



Financial Statements
June 30, 2017

**The Sage International School of
Boise, A Public Charter School, Inc.**

The Sage International School of Boise, A Public Charter School, Inc.

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Board of Directors

Bryan Moore	Chairman
Wendy Cox Dvorak	Vice-Chairman
Robert Shappee	Treasurer
Jennifer Snow	Board Member
Travis Dryden	Board Member
Chris Marshall	Board Member
Mike Lawrence	Board Member
Lori Howard	Board Secretary (Non-Voting)

Administrators

Keith Donahue	Executive Director
Lisa Lechner	Business Manager



Independent Auditor's Report

The Board of Directors
The Sage International School of Boise, A Public Charter School, Inc.
Boise, Idaho

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of The Sage International School of Boise, A Public Charter School, Inc. (the School) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinion

Management did not obtain an actuarial valuation and has not recorded the other post-employment benefit (OPEB) liability in the Statement of Net Position. Accounting principles generally accepted in the United States of America require a liability to be recorded based on an actuarial valuation. It also requires certain disclosures regarding the contribution rates, annual required contribution, the net OPEB obligation and expense, and the unfunded actuarial accrued liability. The amount by which the departure would affect net position, liabilities, expenses and disclosures is not reasonably determinable.

Qualified Opinion

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion” paragraph, 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, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Correction of an Error

As discussed in Note 9 to the financial statements, the School identified certain errors associated with capital asset activity that were improperly excluded from the expenditures during the year ended June 30, 2016, which resulted in a restatement of fund balance as of June 30, 2016. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund, schedule of employer’s share of net pension liability and the schedule of employer contributions as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 inquires of management about the methods or preparing the information and comparing the information for consistency with management’s responses to our inquires, 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 that the accounting principles generally accepted in the United States of America requires 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, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2017 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Boise, Idaho
October 13, 2017

The Sage International School of Boise, A Public Charter School, Inc.
Statement of Net Position
June 30, 2017

	Governmental Activities
Assets	
Cash	\$ 341,207
Intergovernmental receivables	181,824
Restricted cash	100,100
Capital assets, not subject to depreciation	2,250,000
Capital assets, net of accumulated depreciation	9,744,758
Total assets	12,617,889
Deferred Outflows	
Pension obligations	1,086,138
Liabilities	
Advanced revenue	47,930
Accrued interest	11,264
Current portion of long-term debt	339,126
Long-term debt, net of current portion	11,836,728
Net pension liability	2,155,442
Total liabilities	14,390,490
Deferred Inflows	
Employer pension assumption	214,774
Net Position	
Restricted	137,857
Board Designated	150,000
Unassigned	(1,189,094)
Total net position	\$ (901,237)

The Sage International School of Boise, A Public Charter School, Inc.
Balance Sheet – Governmental Funds
June 30, 2017

	<u>General Fund</u>	<u>Albertson Fund</u>	<u>Debt Service Fund</u>	<u>Capital Project Fund</u>	<u>Other Govt Funds</u>	<u>Total Govt Funds</u>
Assets						
Cash and investments	\$ 153,450	\$ 37,757	\$ 150,000	\$ -	\$ -	\$ 341,207
Intergovernmental receivables	181,824	-	-	-	-	181,824
Restricted cash	-	-	100,100	-	-	100,100
Total assets	<u>\$ 335,274</u>	<u>\$ 37,757</u>	<u>\$ 250,100</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 623,131</u>
Liabilities, Deferred Inflows and Fund Balances						
Liabilities						
Advanced revenue	\$ 47,930	\$ -	\$ -	\$ -	\$ -	\$ 47,930
Total liabilities	<u>47,930</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,930</u>
Fund Balances						
Board Designated	-	-	150,000	-	-	150,000
Restricted	-	37,757	100,100	-	-	137,857
Unassigned	287,344	-	-	-	-	287,344
Total fund balances	<u>287,344</u>	<u>37,757</u>	<u>250,100</u>	<u>-</u>	<u>-</u>	<u>575,201</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 335,274</u>	<u>\$ 37,757</u>	<u>\$ 250,100</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 623,131</u>

The Sage International School of Boise, A Public Charter School, Inc.
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
 June 30, 2017

