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control. We consider items 2008-1, 2008-2, 2008-3, 2008-4, 2008-5, 2008-6, 2008-7, 2008-8 and



2008-9 described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we consider items 2008-1, 2008-2, 2008-3, 2008-4, and 2008-5 described in the accompanying schedule of findings and responses to be material weaknesses.

#### 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 management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

*Schmitt, Griffiths, Smith & Co.*

November 7, 2008

**XAVIER CHARTER SCHOOL**  
**Schedule of Findings and Responses**  
**Year Ended June 30, 2008**

**FINDINGS – FINANCIAL STATEMENT AUDIT**

**2008-1 Revenue Recognition**

*Finding:* While performing procedures for Xavier Charter School, (the “School”) we noted revenue earned at year end but not received until subsequent to year end, was not included in current year revenue and accounts receivable.

*Recommendation:* We recommend that the School implement controls to reconcile revenue to state and federal funding to ensure all revenue is correctly recorded in the proper period.

*Management Response:* Management recognizes the importance of properly recognizing revenue and as such has contracted with a third-party management company to handle the accounting functions at the school. This management company has extensive experience with charter schools and has developed proper internal controls to ensure all revenues are correctly recorded in the proper period.

**2008-2 Payroll Accrual**

*Finding:* We noted that the School failed to accrue payables related to the payroll of teachers for the two months subsequent to year end, but included in the 2008 contracts. We also noted that related insurance and vacation payables were not properly accrued.

*Recommendation:* We recommend the School implement controls to ensure proper recording of payroll related payables. Additionally, we recommend the school implement a procedure to track and report the vacation days used and available to each employee of the School.

*Management Response:* Management recognizes the importance of properly accruing payroll and as such has contracted with a third-party management company to handle the accounting functions at the school. This management company has extensive experience with charter schools and has developed proper internal controls to ensure payroll and related expenses are properly accrued at year end. Additionally, management will review the vacation accrual policy to clarify any confusion related to the current policy.

## FINDINGS – FINANCIAL STATEMENT AUDIT, Continued

### 2008-3 Accounts Payable

*Finding:* While performing a search for unrecorded liabilities, we noted that the School failed to record all expenses and associated payables in the proper period.

*Recommendation:* We recommend that the School implement controls to ensure that all expenses and related payables be recorded in the proper period.

*Management Response:* Management recognizes the importance of properly accruing accounts payables at year end. A third-party management company has been hired to handle the accounting functions at the school. This management company has extensive experience with charter schools and has developed proper internal controls to ensure all expenses and associated payables are correctly recorded in the proper period.

### 2008-4 Capital Outlay and Related Liabilities

*Finding:* The School improperly recorded lease payments as capital outlays. This understated the capital outlays in 2008 and the related lease payable.

*Recommendation:* We recommend the School implement controls to ensure that all unusual and infrequent events are properly recorded in the accounting system.

*Management Response:* Management recognizes the importance of properly recording capital outlays and related liabilities, and as such has contracted with a third-party management company to handle the accounting functions at the school. This management company has extensive experience with charter schools and has developed proper internal controls to ensure all capital outlays and related liabilities, even if infrequent and unusual, are properly recorded.

### 2008-5 Purchase and Check Approval Process

*Finding:* We noted that one individual was initiating purchase orders, initiating purchases, receiving orders, receiving invoices, and approving invoices for payment. Additionally, we noted that certain checks were being written with no invoice or receipt as backup documentation.

*Recommendation:* We recommend that duties related to purchasing and check preparation be separated to ensure that one person does not have unsupervised control over the process. Additionally, we recommend that an individual who is independent of the process review authorized payments against cleared checks to ensure checks are properly recorded.

*Management Response:* Management recognizes the importance of establishing separation of duties and as such has contracted with a third-party management company to assist management in creating proper processes of purchase and check approvals. Additional people have been brought into the approval process to create greater separation of duties.

## FINDINGS – FINANCIAL STATEMENT AUDIT, Continued

### 2008-6 Local Revenue Recognition

*Finding:* We noted that the School does not maintain cash receipts related to local revenues and fundraising events.

*Recommendation:* We recommend that the School implement controls to ensure that all local and fundraising revenue is properly tracked from cash receipt to inclusion in the accounting system and financial statements.

*Management Response:* Management recognizes the importance of properly tracking cash receipts. All cash received will have a corresponding receipt issued, which will allow for proper tracking from the cash receipt to the inclusion in the accounting system and financial statements.

### 2008-7 Proper Recording of Revenue and Expenditures

*Finding:* We noted that the School failed to properly record certain items related to revenue type. We also noted that certain expenses related to fundraising were not recorded separately from the related revenues.

*Recommendation:* We recommend that the School implement controls to ensure that revenue and expenses are recorded in the proper account consistent with the revenue source or type of expense.

*Management Response:* Management recognizes the importance of properly recording and separating revenues and expenses. All future revenues will be recorded in the proper revenue account and all associated expenses will be recorded in a separate, but associated expense account.

### 2008-8 Bank Reconciliation

*Finding:* We noted that the School did not perform monthly reconciliations for all cash accounts. In failing to perform the reconciliation, interest income was not properly recorded. Additionally, there was no documentation as to whom performed the reconciliations or if they were reviewed.

*Recommendation:* We recommend that the School implement controls to ensure that cash reconciliations are done in a timely manner. We also recommend that the preparer initial a copy of the reconciliation, as well as the reconciliation be reviewed by someone independent of the process of reconciliations.

*Management Response:* Management recognizes the importance of performing bank reconciliations on a monthly basis. A third-party management company has been contracted to perform monthly bank statements of all bank accounts.

## FINDINGS – FINANCIAL STATEMENT AUDIT, Continued

### 2008-9 Payroll Process for Part-Time Employees

*Finding:* We noted that the School did not keep documentation related to required hours and pay for their part-time employees. Further, we noted that these employees were being paid for estimated time worked, rather than actual time worked. In the reconciliation of hours worked to hours paid, performed subsequent to school ending, we noted that multiple employees were paid more than the actual hours worked.

*Recommendation:* We recommend the School cease with the practice of paying for estimated hours for part-time and implement a process in which employees are paid for the hours worked.

*Management Response:* As of October 1, 2008, management has switched payroll companies and has ceased with the practice of paying for estimated hours for part-time employees and are currently paying employees for the hours worked.