



Financial Statements
June 30, 2016

Meridian Medical Arts Charter High School, Inc.

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Independent Auditor's Report

To the Board of Directors
Meridian Medical Arts Charter High School, Inc.
Meridian, 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 Meridian Medical Arts Charter High School, Inc. (the Charter) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Charter's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Charter'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 Charter'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 Opinions” 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 Charter, as of June 30, 2016, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, schedule of employer’s share of net pension liability PERSI and schedule of employer contributions and schedule of revenues, expenditures, and changes in fund balances – budget and actual – general fund, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2016 on our consideration of Meridian Medical Arts Charter High School, Inc.’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Meridian Medical Arts Charter High School, Inc.’s internal control over financial reporting and compliance.



Boise, Idaho
September 21, 2016

The discussion and analysis of the Meridian Medical Arts Charter High School, Inc.'s (the Charter's) financial performance provides an overall review of financial activities for the fiscal year.

FINANCIAL HIGHLIGHTS

- The Charter participated in the Idaho Professional Technical Education's Added-Cost program for the eighth time this year.

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 Charter's financial activities.

Government-Wide Financial Statements (GWFS)

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

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

The Statement of Activities shows how the net position of the Charter has changed throughout the fiscal year. Changes in the net position occur as soon as the underlying event gives rise.

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

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

In the government-wide financial statements, the Charter'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 8-9 of this report.

Fund Financial Statements

Funds are accounting devices the Charter 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 Charter. Fund statements generally report operation in more detail than the government-wide statements. This statement focuses on its most significant or “major” funds and not on the Charter as a whole.

Some funds are required by state law and by bond covenants. The Charter 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 Charter's near-term financing decisions.

The basic governmental fund financial statements can be found on pages 10-13 of this report.

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 Charter's financial activities and position.

Required supplementary information further explains and supports the financial statements by including a comparison of the Charter's budget data for the year and schedule of employer's share of net pension liability and schedule of employer contributions.

Fiduciary Funds

The Charter serves as a trustee, or fiduciary, for student organizations. The assets of the organization belong to the organization and not the Charter. The Charter is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and only by those to whom the assets belong. These activities are excluded from the Charter's Government-Wide financial statements because the Charter cannot use these assets to finance its operations.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve as a useful indicator of a Charter's financial position. In the case of the Charter, assets and deferred outflows of resourced exceeded current liabilities and deferred inflows of resources by \$252,568 at the close of the most recent fiscal year.

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Assets		
Current assets	\$ 682,266	\$ 500,161
Capital assets	<u>248,662</u>	<u>263,437</u>
Total assets	<u>930,928</u>	<u>763,598</u>
Deferred Outflows of Resources	<u>297,718</u>	<u>134,873</u>
Liabilities		
Current liabilities	201,734	202,369
Long-term liabilities	<u>470,722</u>	<u>261,443</u>
Total liabilities	<u>672,456</u>	<u>463,812</u>
Deferred Inflows of Resources	<u>303,622</u>	<u>359,907</u>
Net Position		
Net invested in capital assets	248,662	263,437
Restricted	220,551	52,652
Unrestricted	<u>(216,645)</u>	<u>(241,337)</u>
Total net position	<u>\$ 252,568</u>	<u>\$ 74,752</u>

The largest portion of the Charter School's net position (98.45%) reflect investments in capital assets (i.e., furniture, and equipment) net of related debt (which the Charter has none) used to acquire those assets still outstanding. These capital assets provide services to students; consequently, these assets are not available for future spending. The restricted portion of the Charter's net position (87.32%) is restricted for professional technology.

The remaining portion of the Charter net position is (-85.77%) unrestricted.

At the end of the current fiscal year, the Charter's total net position increased by \$177,816. This is due to a decrease in operating expenses and the impact of GASB 68 increasing deferred outflows of resources.

