

FINANCIAL STATEMENTS
CHARTER DAY SCHOOL
LELAND, NORTH CAROLINA
JUNE 30, 2013

PM&P

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To the Board of Directors
Charter Day School
Leland, North Carolina

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Charter Day School for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 11, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under *Government Auditing Standards* and OMB Circular A-133

In planning and performing our audit, we considered Charter Day School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major State program in order to determine our auditing procedures for the purpose of expressing our opinions on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the Single Audit Implementation Act.

As part of obtaining reasonable assurance about whether Charter Day School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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. Also, in accordance with OMB Circular A-133 and the State Single Audit Implementation Act, we examined, on a test basis, evidence about Charter Day School's compliance with the types of compliance requirements prescribed by the State of North Carolina and OMB Circular A-133 applicable to its major State program for the purpose of expressing an opinion on Charter Day School's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Charter Day School's compliance with those requirements.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Charter Day School are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting Charter Day School's financial statements was:

Management's estimate of depreciation expense is based on estimated useful lives. We evaluated the key factors and assumptions used to develop the depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of capital assets in Note III.A.2 to the financial statements. Capital assets are recorded at cost and depreciated over their estimated useful lives.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 21, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors and management of Charter Day School and is not intended to be, and should not be, used by anyone other than these specified parties.

Petway Mills & Pearson, PA
PETWAY MILLS & PEARSON, PA
Certified Public Accountants
Zebulon, North Carolina

October 21, 2013

CHARTER DAY SCHOOL
TABLE OF CONTENTS
JUNE 30, 2013

| | EXHIBIT | PAGE |
|---|---------|------|
| FINANCIAL SECTION | | |
| Independent Auditors' Report | | 5 |
| Management's Discussion and Analysis | | 7 |
| Basic Financial Statements: | | |
| Government-wide Financial Statements: | | |
| Statement of Net Position | 1 | 17 |
| Statement of Activities | 2 | 18 |
| Fund Financial Statements: | | |
| Balance Sheet - Governmental Funds | 3 | 19 |
| Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position | 3 | 19 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds | 4 | 20 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities | 5 | 21 |
| Notes to the Basic Financial Statements | | 22 |

| | STATEMENT | PAGE |
|--|-----------|------|
|--|-----------|------|

Required Supplementary Information

| | | |
|--|---|----|
| Balance Sheet - Non-major Governmental Funds | 1 | 32 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances - Non-major Governmental Funds | 2 | 33 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual, Government-wide Budget except for Federal Grants Fund | 3 | 34 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual, Federal Grants Fund | 4 | 35 |

COMPLIANCE SECTION

| | |
|---|----|
| Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 37 |
| Independent Auditors' Report on Compliance for Each Major State Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and the State Single Audit Implementation Act | 39 |
| Schedule of Findings and Questioned Costs | 41 |
| Corrective Action Plan | 43 |
| Summary Schedule of Prior Years' Audit Findings | 44 |
| Schedule of Expenditures of Federal and State Awards | 45 |

FINANCIAL SECTION
CHARTER DAY SCHOOL
LELAND, NORTH CAROLINA
JUNE 30, 2013

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Independent Auditor's Report

To the Board of Trustees
Charter Day School
Leland, North Carolina

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 Charter Day School as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Charter Day 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.

Auditors' 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 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Charter Day School as of June 30, 2013, and the respective changes in financial position and 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 on pages 7 through 14 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.


Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Charter Day School's basic financial statements. The nonmajor individual fund financial statements and the budgetary schedules, as well as the accompanying Schedule of Expenditures of Federal and State Awards, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The nonmajor individual fund financial statements and the budgetary schedules, as well as the accompanying Schedule of Expenditures of Federal and State Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the nonmajor individual fund financial statements and the budgetary schedules, and the accompanying Schedule of Expenditures of Federal and State Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

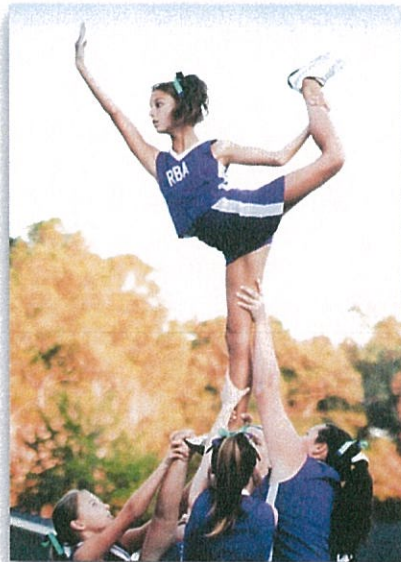
In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2013 on our consideration of Charter Day School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the 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 Charter Day School's internal control over financial reporting and compliance.


PETWAY MILLS & PEARSON, PA
Certified Public Accountants
Zebulon, North Carolina

October 21, 2013



EXCELLENCE WITHOUT EXCUSES



7055 Bacon's Way, Leland, NC 28451
910-655-1214 www.charterdayschool.org

Management's Discussion and Analysis

Charter Day School

June 30, 2013



Charter Day School is a tuition-free, open enrollment public school in southeastern North Carolina. Since 2000, Charter Day School has focused on quality K-8 education and is a premier performance-driven year round school. Widely recognized as a compelling choice to conventional public education the school has built a reputation for retaining dedicated and highly qualified teachers that give students a strong and proven academic foundation. Charter Day School has received numerous awards, including the designation of being a Top-25 School for Academic Growth and of Excellence in the state of North Carolina.

School Features

- Tuition Free
- Set on 66 Scenic Acres in Brunswick County
- Just 15 minutes from downtown Wilmington
- Use researched based core curriculum
- Student uniforms mandatory
- High expectations for students and staff
- School pledge for students and staff
- Intensive new-hire training
- Continuous in-service monitoring
- Teacher dress codes
- On Site, Educational Day Care
- After School Clubs and Activities
- Consistently rated as one of the best schools academically in NC!
- Regular parent surveys conducted
- Annual financial audits conducted

Our Foundation - Three Laws

- Law 1 - Reward good behavior,
you'll get more of it.
- Law 2 - Teach to mastery,
every child will learn.
- Law 3 - Watch the children,
*if they are not learning or
behaving, you're not following
the first two laws.*





Management's Discussion and Analysis Charter Day School June 30, 2013

As management of Charter Day School, we offer readers of Charter Day School's audited financial statements this narrative overview and analysis of the financial activities of Charter Day School for the fiscal year ended June 30, 2013. We encourage readers to read the information presented herein in conjunction with additional information that we have furnished in the School's financial statements, which follow this narrative.

