

FINANCIAL STATEMENTS  
CHARTER DAY SCHOOL  
LELAND, NORTH CAROLINA  
JUNE 30, 2006



# State of North Carolina

## Department of State Treasurer

RICHARD H. MOORE  
TREASURER

*State and Local Government Finance Division  
and the Local Government Commission*

T. VANCE HOLLOMAN  
DEPUTY TREASURER

February 7, 2007

The Honorable Beth Quinn, Chairperson  
Charter Day School  
7055 Bacon's Way  
Leland, North Carolina 28451

Dear Chairperson Quinn:

The staff of the Local Government Commission has analyzed the audited financial statements of the Charter Day School for the fiscal year ended June 30, 2006. As a result of our review we feel we should bring the following item to your attention.

We see from our review of the financial report that the School adopted a balanced budget for the School as a whole. We commend the School for its use of a budget as a sound management tool and for the effort expended in developing the budget. However, the budgetary compliance statements indicate that expenditures were overexpended. In order for a budget to be an effective management tool, it should reflect amounts that are likely to be received or expended during the year. In addition, the School and its Board should closely monitor the School's performance with regards to the budget throughout the year, and adjust the budget as necessary.

Please write to us about your plans to resolve this matter. If you have any questions, please contact me at (919) 807-2380.

Sincerely,

A handwritten signature in black ink, appearing to read "Sharon G. Edmundson".

Sharon G. Edmundson, CPA  
Director, Fiscal Management Section

cc: Mr. Mark T. Cramer, Headmaster  
Ms. Rebecca Potter, Finance Officer  
Petway, Mills & Pearson, PA, CPA

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JUNE 30, 2006

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FINANCIAL SECTION  
CHARTER DAY SCHOOL  
LELAND, NORTH CAROLINA  
JUNE 30, 2006

PM&P

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MILLS &  
PEARSON, PA**

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Association

Independent Auditors' Report

Board of Directors  
Charter Day School  
Leland, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Day School, North Carolina, as of and for the year ended June 30, 2006 which collectively comprise of the Charter Day School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Day School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Day School, North Carolina as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2006 on our consideration of Charter Day School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of the Charter Day School, North Carolina. The introductory information, combining and individual nonmajor fund financial statements and schedules, as well as the accompanying schedule of expenditures of federal and State awards as required by U.S. 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 combining and individual nonmajor fund financial statements and the accompanying schedule of expenditures of federal and State awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly

stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

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

August 25, 2006

**Management's Discussion and Analysis  
Charter Day School  
June 30, 2006**

**Management's Discussion and Analysis  
Charter Day School  
June 30, 2006**

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, 2006. 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.