Total fund balance - total governmental funds		\$ 575,201
Amounts reported for governmental activities in the Statement of Net Position are different because		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets, net of accumulated depreciation, consist of		
Cost of capital assets	12,331,715	
Accumulated depreciation	<u>(336,957)</u>	11,994,758
Deferred outflows of resources not reported in the funds.		1,086,138
Long-term liabilities, applicable to governmental activities are not due and payable in the current period and therefore are not reported as fund liabilities. These liabilities consist of		
Accrued interest payable	(11,264)	
Long-term debt	(12,175,854)	
Net pension liability	<u>(2,155,442)</u>	(14,342,560)
Deferred inflows of resources not reported in the funds.		<u>(214,774)</u>
Total net position of governmental activities		<u><u>\$ (901,237)</u></u>

The Sage International School of Boise, A Public Charter School, Inc.
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2017

	General Fund	Albertson Fund	Debt Service Fund	Capital Project Fund	Other Govt Funds	Total Govt Funds
Revenues						
Local revenues	\$ 554,676	\$ -	\$ -	\$ -	\$ 188,072	\$ 742,748
State revenue						
Foundation	4,944,360	-	-	-	-	4,944,360
Program specific	603,479	-	-	-	104,019	707,498
Other revenue	175,635	-	100	-	-	175,735
Total revenues	6,278,150	-	100	-	292,091	6,570,341
Expenditures						
Instructional						
Elementary school program	1,473,921	-	-	-	69,262	1,543,183
Secondary/alternative school program	1,907,289	144	-	-	389	1,907,822
Exceptional school program	265,426	-	-	-	106,794	372,220
Enrichment academic school program	243,302	-	-	-	-	243,302
Total instructional	3,889,938	144	-	-	176,445	4,066,527
Support Services						
Administration	407,734	106,732	-	-	-	514,466
School administration	256,924	-	-	-	-	256,924
Instructional improvement program	56,409	4,999	-	-	20,278	81,686
Maintenance and improvements	771,955	-	-	49,614	-	821,569
Security program	1,435	-	-	-	10,863	12,298
Transportation	252,340	-	-	-	-	252,340
Other	113,164	-	-	-	62,562	175,726
Total support services	1,859,961	111,731	-	49,614	93,703	2,115,009
Debt Service						
Principal	-	-	166,181	-	-	166,181
Interest	-	-	402,702	-	-	402,702
Capital outlay	295,584	126,110	-	513,948	21,943	957,585
Total debt service	295,584	126,110	568,883	513,948	21,943	1,526,468
Total expenditures	6,045,483	237,985	568,883	563,562	292,091	7,708,004

The Sage International School of Boise, A Public Charter School, Inc.
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2017

	General Fund	Albertson Fund	Debt Service Fund	Capital Project Fund	Other Govt Funds	Total Govt Funds
Excess (Deficiency) of Revenues Over (Under) Expenditures	232,667	(237,985)	(568,783)	(563,562)	-	(1,137,663)
Other Financing Sources (Uses)						
Proceeds from building loan	-	-	-	1,229,027	-	1,229,027
Transfers in (out)	(287,104)	-	818,883	(522,054)	(9,725)	-
Net other financing sources (uses)	(287,104)	-	818,883	706,973	(9,725)	1,229,027
Net Change in Fund Balances	(54,437)	(237,985)	250,100	143,411	(9,725)	91,364
Fund Balances, Beginning of Year, As Restated	341,781	275,742	-	(143,411)	9,725	483,837
Fund Balances, End of Year	<u>\$ 287,344</u>	<u>\$ 37,757</u>	<u>\$ 250,100</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 575,201</u>

The Sage International School of Boise, A Public Charter School, Inc.
 Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances
 to the Statement of Activities
 June 30, 2017

Net change in fund balances - total governmental funds	\$	91,364
Amounts reported for governmental activities in the statement of activities are different because:		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:</p>		
Capital outlay		984,602
Depreciation expense		(221,872)
Loss on disposition of assets		(11,500)
Excess of capital outlay over depreciation expense and loss on disposition of assets		751,230
Capital lease payments are expensed in the government funds		(7,104)
Pension expense is recorded in the statement of activities for GASB 68 accruals		(2,108)
Issuance of debt principal is a source of revenue in the governmental funds and treated as a payable on the govt-wide financials		(1,229,027)
Debt payments are expensed in the government funds		189,854
Increase in accrued interest payable		(5,449)
		(1,046,730)
Change in Net Position of Governmental Activities	\$	(211,240)

Note 1 - Summary of Significant Accounting Policies

Entity and Charter

The Sage International School of Boise, A Public 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 federal 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.