Changes in Net Position – The table below shows the changes in net position for the fiscal years 2016 and 2015. The Charter relies on state support for 82.6% of its governmental activities. The Charter had total revenues of \$1,800,260 and total expenses of \$1,622,444 that generated an increase in net position of \$177,816.

	June 30, 2016	June 30, 2015
Revenues		
Program Revenues		
Operating grants and contributions	\$ 249,953	\$ 95,690
Capital grants and contributions	-	-
Other state restricted revenue	62,463	19,630
Investment earnings (loss)	1,473	(450)
Grants and contributions not restricted		
State foundation program	1,486,371	1,483,863
Total revenue	1,800,260	1,598,733
Expenses		
Instruction	1,208,169	1,249,212
Support services	414,275	400,305
Total expenses	1,622,444	1,649,517
Change in Net Position	\$ 177,816	\$ (50,784)

CHARTER SCHOOL'S FUNDS FINANCIAL ANALYSIS

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

Governmental Funds

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

General Fund – The general fund is the general operating fund for the Charter. At the end of the current fiscal year, the general fund balance is \$234,565 which is a decrease of \$3,773.

Expenditures for general Charter purposes totaled \$1,554,080 which is a decrease of \$64,061 from prior year. This decrease was primarily due to decreases in staff salaries and benefits.

General fund salaries totaled \$959,099 while the associated fringe benefits of retirement, social security, unemployment, workers compensation, health, dental, vision and life added \$308,796 to arrive at 81.58% of the Charter's general fund expenditures.

Budgetary Highlights

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

Actual expenditures in the General Fund were \$313,958 less than the amended budget. These reductions are due to the fact that these funds were retained for future capital and equipment purchases, and to retain a safety cushion for any possible future budget cuts.

The Charter contracts for all its accounting and payroll services with the West Ada School District.

Capital Assets

The Charter has invested \$494,083 in a wide range of capital assets. The total accumulated depreciation on these assets amounts to \$245,421.

Additional information regarding the Charter's capital assets can be found in Note 4 to the basic financial statements.

Long-Term Debt

At year end the Charter has no long-term debt.

CONTACTING THE CHARTER SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Charter's finances and to demonstrate the Charter's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Board President, Mr. Louis Pifher at the Meridian Medical Arts Charter High School, 1789 E. Heritage Park Lane, Meridian, ID 83646, by phone at (208) 863-5744, or by e-mail at lpifher@msn.com.

Meridian Medical Arts Charter High School, Inc.
Statement of Net Position
June 30, 2016

	Governmental Activities
Assets	
Cash	\$ 575,301
State and federal receivables	101,512
Other receivable	5,453
Capital assets (net of accumulated depreciation)	248,662
Total assets	930,928
Deferred Outflows of Resources	
Pension obligations	297,718
Liabilities	
Accounts, salaries, and other payables	201,734
Net pension liability	470,722
Total liabilities	672,456
Deferred Inflows of Resources	
Employer pension assumption	303,622
Net Position	
Net investment in capital assets	248,662
Restricted	220,551
Unrestricted	(216,645)
Total net position	\$ 252,568

Meridian Medical Arts Charter High School, Inc.
Statement of Activities
Year Ended June 30, 2016

	Program Revenues				
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position	
Functions/Programs					
<i>Governmental activities</i>					
Instruction					
Secondary/alternative programs	\$ 1,204,641	\$ -	\$ 249,953	\$ -	\$ (954,688)
Exceptional school program	3,528	-	-	-	(3,528)
Support services					
Attendance, guidance, health	88,846	-	-	-	(88,846)
Instructional improvement	9,049	-	-	-	(9,049)
School administration	227,452	-	-	-	(227,452)
Maintenance and custodial	75,671	-	-	-	(75,671)
Pupil transportation services	13,257	-	-	-	(13,257)
Total Governmental Activities	<u>\$ 1,622,444</u>	<u>\$ -</u>	<u>\$ 249,953</u>	<u>\$ -</u>	<u>(1,372,491)</u>
General revenues					
Grants and contributions not restricted to specific programs					
State foundation program					1,486,371
Other state restricted revenue					62,463
Interest and investment loss					
General fund					1,473
Total general revenues					1,550,307
Change in Net Position					177,816
Net Position, Beginning of Year					74,752
Net Position, End of Year					\$ 252,568