Financial Highlights

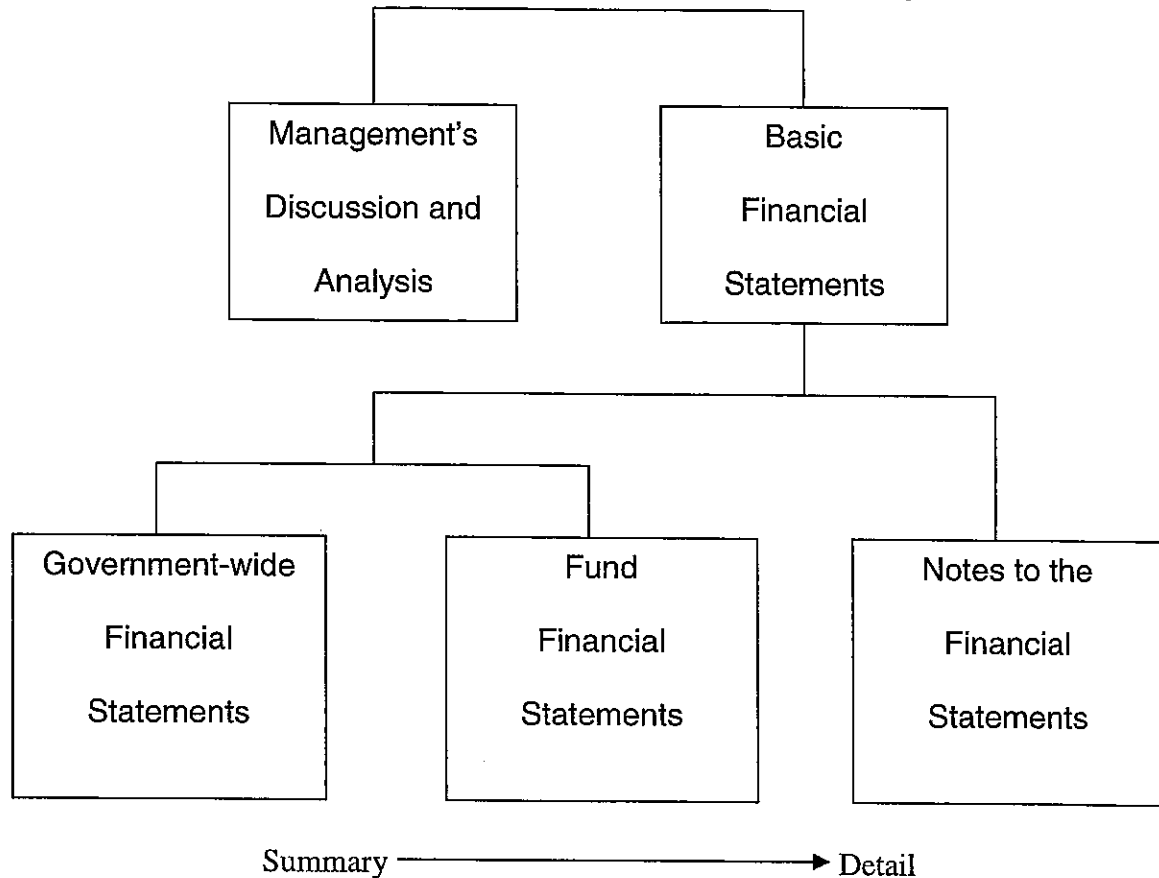
- The assets of Charter Day School exceeded its liabilities at the close of the fiscal year by \$1,794,266 (*net assets*).
- The school's total net assets increased by \$149,755, due to increases in the governmental activities net assets.
- As of the close of the current fiscal year, Charter Day School's governmental funds reported combined ending fund balances of \$1,614,285, an increase of \$224,665 in comparison with the prior year.
- As of the close of the current fiscal year, Charter Day School reported fixed assets net of depreciation of \$179,981, an decrease of \$74,910 in comparison with the prior year's \$254,890.
- Enrollment continued to increase at the school in the 2012-2013 school year. The 2008-2009 enrollment was 737, enrollment for 2009-2010 was 820, 2010-2011 was 896, the audited year of 2011-2012 was 921 and the audited year of 2012-2013 was 924. The current enrollment for the 2013-2014 school year has increased to 932 students.
- Charter Day School has no long-term debt.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Charter Day School's basic financial statements. The School's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two distinct financial perspectives of the School through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of Charter Day School.

Figure 1

Required Components of Annual Financial Report



Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the School's financial standing.

The next statements (Exhibits 3 through 5) are **Fund Financial Statements**. These statements focus on the activities of the individual segments of the School's governmental fund statements. These statements are more detailed than the government-wide financial statements. There are two parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the proprietary fund statements.

Immediately following the fund financial statements are the **Notes to the Financial Statements** (i.e. "Notes"). The Notes offer a detailed explanation of the data contained in those statements. Next, **supplemental information** is provided to show details about the School's funds. Budgetary information for the School also can be found in this section of the statements.



Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the School's finances, similar in format to the financial statements of a private-sector business. The government-wide statements provide short and long-term information about the School's financial status, as a whole.

The two government-wide statements report the School's net assets and how they have changed. Net assets equal the difference between the School's total assets and total liabilities. Measuring net assets is one way to gauge the School's financial condition.

The government-wide statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include most of the School's basic functions such as instructional services and business services. These functions are funded almost entirely through state, county, and federal educational funds. The business-type activities are those services that the School charges its students and other customers. Charter Day School participates in no business-type activities.

The government-wide financial statements are enumerated in Exhibits 1 and 2 of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the School's most significant activities. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Charter Day School uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related statutory requirements where and when applicable. All of the funds of Charter Day School can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for functions reported as governmental activities in the government-wide financial statements. Most of the School's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and monies remaining at year-end that will be available for spending in the next fiscal year. Governmental funds are reported using the modified accrual accounting method, which provides a short-term spending focus. The governmental fund financial statements assist the reader in determining whether there has been an increase or a decrease in the financial resources available to finance the School's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in reconciliation, which is an integral part of the fund financial statements.



Although not compelled or required to do so by federal, state, or local law, Charter Day School has elected to adopt an annual budget. Since the budget is not required by law, the budgetary comparison statements are not included in the basic financial statements, but are part of the supplemental statements and schedules following the notes. The budget incorporates input from the management and the Board of Directors of the School and specifies which activities will be pursued and which services the School will provide during the year. It also authorizes the School to obtain funds from identified sources to finance current period activities. The budgetary statement demonstrates how well the School has complied with the budget and whether or not the School has succeeded in providing the services at the costs as originally planned.

Proprietary Funds – Charter Day School does not operate a proprietary fund.