Financial Reporting Entity

The accompanying financial statements present the activities of The Sage International School of Boise (the School). The School receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School is not included in any other governmental reporting entity as defined by generally accepted accounting principles. Board members are volunteers and have decision-making authority, the power to designate management, the ability to significantly influence operation, and the primary accountability for fiscal matters. In addition, the School's reporting entity does not contain any component units.

Basis of Presentation

The School follows Governmental Accounting Standards Board (GASB) 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 Directors.

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.

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 minimum number of funds is maintained consistent with legal and managerial requirements.

Government-wide Financial Statements: The Statement of Net Position and the Statement of Activities display information about the financial activities of the School. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through intergovernmental revenues and other nonexchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the School's governmental activities.

- Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function.
- Indirect expenses - expenses of the general government related to the administration and support of the School's programs, such as personnel and accounting (but not interest on long-term debt), are allocated to programs based on their percentage of total primary government expenses. Interest expenses are allocated to the programs that manage the capital assets financed with long-term debt.
- Program revenues - include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes and state formula aid, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the School's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds would be aggregated and reported as nonmajor funds. The School reports the following major governmental funds:

- General Fund. This is the School's primary operating fund. It accounts for all financial resources of the Charter, except those required to be accounted for in another fund.
- Special Revenue Fund. This is used by the School to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The major special revenue fund is the Albertsons fund, which is used to account for certain funding for general operations.
- Debt Service Fund. This is the School's account for the servicing of general long-term debt not being financed by proprietary or nonexpendable trust funds.
- Capital Projects Fund. This is the School's fund to account for the acquisition of fixed assets or construction of major capital projects not being financed by proprietary or nonexpendable trust funds.

Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The School considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term liabilities and acquisitions under capital leases are reported as other financing sources. With this measurement focus, only current assets and current liabilities are generally included on the 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:

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 has been met.

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

Fund Balances of Fund Financial Statements

Fund balances of the governmental funds are classified as follows:

- Nonspendable fund balance – amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.
- Restricted fund balance – amounts that can be spent only for specific purposes because of the School sponsoring organization, state or federal laws or externally imposed conditions by grantors or creditors.
- Committed fund balance – amounts constrained to specific purposes by the School itself, using its highest level of decision-making authority (i.e. Board of Directors). To be reported as committed, amounts cannot be used for any other purpose unless the School takes the same highest level action to remove or change the constraint.
- Assigned fund balance – amounts the School intends to use for a specified purpose. Intent can be expressed by the Board of Directors or by a principal if the Board of Directors delegates the authority.
- Unassigned fund balance – amounts that are available for any purpose.

The remaining fund balance classifications (committed and assigned) are either not applicable, or no formal policy has yet been established to be able to utilize such classifications of fund balance. However, if there had been committed funds, these amounts would have been decided by the Board of Directors, the School's highest level of decision making authority, through a formal action. The Board of Directors would also have the authority to assign funds or authorize another official to do so.

Under the terms of grant agreements, the School funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position and fund balances available to finance the program. When both restricted and unrestricted resources are available for use, it is the School's intent to use restricted resources first, then unrestricted resources as they are needed.

There is also no formal policy regarding the use of committed, assigned, or unassigned fund balances. However, it is the School's intent that when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the School considers committed amounts to be reduced first, followed by assigned amounts, and then unassigned amounts.

All special revenue funds are restricted by either the federal government or the State of Idaho and must be spent according to the stipulations of the corresponding federal or state program.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash

A "Pooled Cash" concept is used in maintaining the cash accounts in the accounting records. Under this method, all cash is pooled for banking purposes and each fund has equity in the pooled amount. All amounts included in the pooled cash accounts are considered to be cash.

Prepaid Expenses

Prepaid balances are for payments made by the School in the current year to provide services occurring in the subsequent year, and the reserve for prepaid expenses has been recorded to signify that a portion of the fund balance is not available for other subsequent expenditures.

Receivables

All intergovernmental and other receivables are shown net of an allowance for uncollectible amounts. As of June 30, 2017 no allowance was considered necessary for receivables.

Capital Assets

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed assets are reported at estimated fair value at the time received. Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements are shown on the following page.

	<u>Capitalization Policy</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings and Improvements	\$ 5,000	Straight-line	20-50 years
Equipment	\$ 5,000	Straight-line	3-10 years

Depreciation is used to allocate the actual or estimated historical cost of all capital assets over their estimated useful lives.

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

Accounts Payable

Accounts payable represent debts that will be paid in the next billing cycle. Accounts payable are not over 60 days past due.

Advanced Revenue

Advanced revenue represents fees collected prior to providing the related services.