Meridian Medical Arts Charter High School, Inc.
Balance Sheet – Governmental Funds
June 30, 2016

	General	Professional Technical Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash	\$ 388,196	\$ 161,689	\$ 25,416	\$ 575,301
Receivables				
State receivable	34,475	67,037	-	101,512
Other receivables	5,453	-	-	5,453
	<u>\$ 428,124</u>	<u>\$ 228,726</u>	<u>\$ 25,416</u>	<u>\$ 682,266</u>
Liabilities and Fund Balance				
Liabilities				
Accounts payable	\$ 16,215	\$ 5,814	\$ -	\$ 22,029
Salaries and benefits payable	177,344	2,361	-	179,705
	<u>193,559</u>	<u>8,175</u>	<u>-</u>	<u>201,734</u>
Fund Balance				
Restricted for				
Professional technical	-	220,551	-	220,551
Capital projects	-	-	6,802	6,802
Unassigned	234,565	-	18,614	253,179
	<u>234,565</u>	<u>220,551</u>	<u>25,416</u>	<u>480,532</u>
Total fund balance	<u>\$ 428,124</u>	<u>\$ 228,726</u>	<u>\$ 25,416</u>	<u>\$ 682,266</u>

Meridian Medical Arts Charter High School, Inc.
 Reconciliation for Governmental Funds Balance Sheet to the Statement of Net Position
 June 30, 2016

Total fund balances - governmental funds		\$ 480,532
<p>The cost of capital assets (land, buildings, furniture, equipment and construction in process) purchased or constructed is reported as an expenditure in governmental funds. The Statement of Net Position includes those capital assets among the assets of the Charter as a whole. The cost of those capital assets is allocated over their estimated useful lives (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 government funds.</p>		
Costs of capital assets	494,083	
Depreciation expense to date	<u>(245,421)</u>	248,662
PERSI liability not reported in the funds		(470,722)
Deferred outflows of resources related to pension obligations		
Changes of assumptions	17,143	
Deferred outflows of 2016 employer contributions related to pensions	107,567	
Net difference between projected and actual investment earnings	<u>173,008</u>	297,718
Deferred inflows of resources related to pensions		
Net difference between expected and actual experience	(56,429)	
Net difference between projected and actual investment earnings	<u>(247,193)</u>	<u>(303,622)</u>
Net Position		<u>\$ 252,568</u>

Meridian Medical Arts Charter High School, Inc.
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2016

	General	Professional Technical Fund	Other Governmental Funds	Total Governmental Funds
Revenue				
State revenue	\$ 1,438,272	\$ 230,714	\$ 18,739	\$ 1,687,725
Other state restricted revenue	62,463	-	-	62,463
Other state support revenue	47,699	-	-	47,699
Other revenue	400	500	-	900
Earnings on investments	1,473	-	-	1,473
Total revenue	<u>1,550,307</u>	<u>231,214</u>	<u>18,739</u>	<u>1,800,260</u>
Expenditures				
Instructional				
Secondary school	1,136,151	-	-	1,136,151
Alternative school	-	63,315	125	63,440
Exceptional school	3,545	-	-	3,545
Total instructional	<u>1,139,696</u>	<u>63,315</u>	<u>125</u>	<u>1,203,136</u>
Support Services				
Attendance, guidance, health	89,410	-	-	89,410
Instructional	9,110	-	-	9,110
School administration	228,407	-	-	228,407
Custodial and maintenance	74,200	-	-	74,200
Transportation program	13,257	-	-	13,257
Total support services	<u>414,384</u>	<u>-</u>	<u>-</u>	<u>414,384</u>
Total expenditures	<u>1,554,080</u>	<u>63,315</u>	<u>125</u>	<u>1,617,520</u>
Excess (deficiency) of Revenues over (under) Expenditures	(3,773)	167,899	18,614	182,740
Fund Balance, Beginning of Year	<u>238,338</u>	<u>52,652</u>	<u>6,802</u>	<u>297,792</u>
Fund Balance, End of Year	<u>\$ 234,565</u>	<u>\$ 220,551</u>	<u>\$ 25,416</u>	<u>\$ 480,532</u>