Notes to the Financial Statements – The notes provide additional information essential to facilitating a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 22 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as one useful indicator of a school's financial condition. The assets of Charter Day School exceeded liabilities by \$1,794,266, as of June 30, 2013. As of June 30, 2012, the net assets of Charter Day School stood at \$1,644,511. The School's net assets increased by \$149,755 for the fiscal year ended June 30, 2013, compared to an increase of \$261,673 in 2012. The amount of \$179,981 reflects the School's investment in capital assets (e.g. electronic equipment, textbooks, and playground equipment). Charter Day School uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. The remaining balance of \$1,614,285 is unrestricted. In 2012, the amount of net assets invested in capital assets net of related debt was \$254,890. The remaining \$1,389,620 was unrestricted net assets for that year.



Figure 2
Charter Day School's Net Assets

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|-------------------------|--------------------|--------------------------|----------|--------------------|--------------------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Current and other assets | \$ 1,801,135 | \$ 1,714,647 | - | - | \$ 1,801,135 | \$ 1,714,647 |
| Capital assets, net of depreciation | 179,981 | 254,890 | - | - | 179,981 | 254,890 |
| Total assets | 1,981,116 | 1,969,537 | - | - | 1,981,116 | 1,969,537 |
| Other liabilities | 186,850 | 325,026 | - | - | 186,850 | 325,026 |
| Total liabilities | 186,850 | 325,026 | - | - | 186,850 | 325,026 |
| Invested in capital assets, net of related debt | 179,981 | 254,890 | - | - | 179,981 | 254,890 |
| Unrestricted | 1,614,285 | 1,389,621 | - | - | 1,614,285 | 1,389,621 |
| Total net assets | \$1,794,266 | \$1,644,511 | - | - | \$1,794,266 | \$1,644,511 |

Several aspects of the School's financial operations positively influenced the total unrestricted governmental net assets:

- The School adopted an annual budget. The School's performance was measured using this budget on a monthly basis, allowing changes to be made in spending as needed to remain within the confines of the budget.
- The School applied for and was awarded several federal grants to assist with meeting the educational needs of the student population.
- The school continued to obtain additional classroom space at very competitive rental rates.



Figure 3
Charter Day School's Changes in Net Assets

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|-------------------------|---------------------|--------------------------|----------|---------------------|---------------------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Donations or Other Revenues | \$ 9,282 | \$ 13,708 | - | - | \$ 9,282 | \$ 13,708 |
| Charges for Services | - | - | - | - | - | - |
| Operating Grants and Contributions | 230,837 | 277,216 | - | - | 230,837 | 277,216 |
| County, State, and Federal Funds | 6,821,525 | 6,618,375 | - | - | 6,821,525 | 6,618,375 |
| Total revenues | 7,061,644 | 6,909,299 | - | - | 7,061,644 | 6,909,299 |
| Instructional Programs | 5,280,174 | 5,303,101 | - | - | 5,280,174 | 5,303,101 |
| Support services | 1,631,048 | 1,329,525 | - | - | 1,631,048 | 1,329,525 |
| Community Services | - | - | - | - | - | - |
| Non-programmed charges | - | 15,000 | - | - | - | 15,000 |
| Interest on short-term debt | - | - | - | - | - | - |
| Total expenses | 6,911,222 | 6,647,626 | - | - | 6,911,222 | 6,647,626 |
| Increase (Decrease) in net assets before transfers | 149,755 | 261,673 | - | - | 149,755 | 261,673 |
| Transfers | - | - | - | - | - | - |
| Increase (Decrease) in net assets | 149,755 | 261,673 | - | - | 149,755 | 261,673 |
| Net assets, July 1 | 1,644,511 | 1,382,838 | - | - | 1,644,511 | 1,382,838 |
| Net assets, June 30 | \$ 1,794,266 | \$ 1,644,511 | - | - | \$ 1,794,266 | \$ 1,644,511 |

Governmental activities. Governmental activities increased the School's net assets by \$149,755.

Business-type activities. Charter Day School does not operate a proprietary fund.

Financial Analysis of the School's Funds

As noted earlier, Charter Day School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of Charter Day School's governmental funds is to provide information on near-term inflows, outflows, and balances of usable financial resources. Such information is useful in assessing Charter Day School's financing requirements. Specifically, unassigned fund balance can be a useful measure of the School's net resources available for spending at the end of the fiscal year.



The general fund is the chief operating fund of Charter Day School. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,614,285.

Proprietary Funds. Charter Day School does not operate any proprietary funds.

Capital Asset and Debt Administration

Capital assets. Charter Day School's investment in capital assets for its governmental and business-type activities as of June 30, 2013, totals \$179,981 (net of accumulated depreciation). Capital assets include textbooks, playground equipment, and computers. There were no capital asset purchases during the year.

Figure 4
Charter Day School's Capital Assets
(net of depreciation)

| | Governmental Activities | | Business-Type Activities | | Total | |
|----------------------|-------------------------|-------------------|--------------------------|-------------|-------------------|-------------------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Electronic equipment | \$ 23,265 | \$ 28,380 | - | - | \$ 23,265 | \$ 28,380 |
| Textbooks | 147,184 | 212,182 | - | - | 147,184 | 212,182 |
| Playground equipment | 9,532 | 14,328 | - | - | 9,532 | 14,328 |
| Computers | - | - | - | - | - | - |
| Total | \$ 179,981 | \$ 254,890 | \$ - | \$ - | \$ 179,981 | \$ 254,890 |

Additional information about the School's capital assets can be found in Note III.A.2. of the Basic Financial Statements.

Long-term Debt. As of June 30, 2013, Charter Day School had no outstanding debt.

Economic Factors

The following key economic indicators reflect the growth and prosperity of the School as well as some of its challenges:

- Due to enrollment limits, the school was obligated to hold a random lottery in February, 2013, and to admit only a fraction of the applicants for the upcoming year.
- In New Hanover County Superior Court, the school was awarded approximately \$125,000 to recover funds withheld by the New Hanover County School District. The ruling is being appealed, but the board believes that the lower court's ruling will be upheld.