Other Post Employment Benefit

The School did not obtain an actuarial valuation and has not recorded the other post-employment benefit (OPEB) liability in the Statement of Net Position. Accounting principles generally accepted in the United States of America require a liability to be recorded based on an actuarial valuation. It also requires certain disclosure regarding the contribution rates, annual required contribution, the net OPEB obligation and expense, and the unfunded actuarial accrued liability.

Pensions

For purposes of measuring the net pension liability and pension expense, information about the fiduciary net position of the Public Employee Retirement System of Idaho Base Plan (Base Plan) and additions to/deducted from Base Plan's fiduciary net position have been determined on the same basis as they are reported by the Base Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. This separate financial element, deferred outflow of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Income Taxes

The School is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law. Accordingly, no provision for income taxes is made in the financial statements.

Uncertain Tax Positions

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the School may recognize tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for fiscal year 2017. The School files Form 990 in the U.S. federal jurisdiction. The School is generally no longer subject to examinations by the Internal Revenue Service for years before 2014.

Note 2 - Cash

Deposits

As of June 30, 2017, the carrying amount of the School's deposits was \$441,307, and the respective bank balances totaled \$449,418, of the total bank balance \$250,000 was covered by federal depository insurance, leaving \$199,418 uninsured and uncollateralized.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. As of June 30, 2017, \$199,418 of the School's deposits were not covered by the federal depository insurance and was exposed to custodial credit risk. The School does not have a formal policy limiting its exposure to custodial credit risk.

Note 3 - Intergovernmental Receivables

Amounts due from other governments consist of \$181,824, as appropriations from the State of Idaho for school support.

Note 4 - Capital Assets

A summary of activity in the capital assets is as follows:

	<u>As Restated July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2017</u>
Non depreciable capital assets				
Land	\$ 2,250,000	\$ -	\$ -	\$ 2,250,000
Construction in progress	<u>2,855,837</u>	<u>984,602</u>	<u>(3,840,439)</u>	<u>-</u>
Total non depreciable capital assets	<u>\$ 5,105,837</u>	<u>\$ 984,602</u>	<u>\$ (3,840,439)</u>	<u>\$ 2,250,000</u>
Depreciable capital assets				
Buildings and improvements	\$ 6,131,118	\$ 3,840,439	\$ -	\$ 9,971,557
Equipment and vehicles	<u>133,158</u>	<u>-</u>	<u>(23,000)</u>	<u>110,158</u>
	<u>6,264,276</u>	<u>3,840,439</u>	<u>(23,000)</u>	<u>10,081,715</u>
Less accumulated depreciation				
Buildings and improvements	(92,788)	(210,836)		(303,624)
Equipment and vehicles	<u>(33,797)</u>	<u>(11,036)</u>	<u>11,500</u>	<u>(33,333)</u>
Total accumulated depreciation	<u>(126,585)</u>	<u>(221,872)</u>	<u>11,500</u>	<u>(336,957)</u>
Total depreciable capital assets, net	<u>\$ 6,137,691</u>	<u>\$ 3,618,567</u>	<u>\$ (11,500)</u>	<u>\$ 9,744,758</u>

Depreciation expense was charged to the functions/programs of the School as follows:

Governmental activities		
Instruction		\$ 213,688
Support services		<u>8,184</u>
		<u>\$ 221,872</u>

Note 5 - Long Term Debt

Leases

The School leased buses that qualified as capital lease obligations. A summary of activity in the capital lease obligations is as follows:

	Balance at July 1, 2016	Additions	Reductions	Balance at June 30, 2017
Capital lease, payment Interest at 7.5%, secured by bus, paid through general fund	\$ 7,104	\$ -	\$ (7,104)	\$ -

The School terminated the capital lease and traded in the bus for the purchase of a new bus in August of 2016.

On April 18, 2017, the School entered into an operating lease for an additional bus. The lease is open ended and can be cancelled at any time. The terms of the lease are for payments of \$150 per week plus tax.

The School has entered into a lease that commenced on June 1, 2016 that expires on June 30, 2021 for the lease of real property. The lease began with monthly payments of \$3,532 in the first year and increases 2.5% annually until its expiration in 2021.

The total lease and rental expense for the year ended June 30, 2017, was \$139,162.