Meridian Medical Arts Charter High School, Inc.
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to
the Statement of Activities
Year Ended June 30, 2016

Total net change in fund balances - governmental funds	\$ 182,740
Amounts reported for governmental activities in the Statement 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 depreciation exceeded capital outlays during the fiscal year:	
Depreciation expense	(14,775)
Pension contributions are reported in government funds as expenditures, while on the Statement of Activities the contributions are considered deferred outflow.	<u>9,851</u>
Change in Net Position	<u><u>\$ 177,816</u></u>

Meridian Medical Arts Charter High School, Inc.
Fiduciary Funds – Agency Fund Statement of Net Position
June 30, 2016

	<u>Agency Funds</u>
Assets	
Cash	\$ 57,086
Other assets	196
	<u>\$ 57,282</u>
Liabilities	
Due to student groups	<u>\$ 57,282</u>
	<u>\$ 57,282</u>

Note 1 - Summary of Significant Accounting Policies

Entity and Charter

Meridian Medical Arts Charter High School, Inc. (the Charter) is organized and operated as a nonprofit corporation in the State of Idaho. The Charter was created in 2002 to expand the academic choices available within the West Ada School District (the District) for the purpose of developing specific occupational opportunities in the area of medical arts. The Charter operates a charter school for grades ninth through twelfth, which is classified as a high school education program. The Charter is located in Ada County in Southwest Idaho.

The Charter's original charter was issued in 2002 through the District. Subsequently, the 2004 Idaho Legislature approved Senate Bill 1444 (the Bill) which clarified and updated the existing charter school enabling legislation. Under terms of the Bill, a charter may be revoked by the authorized chartering entity if the public charter 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 public charter school has been afforded a public hearing. Defects that could subject a public charter school to revocation include failure to follow the procedure 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 Charter 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 Charter believes they have complied with all of the charter requirements.

Regulatory Reporting

As required by the enabling legislation, the Charter is organized as a non-profit corporation. 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 Charter conform to generally accepted accounting principles and to State laws applicable to governments. The following is a summary of the more significant policies:

Financial Reporting Entity

The Charter 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 Charter's Board of Trustees. Control or dependence on the District was determined on the basis of appointment authority, budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the Charter and legal standing.

The Charter 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 Charter 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.

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

Governmental Funds

Governmental funds are used to account for the Charter's general government activities, including the collection and disbursement of specific or legally restricted monies, the acquisition or construction of general fixed assets, and the servicing of general long-term debt. The general fund and professional technical fund are considered major funds while the remaining governmental funds are considered non-major.

Governmental funds include:

General fund – the primary operating fund of the Charter 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.

Fiduciary Funds

Fiduciary funds account for assets held by the Charter in a trustee capacity or as an agent on behalf of outside parties. The school activity fund accounts for assets held by the Charter as an agent for schools organizations.

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements (GWFS)

The Statement of Net Position and the Statement of Activities displays information about the reporting government as a whole.

The Statement of Net Position and the Statement of Activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position resulting from nonexchange transactions are recognized in accordance with the requirements of GASB.

Program Revenues

Program revenues included in the Statement of Activities derive directly from the program itself or from parties outside the Charter's citizenry, as a whole; program revenues reduce the cost of the function to be financed from the Charter'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 Charter 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 measurable and available. Measurable 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 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 and expenditures:

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 Charter and are recognized as revenue at that time.