- In Brunswick County Superior Court, based on favorable summary judgment rulings the school is entitled to approximately \$1,500,000 to recover funds withheld by the Brunswick County School District.
- Management has the fiduciary duty to recover withheld funds by Local Education Administrations, and this process has demanded litigation. However, fulfilling this duty has engendered animus and possibly slanderous public statements by Brunswick County School officials. These false statements have been widely dispersed in the media and could adversely affect future enrollment.
- Funding from counties such as Brunswick and New Hanover, has provided an increase in total revenues per pupil, however, the school operated with substantially lower amounts than other public schools because it receives no capital funding and must pay rent out of its operating revenue.
- New regulatory limitations, promulgated by DPI, may have unintended consequences that negatively affect operations. Management believes that not all of these new regulations are in compliance with the charter act and may seek to have them revoked by petitioning the appropriate venue.
- A new Charter Advisory Board, created by statute in the last session, may institute new policies affecting operations and funding.
- Given the new policy and regulatory environment, it is important for the school to continue increasing its unrestricted funds surplus, particularly since there now is a possible impact with other competing charter schools that have been approved in locations within the school's drawing area.

As in past years, such factors evidence the demand on the school by the parents and community that will require additional financing in future years. As specified in the charter application, Charter Day School intends to continue expansion and replication in nearby counties to try and meet the local demands subject to constraints on the available land and on available financing. It was partially for this reason that the fund balance was substantially increased this year.

Careful management of the School's financial resources and building relationships with possible new major donors will continue as in the past; however there is no guarantee that future financing will be available or that any major donors can be found to fund continued expansion.

Requests for Information

This report is designed to provide an overview of the School's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Mr. Mark Dudeck, Treasurer, Charter Day School, 7055 Bacon's Way, Leland, NC 28451, 910-655-3600.

Charter Day School
Statement of Net Position
June 30, 2013

| | Primary Government | | |
|--|----------------------------|-----------------------------|--------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| Cash and cash equivalents | \$ 1,795,392 | \$ - | \$ 1,795,392 |
| Due from other governments | 5,543 | - | 5,543 |
| Receivables - other | 200 | - | 200 |
| Capital assets: | | | |
| Land, improvements, and construction in progress | - | - | - |
| Other capital assets, net of depreciation | 179,981 | - | 179,981 |
| Total capital assets | 179,981 | - | 179,981 |
| Total assets | 1,981,116 | - | 1,981,116 |
| LIABILITIES | | | |
| Accounts payable - trade | 186,850 | - | 186,850 |
| Accrued salaries and wages payable | - | - | - |
| Long-term liabilities: | | | |
| Due within one year | - | - | - |
| Due in more than one year | - | - | - |
| Total liabilities | 186,850 | - | 186,850 |
| NET POSITION | | | |
| Net investment in capital assets | 179,981 | - | 179,981 |
| Restricted for: | | | |
| Clubs and activities | - | - | - |
| Unrestricted | 1,614,285 | - | 1,614,285 |
| Total net position | \$ 1,794,266 | \$ - | \$ 1,794,266 |

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

Charter Day School
Statement of Activities
For the Year Ended June 30, 2013

| Functions/Programs | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Assets | | |
|--|------------------|----------------------|------------------------------------|----------------------------------|---|------|----------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | |
| Primary government: | | | | | | | |
| Governmental Activities: | | | | | | | |
| Instructional programs | \$ 5,280,174 | \$ - | \$ 229,225 | \$ - | \$ (5,050,949) | \$ - | \$ (5,050,949) |
| Support services | 1,631,048 | - | 1,612 | - | (1,629,436) | - | (1,629,436) |
| Community services | - | - | - | - | - | - | - |
| Non-programmed charges | - | - | - | - | - | - | - |
| Interest on short-term debt | - | - | - | - | - | - | - |
| Total governmental activities | 6,911,222 | - | 230,837 | - | (6,680,385) | - | (6,680,385) |
| Business-type activities: | | | | | | | |
| School food service | - | - | - | - | - | - | - |
| Fund Raising | - | - | - | - | - | - | - |
| Total business-type activities | - | - | - | - | - | - | - |
| Total primary government | \$ 6,911,222 | \$ - | \$ 230,837 | \$ - | (6,680,385) | - | (6,680,385) |
| General revenues: | | | | | | | |
| Unrestricted County appropriations | | | | | 2,110,564 | - | 2,110,564 |
| Unrestricted State appropriations | | | | | 4,684,651 | - | 4,684,651 |
| Unrestricted Federal appropriations | | | | | - | - | - |
| Unrestricted fines and forfeitures | | | | | 26,310 | - | 26,310 |
| Donations - general | | | | | 93 | - | 93 |
| Investment earnings, unrestricted | | | | | 3,856 | - | 3,856 |
| Special item - loss on disposal of assets | | | | | (667) | - | (667) |
| Miscellaneous, unrestricted | | | | | 5,333 | - | 5,333 |
| Transfers | | | | | - | - | - |
| Total general revenues, special items, and transfers | | | | | 6,830,140 | - | 6,830,140 |
| Change in net assets | | | | | 149,755 | - | 149,755 |
| Net position-beginning | | | | | 1,644,511 | - | 1,644,511 |
| Net position-ending | | | | | \$ 1,794,266 | \$ - | \$ 1,794,266 |

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

Charter Day School
Balance Sheet
Governmental Funds
June 30, 2013

| | Major Funds | | Total Non-major Funds | Total Governmental Funds |
|--------------------------------------|---------------------|------------------------|--------------------------|--------------------------------|
| | General | State Public School | Federal Grants | |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 1,795,392 | \$ - | \$ - | \$ 1,795,392 |
| Due from other governments | 5,543 | - | - | 5,543 |
| Accounts Receivable - other | 200 | - | - | 200 |
| Total assets | <u>\$ 1,801,135</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,801,135</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable - trade | \$ 186,850 | \$ - | \$ - | \$ 186,850 |
| Accrued salaries and wages payable | - | - | - | - |
| Total liabilities | <u>186,850</u> | <u>-</u> | <u>-</u> | <u>186,850</u> |
| Fund balances: | | | | |
| Nonspendable: | | | | |
| Inventories | - | - | - | - |
| Prepaid items | - | - | - | - |
| Assigned: | | | | |
| Clubs and Activities | - | - | - | - |
| Unassigned: | 1,614,285 | - | - | 1,614,285 |
| Total fund balances | <u>1,614,285</u> | <u>-</u> | <u>-</u> | <u>1,614,285</u> |
| Total liabilities and fund balances | <u>\$ 1,801,135</u> | <u>\$ -</u> | <u>\$ -</u> | |

Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

179,981

Liabilities for earned but deferred revenues in fund statements.

-

Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds (Note 5).