Bonds and Notes Payable

The School purchased the Parkcenter facility in 2015. The construction and acquisition cost of the facility was projected at \$12,300,000 and the cost of the facility was funded in part by \$7,800,000 of proceeds from Idaho Housing and Finance Association Nonprofit Facilities Revenue Bonds, Series 2015 and \$4,500,000 loaned by Building Hope Inc., a charter school facilities fund. The Idaho Housing and Finance bonds were purchased by Banner Bank and the School makes payments to them.

The Sage International School of Boise, A Public Charter School, Inc.

Notes to Financial Statements

June 30, 2017

The schedule of activity in the long-term debt is as follows:

	Restated Balance at July 1, 2016	Additions	Reductions	Balance at June 30, 2017
Banner Bank, Building loan	\$ 6,570,973	\$ 1,229,027	\$ (101,651)	\$ 7,698,349
Buuildng Hope, Building loan	4,500,000	-	(64,527)	4,435,473
Banner Bank, Bus loan	51,500	-	(9,468)	42,032
Total	<u>\$ 11,122,473</u>	<u>\$ 1,229,027</u>	<u>\$ (175,646)</u>	<u>\$ 12,175,854</u>

The Idaho Housing and Finance Association Nonprofit Facilities Revenue Bonds, Series 2015 (the Bonds), for \$7,800,000 have a fixed interest rate of 3.23% over the life of the debt. The payments were interest only payments until December 1, 2016, at which time the total outstanding debt was amortized over 25 years, with a balloon payment due on December 1, 2020. The 2015 Bonds are secured by the first deed of trust on land improvements of three parcels of land associated with School. The Bonds will be further secured by future leases and rents as defined in the bond document. The 2015 Bonds contain certain restrictions and covenants. Under these restrictions, the School must maintain certain financial ratios. As of June 30, 2017, the School was in compliance with these covenants.

As of December 18, 2015, the School entered into debt with Building Hope, Inc. for \$4,500,000, as discussed previously. The payments were interest only payments at a rate of 3% until February 1, 2017, at which time the payments were increased from \$11,250 to \$21,938. The outstanding debt is amortized over 24 years with a balloon payment due on December 18, 2020. The outstanding debt is secured by a deed of trust.

As of June 30, 2016, the School purchased a bus that was financed through Banner Bank for \$51,500. The loan matures on June 30, 2021 and is payable in monthly installments of \$953 at a fixed interest rate of 4.2%. The loan is secured by the bus.

Future maturities of long-term debt are as follows as of June 30:

<u>Years Ending June 30</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2018	\$ 371,096	\$ 339,126	\$ 710,222
2019	370,856	361,311	732,167
2020	359,776	372,388	732,164
2021	181,081	11,102,894	11,283,975
2022-2026	4	135	139
	<u>\$ 1,282,813</u>	<u>\$ 12,175,854</u>	<u>\$ 13,458,667</u>

Note 6 - Pension Plan

Plan Description

The School contributes to the Base Plan which is a cost-sharing multiple-employer defined benefit pension plan administered by Public Employee Retirement System of Idaho (PERSI or the System) that covers substantially all employees of the State of Idaho, its agencies and various participating political subdivisions. The cost to administer the plan is financed through the contributions and investment earnings of the plan. PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at www.persi.idaho.gov.

Responsibility for administration of the Base Plan is assigned to the Board comprised of five members appointed by the Governor and confirmed by the Idaho Senate. State law requires that two members of the Board be active Base Plan members with at least ten years of service and three members who are Idaho citizens not members of the Base Plan except by reason of having served on the Board.

Pension Benefits

The Base Plan provides retirement, disability, death and survivor benefits of eligible members or beneficiaries. Benefits are based on members' years of service, age, and highest average salary. Members become fully vested in their retirement benefits with five years of credited service (5 months for elected or appointed officials). Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. The annual service retirement allowance for each month of credited service is 2.0% of the average monthly salary for the highest consecutive 42 months.

The benefit payments for the Base Plan are calculated using a benefit formula adopted by the Idaho Legislature. The Base Plan is required to provide a 1% minimum cost of living increase per year provided the Consumer Price Index increases 1% or more. The PERSI Board has the authority to provide higher cost of living increases to a maximum of the Consumer Price Index movement or 6%, whichever is less; however, any amount above the 1% minimum is subject to review by the Idaho Legislature.

Member and Employer Contributions

Member and employer contributions paid to the Base Plan are set by statute and are established as a percent of covered compensation and earnings from investments. Contribution rates are determined by the PERSI Board within limitations, as defined by state law. The Board may make periodic changes to employer and employee contribution rates (expressed as percentages of annual covered payroll) if current rates are actuarially determined to be inadequate or in excess to accumulate sufficient assets to pay benefits when due.