Expenditures

Salaries are recorded as paid. Salaries for nine-month employees are accrued at June 30.

Cash

The Charter 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. Under state law, the Charter 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.

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. Significant estimates used in preparing these financial statements include those assumed in determining the actuarial assumptions made in the other post-employment liability and net pension liability. Accordingly, actual results could differ from those estimates.

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 lives are 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:

Buildings and improvements	25-50 years
Furniture and equipment	3-10 years

The Charter's capitalization threshold is \$5,000 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 Charter does not possess any material amounts of infrastructure capital assets (e.g. roads, bridges, parking lots, and 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.

Other Post Employment Benefit

The Charter 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 disclosures regarding the contribution rates, annual required contribution, the net OPEB obligation and expense, and the unfunded actuarial accrued liability.

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

Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Charters policy is to apply restricted net assets first.

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.

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 financial 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.

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/deductions 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.

Note 2 - Cash

At June 30, 2016, the Charter's bank balance of cash consisted of the following:

Deposits

Insured or collateralized	\$ 250,000
Uninsured or not collateralized	331,782
	<u> </u>
Total deposits	<u><u>\$ 581,782</u></u>

Note 3 - Due from Other Agencies and Units of Government

Amounts due from other agencies and units of government as of June 30, 2016 were:

	<u>Governmental Funds</u>
Due from State	\$ 101,512
Due from other agencies	5,453
	<u> </u>
	<u><u>\$ 106,965</u></u>

Note 4 - Capital Assets

A summary of activity in the Capital Assets is as follows:

	<u>June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>June 30, 2016</u>
Governmental activities					
Capital assets					
Buildings and improvements	\$ 281,078	\$ -	\$ -	\$ -	\$ 281,078
Furniture and equipment	213,005	-	-	-	213,005
Total capital assets	<u>494,083</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>494,083</u>
Less accumulated depreciation for					
Buildings, and improvements	(27,602)	(5,622)	-	-	(33,224)
Furniture and equipment	(203,044)	(9,153)	-	-	(212,197)
Total accumulated depreciation	<u>(230,646)</u>	<u>(14,775)</u>	<u>-</u>	<u>-</u>	<u>(245,421)</u>
Total capital assets, net	<u>\$ 263,437</u>	<u>\$ (14,775)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 248,662</u>

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

Governmental activities	
Secondary/alternative programs	\$ 13,304
Maintenance and custodial	<u>1,471</u>
Total depreciation expense – Governmental activities	<u>\$ 14,775</u>

Note 5 - Concentrations

The Charter's principal source of support is state base support revenue. For the year ended June 30, 2016, this funding source accounted for approximately 99.9% of all revenues.

Note 6 - Insurance

The Charter is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; and errors and omissions. The Charter purchases insurance for property losses from independent carriers. The Charter has in effect property insurance coverage up to \$700,000 with a \$2,500 deductible per incident. Worker's compensation insurance is purchased from the State of Idaho in accordance with state requirements. The Charter maintains a \$2,000,000 commercial general liability policy per occurrence and a \$5,000,000 maximum aggregate.

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

Note 7 - In-Kind Donations

The Charter does not record various types of in-kind support including contributed building space and professional services. The Charter paid rental expenses of \$1 during the year ended June 30, 2016. The lease between the District and the Charter was extended for an additional one year for \$1 with the option to renew annually each year thereafter. The fair value of the annual lease payments is approximately \$270,000.

Note 8 - Pension Plan

Plan Description

The Charter 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) 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.

Employee membership data related to the PERSI Base Plan, as of June 30, 2016 was as follows:

Retirees and beneficiaries currently receiving benefits	42,657
Terminated employees entitled to but not yet receiving benefits	11,859
Active plan members	67,008
	121,524

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 with 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 assess to pay benefits when due.

The contribution rates for employees are set by stature at 60% of the employer rate. As of June 30, 2015 it was 6.79%. The employer contribution rate is set by the Retirement Board and was 11.32% of covered compensation. The Charter's contributions were \$107,567 for the year ended June 30, 2016.