-

Net position of governmental activities

\$ 1,794,266

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

Charter Day School
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2013

| | Major Funds | | Total Non-major Funds | Total Governmental Funds |
|--------------------------------------|--------------|---------------------|-----------------------|--------------------------|
| | General | State Public School | Federal Grants | |
| REVENUES | | | | |
| State of North Carolina | \$ - | \$ 4,684,651 | \$ - | \$ 4,684,651 |
| Local education agencies | 2,110,564 | - | - | 2,110,564 |
| U.S. Government | - | - | 230,837 | 230,837 |
| Fines and forfeitures | 26,310 | - | - | 26,310 |
| Contributions and donations | 93 | - | - | 93 |
| Investment earnings | 3,856 | - | - | 3,856 |
| Other | 5,333 | - | - | 5,333 |
| Total revenues | 2,146,156 | 4,684,651 | 230,837 | 7,061,644 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Instructional programs | 1,338,939 | 2,669,502 | 229,225 | 4,237,666 |
| Support services | 582,552 | 2,015,149 | 1,612 | 2,599,313 |
| Non-programmed charges | - | - | - | - |
| Capital outlay | - | - | - | - |
| Debt service: | | | | |
| Principal | - | - | - | - |
| Interest and other charges | - | - | - | - |
| Total expenditures | 1,921,491 | 4,684,651 | 230,837 | 6,836,979 |
| Excess of revenues over expenditures | 224,665 | - | - | 224,665 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers from other funds | - | - | - | - |
| Proceeds from short-term note | - | - | - | - |
| Capital lease obligations issued | - | - | - | - |
| Total other financing sources (uses) | - | - | - | - |
| Net change in fund balance | 224,665 | - | - | 224,665 |
| Fund balances-beginning | 1,389,620 | - | - | 1,389,620 |
| Fund balances-ending | \$ 1,614,285 | \$ - | \$ - | \$ 1,614,285 |

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

Charter Day School
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2013

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

| | |
|--|-------------------|
| Net changes in fund balances - total governmental funds | \$ 224,665 |
| Change in fund balance due to change in reserve for inventory | - |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. | (74,242) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | |
| Amount of donated assets | - |
| Difference in accrued investment income and income reported in fund statements | - |
| The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. | - |
| Difference in accrued interest payable and interest expensed on fund statements | - |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. | |
| Rounding | (1) |
| Compensated absences | - |
| Loss on disposal of assets | (667) |
| Total changes in net position of governmental activities | <u>\$ 149,755</u> |

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

Charter Day School, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2013

I. Summary of Significant Accounting Policies

The accounting policies of Charter Day School, North Carolina (the School) conform to generally accepted accounting principles (GAAP) as applicable to governments. Charter schools are established by non-profit entities. Because of the authority of the State Board of Education (SBE) to unilaterally abolish a school with all the assets reverting to a local education agency, the charter schools in North Carolina follow the governmental reporting model, as used by local education agencies. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The Charter Day School is a public school operated by a local non-profit corporation, serving approximately 930 students. The School operates under an approved charter received from the SBE, and applied for under the provisions of General Statute (G.S.) 115C-238.29B. G.S. 115C-238.29F(f)(1) states that a charter school shall be subject to the audit requirements adopted by the SBE, which includes the audit requirements established by G.S. 115C-447 of the School Budget and Fiscal Control Act (SBFCA). G.S. 115C-447 also requires financial statements to be prepared in accordance with GAAP.

B. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities display information about the School. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the School. Governmental activities generally are financed through intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the School and 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 expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and 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 are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the School's funds. Separate statements for each fund category - *governmental* and *proprietary* - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The School reports the following major governmental funds:

General Fund. The General Fund is the general operating fund of the School. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund.

State Public School Fund. The State Public School Fund includes appropriations from the Department of Public Instruction for current operating needs of the public school system and is reported as a special revenue fund.

The School reports the following non-major governmental fund:

Federal Fund. The Federal Fund is used to account for the Federal moneys that are passed through the State Department of Public Instruction to the School.

C. Measurement Focus and Basis of Accounting

Government-wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using 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 gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. 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 the revenues are collected within sixty days after year-end. These could include federal, State, and county grants, and some charges for services. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, 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 debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the School funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the School's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

D. Budgetary Data

Annual budgets are adopted for all funds on a government-wide basis. All budgets are prepared using the modified accrual basis of accounting.

The governing board has voluntarily established the policy, as a sound business practice, that expenditures may not exceed appropriations, for all of the School's funds, based on the adopted budget and subsequent amendments. During the year, several amendments to the original budget were necessary, the effects of which were not material. The budget presented in the supplemental data represents the budget of the School at June 30, 2013. All appropriations lapse at year-end.

E. Assets, Liabilities, Deferred Outflows and Inflows of Resources and Fund Equity

1. Deposits and Investments

All deposits of the School are made in a local bank, whose accounts are FDIC insured. Also, the School has established time deposit accounts such as money market accounts.

2. Cash and Cash Equivalents

The School pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

3. Capital Assets

The School's capital assets are recorded at original cost. Donated assets are listed at their estimated fair value at the date of donation. The total of these estimates is not considered large enough that any errors would be material when capital assets are considered as a whole.

It is the policy of the School to capitalize all capital assets costing more than \$5,000 with an estimated useful life of two or more years. In addition, other items which are purchased and used in large quantities such as student desks and office furniture are capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. All depreciable assets are depreciated using the straight-line method of depreciation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated over the following estimated useful lives:

| | Years |
|----------------------|-------|
| Textbooks | 5 |
| Playground Equipment | 7 |
| Equipment | 3 |
| Computers | 5 |

4. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The School has no items that meet this criterion. 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 and so will not be recognized as revenue until then. The School has no items that meet this criterion.

5. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position.

In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources.

6. Compensated Absences

Employees earn twelve days of paid time off each year. A maximum of twenty days may be accumulated. Since the School has no obligation for paid time off; no paid time off accrual has been made.

7. Net Position/Fund Balances

Net position

Net position in the government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net position represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through State statute. In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

Fund balances

The governmental fund types classify fund balances as follows:

Nonspendable Fund Balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Inventories - portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which are not spendable resources.

Prepaid Items - portion of fund balance that is not an available resource because it represents the year-end balance of prepaid rent on the school facility which is not a spendable resource.

Restricted Fund Balance – This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

Committed Fund Balance – portion of fund balance that can only be used for specific purpose imposed by majority vote of the School's governing body (highest level of decision-making authority). Any changes or removal of the specific purpose requires majority action by the governing bodies that approved the original action.

Assigned Fund Balance – portion of fund balance that Charter Day School intends to use for specific purposes.

Subsequent year's expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation; however the budget ordinance authorizes the Trustee to modify the appropriations by resource or appropriation within funds up to \$5,000.

Assigned for Clubs and Activities funds - revenue sources restricted for expenditures for the various clubs and organizations, athletic events, and various fund raising activities for which they were collected.

Unassigned Fund Balance – portion of fund balance that has not been assigned to another fund or restricted, committed, or assigned to specific purposes within the general fund.