The contribution rates for employees are set by statute at 60% of the employer rate for general employees. As of June 30, 2016, it was 6.79% for general employees. The employer contribution as a percent of covered payroll is set by the Retirement Board and was 11.32% general employees. The School's contributions were \$397,404 for the year ended June 30, 2017.

Pension Liabilities, Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the Sage International School of Boise reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Sage International School of Boise's proportion of the net pension liability was based on Sage International School of Boise share of contributions in the Base Plan pension plan relative to the total contributions of all participating PERSI Base Plan employers. At June 30, 2016, the Sage International School of Boise proportion was 0.001063285 percent.

For the year ended June 30, 2017, The School recognized pension expense (revenue) of \$2,009. At June 30, 2017, the Sage International School of Boise reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions or other inputs	\$ 47,914	\$ -
Net difference between projected and actual Earnings on pension plan investments	558,910	-
Changes in the employer's proportion and differences between the employer's contributions and the employer's proportionate contributions	-	214,774
Net difference between expected and actual experience 2017 change in proportionate share	81,910	-
Sage International School of Boise contributions subsequent to the measurement date	397,404	-
Total	<u>\$ 1,086,138</u>	<u>\$ 214,774</u>

\$397,404 was reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017.

The Sage International School of Boise, A Public Charter School, Inc.

Notes to Financial Statements

June 30, 2017

The average of the expected remaining service lives of all employees that are provided with pensions through the System (active and inactive employees) determined at July 1, 2015 the beginning of the measurement period ended June 30, 2016 is 4.9 years and 5.5 years for the measurement period ended June 30, 2015.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 23,193
2018	23,193
2019	271,070
2020	156,506

Actuarial Assumptions

Valuations are based on actuarial assumptions, the benefit formulas, and employee groups. Level percentages of payroll normal costs are determined using the Entry Age Normal Cost Method. Under the Entry Age Normal Cost Method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated as a level percentage of each year's earnings of the individual between entry age and assumed exit age. The Base Plan amortizes any unfunded actuarial accrued liability based on a level percentage of payroll. The maximum amortization period for the Base Plan permitted under Section 59-1322, Idaho Code, is 25 years.

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	4.25 – 10.00%
Salary inflation	3.75%
Investment rate of return, net of investment expenses	7.10%
Cost-of-living adjustments	1.00%

Mortality rates were based on the RP – 2000 combined table for healthy males or females as appropriate with the following offsets:

- Set back 3 years for teachers
- No offset for male fire and police
- Forward one year for female fire and police
- Set back one year for all general employees and all beneficiaries

An experience study was performed for the period July 1, 2007 through June 30, 2013 which reviewed all economic and demographic assumptions other than mortality. Mortality and all economic assumptions were studied in 2014 for the period from July 1, 2009 through June 30, 2013. The Total Pension Liability as of June 30, 2016 is based on the results of an actuarial valuation date July 1, 2016.

The Sage International School of Boise, A Public Charter School, Inc.

Notes to Financial Statements

June 30, 2017

The long-term expected rate of return on pension plan investments was determined using the building block approach and a forward-looking model in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Even though history provides a valuable perspective for setting the investment return assumption, the System relies primarily on an approach which builds upon the latest capital market assumptions. Specifically, the System uses consultants, investment managers and trustees to develop capital market assumptions in analyzing the System's asset allocation. The assumptions and the System's formal policy for asset allocation are shown below. The formal asset allocation policy is somewhat more conservative than the current allocation of System's assets.

The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are as of January 1, 2016.

Asset Class	Expected Return	Expected Risk	Strategic Normal	Strategic Ranges
Equities			70.00%	66% - 77%
Broad Domestic Equity	9.15%	19.00%	55.00%	50% - 65%
International	9.25%	20.20%	15.00%	10% - 20%
Fixed Income	3.05%	3.75%	30.00%	23% - 33%
Cash	2.25%	0.90%	0.00%	0% - 5%

Total Fund	Expected Return	Expected Inflation	Expected Real Return	Expected Risk
Actuary	7.00%	3.25%	3.75%	N/A
Portfolio	6.58%	2.25%	4.33%	12.67%

*Expected arithmetic return of fees and expenses

Actuarial Assumptions

Assumed Inflation - Mean	3.25%
Assumed Inflation - Standard Deviation	2.00%
Portfolio Arithmetic Mean Return	8.42%
Portfolio Long-Term Expected Geometric Rate of Return	7.50%
Assumed Investment Expenses	-0.40%
Long-Term Expected Geometric Rate of Return, Net of Investment Expenses	7.10%

Discount Rate

The discount rate used to measure the total pension liability was 7.10%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate. Based on these assumptions, the pension plans' net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term expected rate of return was determined net of pension plan investment expense but without reduction for pension plan administrative expense.