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

At June 30, 2016, the Charter reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Charter's proportion of the net pension liability was based on the Charter's share of contributions in the Base Plan pension plan relative to the total contributions of all participating PERSI Base Plan employers. At July 1, 2015, the Charter's portion was .0355146%.

For the year ended June 30, 2016, the Charter recognized pension expense of \$93,803. At June 30, 2016, the Charter 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
Changes in assumptions or other inputs	\$ 17,143	\$ -
Net difference between projected and actual earnings on pension plan investments	173,008	247,193
Changes in the employer's portion and differences between employer's contributions and the employer's proportionate contributions	-	56,429
Charter's contributions susbequent to the measurement date	107,567	-
Total	\$ 297,718	\$ 303,622

\$107,567 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, 2016.

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

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:

Year ended June 30:

2017	\$ (48,286)
2018	(48,286)
2019	(48,286)
2020	35,047
2021	(3,660)

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 individuals 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 July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	4.5 – 10.00%
Salary inflation	3.75%
Investment rate of return	7.10%, net of investment expenses
Cost-of-living adjustments	1%

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 in 2012 for the period July 1, 2007 through June 30, 2011 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 of July 1, 2015.

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 development 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, PERSI relies primarily on an approach which builds upon the latest capital market assumptions. Specifically, PERSI uses consultants, investment managers and trustees to develop capital market assumptions in analyzing PERSI's asset allocation. The assumptions and PERSI's formal policy for asset allocation are shown below. The formal asset allocation policy is somewhat more conservative than the current allocation of PERSI'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, 2014.

Asset Class	Index	Target Allocation	Long-Term Expected Real Rate of Return
Core Fixed Income	Barclays Aggregate	30.00%	0.80%
Broad US Equities	Wilshire 5000 / Russell 3000	55.00%	6.90%
Developed Foreign Equities	MSCI EAFE	15.00%	7.55%
Assumed Inflation - Mean			3.25%
Assumed Inflation - Standard Deviation			2.00%
Portfolio Arithmetic Mean Return			8.42%
Portfolio Long-Term Expected Rate of Return			7.50%
Assumed Investment Expenses			0.40%
Long-Term Expected Rate of Return, Net of Investment Expenses			7.10%

Discount Rate

The discount rate used to measure the total pension liability was 7.10 percent. 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 the 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 represents the Charter’s proportionate share of the net pension liability calculated using the discount rate of 7.10 percent, as well as what the Charter’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%)
Charter's proportionate share of the net pension liability (asset)	\$ 1,146,508	\$ 470,722	\$ (91,104)

Pension Plan Fiduciary Net Position

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

PERSI issues a publicly available financial report that includes financial statements that the required supplement 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, 2016, the Charter 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.



Required Supplementary Information
June 30, 2016

Meridian Medical Arts Charter High School, Inc.

Meridian Medical Arts Charter High School, Inc.
Schedule of Employer's Share of Net Pension Liability PERSI and Schedule of Employer Contributions
June 30, 2016

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

	2016	2015
Employer's proportionate share of the net pension liability	0.035746400%	0.035514600%
Employer's proportion share of the net pension liability	\$ 470,722	\$ 261,443
Employer's covered-employee payroll	\$ 1,003,552	\$ 985,779
Employer's proportional share of the net pension liability as a percentage of its covered-employee payroll	46.91%	26.52%
Plan fiduciary net position as a percentage of the total pension liability	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, the Charter will present information for those use for which information is available.

Date reported is measured as of July 1, 2015 (measurement date)

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

	2016	2015
Statutorily required contribution	\$ 107,567	\$ 113,110
Contributions in relation to the statutorily required contribution	\$ (107,567)	\$ (113,110)
Contribution (deficiency) excess	\$ -	\$ -
Employer's covered - employee payroll	\$ 975,498	\$ 1,003,552
Contributions as a percentage of the covered-employee payroll	11.03%	11.27%

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

Data reported is measured as of June 30, 2016.