Charter Day School has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Board of Trustees will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-board of education funds, board of education funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Board of Trustees has the authority to deviate from this policy if it is in the best interest of the School.

7. The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net position - governmental activities as reported in the government-wide statement of net position. The net adjustment of \$179,981 consists of several elements as follows:

| <u>DESCRIPTION</u> | <u>AMOUNT</u> |
|---|-------------------|
| Capital assets used in governmental activities are not financial resources are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column). | \$ 632,108 |
| Less accumulated depreciation | <u>(452,127)</u> |
| Total adjustment | <u>\$ 179,981</u> |

F. Revenues, Expenditures, and Expenses

1. Funding

The Charter Day School is funded by the State Board of Education, receiving (i) an amount equal to the average per pupil allocation for the average daily membership (ADM) from the local school administrative unit allotments in which the school is located (i.e. New Hanover County Board of Education) for each child attending the School except for the allocation for children with special needs and (ii) an additional amount for each child attending the School who is a child with special needs [G.S. 115C-238.29H(a)]. Additionally, the appropriate local school administrative unit(s) transfers to the School, for each student who resides in the local administrative unit and attends the charter school, an amount equal to the per pupil local current expense appropriation to the respective local school administrative unit for the fiscal year. [G.S. 115C-238.29H(b)]. For the fiscal year ended June 30, 2013, the Charter Day School received funding from the Boards of Education for Bladen County, Brunswick County, Columbus County, New Hanover County, Pender County, and Whiteville City.

Furthermore, Charter Day School has received donations of cash and/or equipment from private organizations. The cash has been used for the purchase of new equipment for the School's facilities.

2. Reconciliation between government-wide and fund statements

The governmental fund statement of revenues, expenditures, and changes in fund balance is followed by a reconciliation between the change in fund balance - governmental activities and the change in net position - governmental funds as reported on the government-wide statement of activities. The net difference of \$(74,910) between the two amounts consists of the following elements:

| <u>DESCRIPTION</u> | <u>AMOUNT</u> |
|---|--------------------|
| Capital outlay expenditures recorded in the fund statements but capitalized as assets on the statement of activities. | \$ - |
| Depreciation expense that is recorded on the statement of activities but not in the fund statements. | (74,242) |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. | |
| Loss on disposal of assets | (696) |
| Rounding | <u>(1)</u> |
| Total | <u>\$ (74,910)</u> |

II. Stewardship, Compliance, and Accountability

A. Material Violations of Finance-Related Legal and Contractual Provisions Noncompliance with North Carolina General Statutes

None.

Contractual Violations

None.

B. Deficit Fund Balance or Net Position of Individual Funds

None.

III. Detail Notes on All Funds

A. Assets

1. Deposits

At June 30, 2013, the School had deposits with banks and savings and loans with a carrying amount of \$1,795,392. The bank balance with the financial institutions was \$1,837,162, of which \$250,000 was covered by the Federal Deposit Insurance Corporation. The remaining \$1,587,162 was a credit risk at June 30, 2013. The School invests excess funds overnight in U.S. government securities in accordance with its deposit policy for custodial credit risk.

2. Capital Assets

| | <u>Beginning</u> <u>Balances</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending</u> <u>Balances</u> |
|---|-------------------------------------|------------------|------------------|----------------------------------|
| Governmental activities: | | | | |
| Capital assets being depreciated: | | | | |
| Computers | \$ 24,521 | \$ - | \$ 6,357 | \$ 18,164 |
| Equipment | 57,679 | - | 21,870 | 35,809 |
| Playground equipment | 38,173 | - | 9,385 | 28,788 |
| Textbooks | 549,347 | - | - | 549,347 |
| Total Capital Assets being depreciated | 669,720 | - | 37,612 | 632,108 |
| Less accumulated depreciation | | | | |
| Computers | 24,521 | - | 6,357 | 18,164 |
| Equipment | 29,299 | 5,115 | 21,870 | 12,544 |
| Playground equipment | 23,845 | 4,129 | 8,718 | 19,256 |
| Textbooks | 337,165 | 64,998 | - | 402,163 |
| Total Accumulated Depreciation | 414,830 | \$ 74,242 | \$ 36,945 | 452,127 |
| Total Capital Assets being depreciated, net | 254,890 | | | 179,981 |
| Governmental activity capital assets, net | <u>\$ 254,890</u> | | | <u>\$ 179,981</u> |

Depreciation expense is charged to governmental functions as follows:

| | |
|------------------------|------------------|
| Instructional programs | \$ 74,242 |
| Supporting programs | - |
| Total | <u>\$ 74,242</u> |

B. Liabilities

1. Pension Plan Obligations

a. Retirement Plan

The School maintained a 401(k) retirement plan for the benefit of its employees for fiscal year 2013. The School will match up to a maximum of 3% of the employee's gross salary. Employees may contribute an unlimited portion of their salary into the retirement plan, with tax deductible amounts up to the amounts allowable by the Internal Revenue Service. Charter Day School made all required contributions. For the year ended June 30, 2013, the retirement cost for the 401(k) plan to the School was \$76,060, with employees contributing \$126,476.

2. Risk Management

The School is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School maintains general liability and errors and omissions insurance coverage of \$1 million per occurrence with a commercial carrier.

The School has obtained a major medical insurance policy for its personnel through a commercial insurer. Through the plan, permanent, full-time employees of the School are eligible to receive health care benefits. The School carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and claims have not exceeded coverage in any of the past two fiscal years.

3. Long-Term Obligations

a. Operating Leases

The School rents space for the School under a ten-year lease from the Roger Bacon Academy. The School paid a total of \$663,213 on this lease agreement for the year ended June 30, 2013. Future lease payments are included in the schedule below.

Future minimum lease payments are included in the schedule below.

| <u>Year Ending June 30</u> | |
|----------------------------|-------------|
| 2014 | \$ 653,721 |
| 2015 | 653,721 |
| 2016 | 653,721 |
| 2017 | 653,721 |
| 2018 | 653,721 |
| 2019-2021 | \$1,961,163 |

The School also has a lease agreement for the rental of computers, furniture and equipment with Coastal Habitat Conservancy, LLC. The School paid a total of \$150,258 on this lease agreement during the year ended June 30, 2013.

b. Fund Balance

Charter Day School has a revenue spending policy that provides for programs with multiple revenue sources. The Board of Trustees will use resources in the following hierarchy: federal funds, State funds, local non-School funds, Charter Day School funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Board of Trustees has the authority to deviate from this policy if it is in the best interest of the School.