Sensitivity of the Employer's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate.

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 7.10 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.10 percent) or 1-percentage-point higher (8.10 percent) than the current rate:

	1% decrease (6.10%)	Current discount rate (7.10%)	1% increase (8.10%)
Employer's proportionate share of the net pension liability (asset)	<u>\$ 4,228,212</u>	<u>\$ 2,155,442</u>	<u>\$ 431,705</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERSI financial report.

PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at www.persi.idaho.gov.

Payables to the Pension Plan

At June 30, 2017, The Sage International School of Boise reported no payable to the defined benefit pension plan for legally required employer contributions and for legally required employee contributions which had been withheld from employee wages but not yet remitted to PERSI.

Note 7 - Risk Management

The School is exposed to a considerable number of risks of loss including, but not limited to, a) damage to and loss of property and contents, b) employee torts, c) professional liabilities, i.e. errors and omissions, d) environmental damage, e) worker's compensation, i.e. employee injuries, and f) medical insurance costs of its employees. Commercial insurance policies are purchased to transfer the risk of loss for property and content damage, employee torts, worker's compensation, i.e. employee injuries and professional liabilities.

Note 8 - Concentrations

The School's principal source of support is state base support revenue. For the year ended June 30, 2017, this funding source accounted for approximately 86% of all revenues.

Note 9 - Correction of an Error

During the current fiscal year, the School identified certain errors associated with the capital asset activity. Retainage payable and the associated capital outlay of \$143,411 should have been recognized in the year in which the construction took place. In addition to this adjustment, it was determined that capital outlay and debt proceeds of \$51,400 for a bus that was financed should have been recorded in the capital projects fund in 2016. This adjustment had no impact on beginning fund balance. Neither of these adjustments had an impact on beginning net position.

The effect of these corrections on beginning fund balance and net position as previously reported is as follows:

Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds

	Capital Projects Fund	Total Government Funds
Beginning Fund balance as previously reported at June 30, 2016	\$ -	\$ 627,248
Prior period adjustment		
Retainage payable on construction contracts	(143,411)	(143,411)
Fund Balance, June 30, 2016, as restated	\$ (143,411)	\$ 483,837



Required Supplementary Information
June 30, 2017

The Sage International School of Boise, A Public Charter School, Inc.

The Sage International School of Boise, A Public Charter School, Inc.
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund
Year Ended June 30, 2017

	Budget Original and Final	Actual	Variance
Revenues			
Local revenues	\$ 451,774	\$ 554,676	\$ 102,902
State revenue			
Foundation	5,163,484	4,944,360	(219,124)
Program specific	579,710	603,479	23,769
Other revenue	211,914	175,635	(36,279)
Total revenue	6,406,882	6,278,150	(128,732)
Expenditures			
Instructional			
Elementary school program	1,486,973	1,473,921	13,052
Secondary/alternative school program	2,058,092	1,907,289	150,803
Exceptional school program	236,915	265,426	(28,511)
School activity program	236,915	243,302	(6,387)
Total instructional	4,018,895	3,889,938	128,957
Support Services			
Administration	653,104	407,734	245,370
School administration	265,500	256,924	8,576
Instructional improvement program	54,040	56,409	(2,369)
Maintenance and improvements	352,368	771,955	(419,587)
Security Program	-	1,435	(1,435)
Transportation	207,000	252,340	(45,340)
Other	86,745	113,164	(26,419)
Total support services	1,618,757	1,859,961	(241,204)
Capital outlay	23,048	295,584	(272,536)
Total expenditures	5,660,700	6,045,483	384,783

The Sage International School of Boise, A Public Charter School, Inc.
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund
Year Ended June 30, 2017

	<u>Budget Original and Final</u>	<u>Actual</u>	<u>Variance</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>746,182</u>	<u>232,667</u>	<u>(513,515)</u>
Other Financing Sources (Uses)			
Contingency reserve	(244,131)	-	(244,131)
Debt Service Principal	(157,649)	-	(157,649)
Debt Service Interest	(395,479)	-	(395,479)
Transfers in	-	-	-
Transfers out	<u>(272,625)</u>	<u>(287,104)</u>	<u>14,479</u>
Net other financing sources (uses)	<u>(1,069,884)</u>	<u>(287,104)</u>	<u>(782,780)</u>
Excess (Deficiency) of Revenue over/(under) Expenditures	<u>\$ (323,702)</u>	<u>\$ (54,437)</u>	<u>\$ (1,296,295)</u>