Meridian Medical Arts Charter High School, Inc.
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenue				
State revenue	\$ 1,617,920	\$ 1,617,920	\$ 1,426,942	\$ (190,978)
Other state restricted revenue	-	-	62,463	62,463
Federal revenue	-	-	47,699	47,699
Earnings (loss) on investments	11,780	11,780	11,330	(450)
Earnings	-	-	1,473	1,473
Other revenue	-	-	400	400
Total revenue	<u>1,629,700</u>	<u>1,629,700</u>	<u>1,550,307</u>	<u>(79,393)</u>
Expenditures				
Instructional	1,366,069	1,381,762	1,139,696	242,066
Support services	409,952	404,791	414,384	(9,593)
Contingency	81,485	81,485	-	81,485
Total expenditures	<u>1,857,506</u>	<u>1,868,038</u>	<u>1,554,080</u>	<u>313,958</u>
Excess (Deficiency) of Revenue over (Under) Expenditures	<u>\$ (227,806)</u>	<u>\$ (238,338)</u>	<u>\$ (3,773)</u>	<u>\$ 234,565</u>

Note 1 - Basis of Budgeting

The Charter follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Charter 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 the 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 Charter 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 directors and published in the local newspaper.
5. The Charter may, after school starts and actual enrollments 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 Charter receives additional revenues in that fiscal year as a result of an increase in non-property tax related receipts. Once the 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.



Other Information
June 30, 2016

Meridian Medical Arts Charter High 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
Meridian Medical Arts Charter High School, Inc.
Meridian, 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 Meridian Medical Arts Charter High School, Inc. (the Charter), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Charter’s basic financial statements and have issued our report thereon dated September 21, 2016.

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 Charter'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 Charter’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter’s internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding 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 were not identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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 Charter’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses 2016-A to be a material weakness.

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 Charter'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 audits 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*.

Charter's Response to Findings

The Charter's response to the findings identified in our audit is described in the schedule of findings and responses. The Charter's response was not subject 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 result of that testing, and not to provide an opinion on the effectiveness of the Charter'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 Charter's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Boise, Idaho
September 21, 2016

2016-A Financial Statement Preparation and Audit Adjustments

Criteria:

Management should have an internal control system in place designed to provide for the preparation of the financial statements being audited. This includes proper reporting on a modified accrual basis of accounting and the ability to convert the trial balance from modified accrual to full accrual under the requirements of the Governmental Accounting Standards Board (GASB). It also includes the ability to prepare the required footnote disclosures by GASB. Additionally, this includes posting of all material adjustments necessary to close the year and accurately reflect the activity of the Charter throughout the year.

Condition:

Communicating Internal Control Related Matters Identified in an Audit defines a material weakness and significant deficiency. According to these definitions, an internal control system design must include elements to accurately prepare financial statements without adjustments by the auditor. As auditors, we were requested to assist management in the preparation of the financial statements from the trial balances. This preparation included certain accrual closing entries, government-wide reporting conversion entries and footnotes.

Cause:

The size of the Charter and the limited number of accounting personnel makes it difficult to implement this level of internal control.

Effect:

Management relied on the auditing firm to report financial data in accordance with generally accepted accounting principles. The auditor proposed government-wide reporting conversion entries and prepared the footnotes and reported financial data in accordance with generally accepted accounting principles.

Recommendation:

We recommend management and those charged with governance annually analyze the cost/benefit of implementing a control system which would allow for the preparation of financial statements and the related disclosure and reconsider whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response and Action Plan of Management:

The Charter agrees that having an internal control system over financial reporting is an important part of the Charter's overall internal control process. The Charter has performed a cost/benefit analysis of implementing these controls and concluded the resources were not in place to effectively implement the necessary changes for the year ended June 30, 2016.