The following schedule provides management and citizens with information on the portion of General fund balance that is available for appropriation.

| | |
|--|--------------|
| Total fund balance | \$ 1,614,285 |
| Less: | |
| Inventories | - |
| Prepaid Items | - |
| Appropriated Fund Balance in 2013 Budget | - |
| Remaining Fund Balance | \$ 1,614,285 |

IV. Related Party Transactions

Charter Day School has agreements for management services and property use with Roger Bacon Academy, Inc. Roger Bacon Academy, Inc., in turn, rents the land, building, and equipment from Coastal Habitat Conservancy, LLC, which owns all the physical facilities and most of the equipment used by the School. The owner of Roger Bacon Academy, Inc. and Coastal Habitat Conservancy, LLC, is also on the Board of Trustees of Charter Day School.

On July 18, 2001, Charter Day School entered into an agreement with Roger Bacon Academy, Inc. for management and facility services. Roger Bacon Academy, Inc. provides supervision and administration services for the management, operation and maintenance of the School in accordance with the educational program as adopted by the Board of the School and included in its operational documents. Any documents or policies adopted by the Board of the School may be modified from time to time in the sole and absolute discretion of the Board.

Roger Bacon Academy, Inc. is entitled to compensation for its services based on 16% of revenues, as defined in the management agreement. The agreement was approved by the Board of Charter Day School, State Board of Education and the Internal Revenue Service. During the fiscal year ended June 30, 2013, management and administration fees were paid to Roger Bacon Academy, Inc. in the amount of \$1,120,803. Rent paid to Roger Bacon Academy, Inc. for the use of facility and equipment was \$663,213 for the year ended June 30, 2013. Future obligations under the management agreement are subject to change and are indeterminable since terms are based on projected enrollments and revenues. Mark Cramer, superintendent of Charter Day School, is an employee of the Roger Bacon Academy, Inc. Mr. Cramer is also on the Board of Trustees. The School made no direct payments to Mr. Cramer during the year ended June 30, 2013.

V. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

The School has received proceeds from several federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant moneys to the grantor agencies. Management believes that any

required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant moneys.

VI. Subsequent Events

The School has evaluated subsequent events from the date of the balance sheet through the date the report is available to be issued which is the date of the independent auditors' report. The School has not evaluated subsequent events after that date. There were no subsequent events during this period that require disclosure.

VII. Contingency

The School is currently involved in litigation to collect additional local area education funding in excess of \$10,000 per system from Brunswick County Schools and New Hanover County Schools. The outcome of this matter is uncertain.

VIII. Special Item

The School disposed of fixed assets at a loss of \$667. There were no proceeds from the disposal.

IX. Change in Accounting Principle

The School implemented Governmental Accounting Standards Board (GASB) Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and 65, Items Previously Reported as Assets and Liabilities, in the fiscal year ending June 30, 2013. In accordance with GASB Statement 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets, Liabilities, Deferred Inflows of Resources and Net Position.

NON-MAJOR FUNDS

Federal Grants Fund -

This fund is used to account for the Federal moneys that are passed through the State Department of Public Instruction to the School.

Statement 1

Charter Day School
Non-major Governmental Funds
Balance Sheet
as of June 30, 2013

| | Special Revenue Funds | Federal Grants Fund |
|--|--------------------------|------------------------|
| Assets | | |
| Cash and cash equivalents | \$ - | |
| Due from other governments | - | |
| Total assets | <u>\$ -</u> | |
| Liabilities and Fund Balances | | |
| Liabilities: | | |
| Accrued salaries and wages payable | \$ - | |
| Deferred revenue | - | |
| Total liabilities | <u>-</u> | |
| Fund balances-unreserved | | - |
| Total liabilities and fund equity | <u>\$ -</u> | |

Statement 2

Charter Day School
Non-major Governmental Funds
Statement of Revenues, Expenditures, and
Changes in Fund Balances
For the Fiscal Year Ended June 30, 2013

| | Special Revenue Funds |
|---|--------------------------|
| | Totals |
| | 2013 |
| Revenues: | |
| U.S. Government: | |
| Title I Basic Education | \$ 79,639 |
| IDEA VI-B Handicapped | 125,704 |
| Risk Pool | 23,494 |
| IDEA VI-B Special Needs Targeted Assistance | 2,000 |
| Total | 230,837 |
| Donations | - |
| Other | - |
| Total | - |
| Total revenues | 230,837 |
| Expenditures: | |
| Current: | |
| Instructional programs: | |
| Regular programs | - |
| Special programs | 229,225 |
| Other | - |
| Total | 229,225 |
| Support services: | |
| Pupil services | 1,612 |
| Instructional staff services | - |
| General administrative | - |
| School administrative | - |
| Club and activity expenditures | - |
| Total | 1,612 |
| Non-programmed charges: | |
| Other | - |
| Total | - |
| Total expenditures | 230,837 |
| Revenues over expenditures | - |
| Fund balances: | |
| Beginning of year, July 1 | - |
| End of year, June 30 | \$ - |

Statement 3

Charter Day School
All Fund Types Except Federal Grants Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2013

| | 2013 | | Favorable (Unfavorable) Variance |
|--|------------------|-------------------|--|
| | Final Budget | Actual | |
| Revenues: | | | |
| State of North Carolina | \$ 4,684,650 | \$ 4,684,651 | \$ 1 |
| Board(s) of Education: | | | |
| Bladen County | 33,085 | 33,086 | 1 |
| Brunswick County | 1,712,328 | 1,712,328 | - |
| Columbus County | 223,076 | 223,076 | - |
| New Hanover County | 118,801 | 118,801 | - |
| Pender County | 13,951 | 13,952 | 1 |
| Whiteville City | 9,320 | 9,321 | 1 |
| Fines and Forfeitures | 26,310 | 26,310 | - |
| Investment earnings | 3,856 | 3,856 | - |
| Donations | 93 | 93 | - |
| Others | 5,332 | 5,333 | 1 |
| Total | <u>6,830,802</u> | <u>6,830,807</u> | <u>5</u> |
| Expenditures: | | | |
| Salaries & Bonuses | 2,593,981 | 2,593,980 | 1 |
| Benefits | 645,861 | 645,858 | 3 |
| Books & Supplies | 168,628 | 168,626 | 2 |
| Technology | 16,825 | 16,823 | 2 |
| Non Capitalized Equipment | 80,310 | 80,295 | 15 |
| Contracted Student Services | 553,229 | 553,216 | 13 |
| Staff Development | 11,675 | 11,671 | 4 |
| Administrative Services | 1,404,390 | 1,404,378 | 12 |
| Insurances | 42,735 | 42,729 | 6 |
| Rents & Debt Service | 834,243 | 834,242 | 1 |
| Facilities | 168,073 | 168,069 | 4 |
| Utilities | 78,704 | 78,699 | 5 |
| Nutrition & Food | 6,605 | 6,604 | 1 |
| Transportation & Travel | 955 | 952 | 3 |
| Capital Purchases | - | - | - |
| Total expenditures | <u>6,606,214</u> | <u>6,606,142</u> | <u>72</u> |
| Appropriated fund balance | <u>(224,588)</u> | <u>-</u> | <u>224,588</u> |
| Excess of revenue over expenditures | <u>\$ -</u> | <u>\$ 224,665</u> | <u>\$ 224,665</u> |