Note 1 - Budgets and Budgetary Accounting

The School follows these procedures in establishing the budgetary data reflected in the financial statements:

- A. Prior to June 1, the Executive Director and the Board of Directors prepare a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- B. Public hearings are conducted to obtain taxpayer comments.
- C. Prior to July 1, the budget is legally enacted through passage at a board meeting.
- D. Formal budgetary integration is employed as a management control device during the year for all the funds.
- E. Budgets for the governmental funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

The Sage International School of Boise, A Public Charter School, Inc.
 Schedule of Employer's Share of Net Pension Liability and Employer Contributions
 Year Ended June 30, 2017

Schedule of Employer's Share of Net Pension Liability
PERSI - Base Plan
Last 10 - Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's proportionate share of the net pension liability	0.1063285%	0.1000289%	0.0694064%
Employer's proportion share of the net pension liability	\$ 2,155,442	\$ 1,317,218	\$ 646,659
Employer's covered-employee payroll	\$ 3,109,787	\$ 2,873,281	\$ 1,947,863
Employer's proportional share of the net pension liability as a percentage of its covered-employee payroll	69.3116%	42.3572%	23.4546%
Plan fiduciary net position as a percentage of the total pension liability	87.26%	91.38%	94.95%

* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, Sage International School of Boise will present information for those use for which information is available.

Data reported is measured as of June 30, 2016 (measurement date).

Schedule of Employer's Contributions
PERSI - Base Plan
Last 10 - Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 397,404	\$ 352,028	\$ 317,161
Contributions in relation to the statutorily required contribution	\$ 397,404	\$ 352,028	\$ 317,161
Contribution (deficiency) excess	\$ -	\$ -	\$ -
Employer's covered - employee payroll	\$ 3,510,635	\$ 3,109,787	\$ 2,873,281
Contributions as a percentage of the covered-employee payroll	11.32%	11.32%	11.04%



Government Auditing Standards Information
June 30, 2017

The Sage International School of Boise, A Public Charter School, Inc.



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

To the Board of Directors
The Sage International School of Boise, A Public Charter School, Inc.
Boise, Idaho

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of The Sage International School of Boise, A Public Charter School, Inc. (the School) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School’s basic financial statements, and have issued our report thereon dated October 13, 2017.

In our report, our opinion on the financial statements was qualified, as discussed in the “Basis for Qualified Opinions” paragraph in the report on the financial statements, management did not obtain an actuarial valuation and did not record the other-post-employment benefit (OPEB) liability.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying scheduling of findings and responses to be material weaknesses. See findings 2017-A

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from 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*.

The School's Response to Findings

The School's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. The School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

A handwritten signature in cursive script that reads "Eric Bailly LLP".

Boise, Idaho
October 13, 2017

2017-A Audit Adjustments

Criteria:

The internal control structure for the School should include procedures to ensure that the trial balance and financial statements are free from misstatement.

Condition:

As a result of audit procedures, it was discovered that the repairs and maintenance expenses included items that should have been capitalized for governmental activities as a capital asset. This resulted in a material understatement of capital assets and an overstatement in repairs and maintenance expenses of \$522,054 for government-wide reporting. In addition to this adjustment, it was determined that \$143,411 of retainage payable on construction contracts was not accrued as an expense and was not capitalized for the year ended June 30, 2016. Another restatement of 2016 capital asset balances and long-term debt balances was recorded for \$51,400 for a bus that was financed in 2016.

Cause:

There is not an internal control structure for financial reporting of non-routine transactions involving capital assets.

Effect

The capital assets and the repairs and maintenance were understated by \$522,054 as of June 30, 2017. There was an adjustment to decrease the beginning fund balance in the capital projects fund of \$143,411, and an adjustment to increase capital assets by \$194,811, increase long-term debt by \$51,400 and increase net position by \$143,411.

Recommendation:

Management should implement internal controls around financial reporting for capital assets and implement policies and procedures for non-routine capital asset transactions.

Response and Action Plan of Management:

Management will review the process for acquiring capital assets and implement policies and procedures to ensure that all capital assets approved and acquired are reported in the financial accounting system by the Business Manager.