Statement 4

Charter Day School
Federal Grants Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2013

| | 2013 | | |
|---|-----------------|------------|--|
| | Final Budget | Actual | Favorable (Unfavorable) Variance |
| Revenues: | | | |
| IDEA VI-B Handicapped | \$ 125,704 | \$ 125,704 | \$ - |
| IDEA VI-B Special Needs Targeted Assistance | 2,000 | 2,000 | - |
| Risk Pool | 23,494 | 23,494 | - |
| Title I, Basic Education | 79,639 | 79,639 | - |
| Total revenue | 230,837 | 230,837 | - |
| Expenditures: | | | |
| Salaries & Bonuses | 208,337 | 208,337 | - |
| Benefits | 17,050 | 17,050 | - |
| Contracted Student Services | 5,450 | 5,450 | - |
| Workshop Expenses | - | - | - |
| Supplies and Materials | - | - | - |
| Field Trip | - | - | - |
| Travel Reimbursement | - | - | - |
| Total expenditures | 230,837 | 230,837 | - |
| Excess of revenue over expenditures | \$ - | \$ - | \$ - |

COMPLIANCE SECTION
CHARTER DAY SCHOOL
LELAND, NORTH CAROLINA
JUNE 30, 2013

PM&P

**Independent Auditors' 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***

PETWAY

MILLS &

PEARSON, PA

CERTIFIED PUBLIC ACCOUNTANTS

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To the Board of Trustees
Charter Day School
Leland, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Charter Day School, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Charter Day School's basic financial statements, and have issued our report thereon dated October 21, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Charter Day 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 Charter Day School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Charter Day 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*.

Memberships:

North Carolina
Association of
Certified Public
Accountants

American Institute
of Certified Public
Accountants

Medical Group
Management
Association

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.

Petway Mills & Pearson, PA
PETWAY MILLS & PEARSON, PA
Certified Public Accountants
Zebulon, North Carolina

October 21, 2013

Independent Auditors' Report on Compliance for Each Major State Program and on Internal Control over Compliance in accordance with OMB Circular A-133 and the State Single Audit Implementation Act

**PETWAY
MILLS &
PEARSON, PA**

CERTIFIED PUBLIC ACCOUNTANTS

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To the Board of Trustees
Charter Day School
Leland, North Carolina

Report on Compliance for Each Major State Program

We have audited Charter Day School's compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on Charter Day School's major State program as of and for the year ended June 30, 2013. Charter Day School's major State program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Charter Day School's major State program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in and applicable sections of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about Charter Day School's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major State program. However, our audit does not provide a legal determination of Charter Day School's compliance.

Opinion on Each Major State Program

In our opinion, Charter Day School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major State program as of and for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Charter Day School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Charter Day School's internal control over compliance with the types of requirements that could have a direct and material effect on a major State program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major State program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the

effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a State program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a State program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a State program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Petway Mills & Pearson, PA
PETWAY MILLS & PEARSON, PA
Certified Public Accountants
Zebulon, North Carolina

October 21, 2013

CHARTER DAY SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

SECTION I. -- SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified.

Internal control over financial reporting:

Material weakness(es) identified? yes X no

Significant deficiency (ies) identified
that are not considered to be
material weaknesses? yes X none reported

Noncompliance material to financial
statements noted yes X no

State Awards

Internal control over major State programs:

Material weakness(es) identified? yes X no

Significant deficiency (ies) identified
that are not considered to be
material weaknesses? yes X none reported

Type of auditors' report issued on compliance for major State programs: Unmodified.

Any audit findings disclosed that are required
to be reported in accordance with Section 510(a)
of Circular A-133 yes X no

Identification of major State programs:

Program Name

State Public School Funds (PRC 036 - Charter School Funds)

CHARTER DAY SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

SECTION II. -- FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III. -- STATE AWARD FINDINGS AND QUESTIONED COSTS

None reported.

CHARTER DAY SCHOOL
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2013

SECTION II. -- FINANCIAL STATEMENT FINDINGS

None required.

SECTION III. -- STATE AWARD FINDINGS AND QUESTIONED COSTS

None required.

CHARTER DAY SCHOOL
SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

There were no findings for the year ended June 30, 2012.

CHARTER DAY SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| GRANTOR/PASS-THROUGH GRANTOR PROGRAM TITLE | FEDERAL CFDA NUMBER | STATE/ PASS-THROUGH GRANTOR'S NUMBER | EXPENDITURES |
|--|---------------------------|---|---------------------|
| FEDERAL GRANTS: | | | |
| CASH ASSISTANCE: | | | |
| <u>US Department of Education</u> | | | |
| Passed Through the NC Department of Education | | | |
| Special Education Cluster | | | |
| IDEA VI-B Handicapped | 84.027 | PRC 060 | \$ 125,704 |
| IDEA VI-B Special Needs Targeted Assistance | 84.027 | PRC 118 | 2,000 |
| Risk Pool | 84.027 | PRC 114 | 23,494 |
| Total Special Education Cluster | | | <u>151,198</u> |
| Title I, Part A Cluster | | | |
| Title I Basic Education | 84.010 | PRC 050 | <u>79,639</u> |
| Total Title I, Part A, Cluster | | | <u>79,639</u> |
| TOTAL FEDERAL CASH ASSISTANCE | | | <u>230,837</u> |
| NC STATE GRANTS: | | | |
| CASH ASSISTANCE | | | |
| <u>NC Department of Public Instruction</u> | | | |
| State Public School Funds (PRC 36 – Charter School Funds) | | XXXX | 4,683,790 |
| State Public School Funds (PRC 025 – Indian Gaming Revenue) | | XXXX | <u>861</u> |
| TOTAL STATE CASH ASSISTANCE | | | 4,684,651 |
| TOTAL FEDERAL AND STATE AWARDS | | | <u>\$ 4,915,488</u> |

Note to the Schedule of Expenditures of Federal and State Financial Awards:

Basis of Presentation

The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of Charter Day School and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act. Therefore some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.