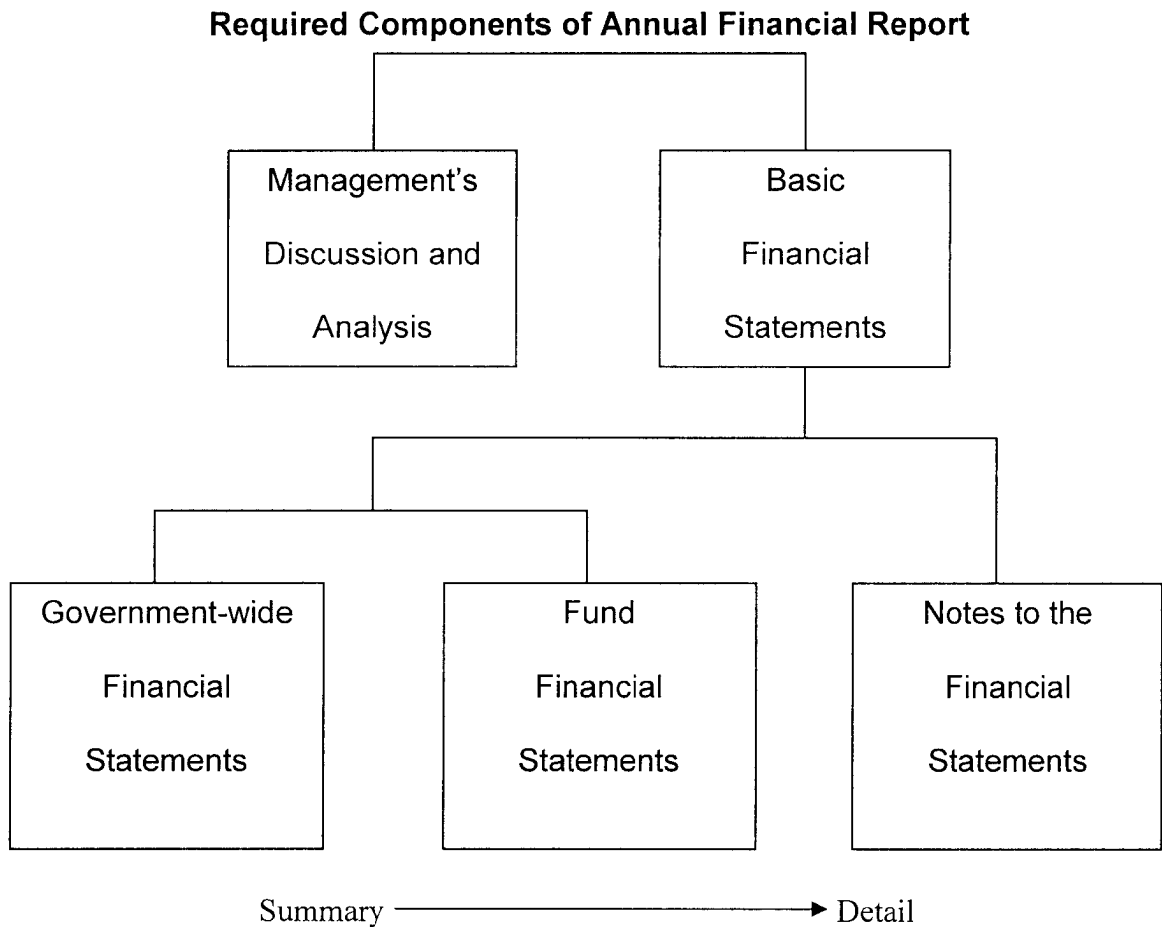
**Financial Highlights**

- The assets of Charter Day School exceeded its liabilities at the close of the fiscal year by \$392,186 (*net assets*).
- The School's total net assets increased by \$213,606, 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 \$318,546, an increase of \$176,897 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 \$73,460, an increase of \$30,351 in comparison with the prior year's \$43,109.
- Enrollment continues to increase at the School, rising by 95 students in 2005-2006, an 18.5% increase. The 2004-2005 ADM was 512, and the 2005-2006 ADM was 607.
- Grade Level Seven was added in the 2005-2006 school year.
- Charter Day School has no long-term debt.
- As a result of being an Honor School of Excellence for the prior year 2004-05, teachers and assistants were awarded substantial bonuses in October of 2005 by the state under its bonus plan.
- As a result of its academic growth placing the School in among the Top 25 K-8 schools in the state out of nearly 1,800 such schools, the board awarded additional bonuses from local funds as no state plan provided for such bonuses.

**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



### 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 8) 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.

**Management's Discussion and Analysis**  
**Charter Day School**  
**June 30, 2006**

**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. These include the School Activities services carried out by Charter Day School.

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.

**Management's Discussion and Analysis**  
**Charter Day School**  
**June 30, 2006**

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 have 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 23 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 \$392,186 as of June 30, 2006. As of June 30, 2005, the net assets of Charter Day School stood at \$184,758. The School's net assets increased by \$207,428 for the fiscal year ended June 30, 2005, compared to an increase of \$128,726 in 2005. \$73,460 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 \$318,546 is unrestricted. In 2005, the amount of net assets invested in capital assets net of related debt was \$43,109. The remaining \$141,649 was unrestricted net assets for that year.

**Management's Discussion and Analysis**  
**Charter Day School**  
**June 30, 2006**

**Figure 2**  
**Charter Day School's Net Assets**

|                                                 | Governmental Activities |                   | Business-Type Activities |                 | Total             |                   |
|-------------------------------------------------|-------------------------|-------------------|--------------------------|-----------------|-------------------|-------------------|
|                                                 | 2006                    | 2005              | 2006                     | 2005            | 2,006             | 2005              |
| Current and other assets                        | \$ 353,740              | \$ 151,884        |                          | \$ -            | \$ 353,740        | \$ 151,884        |
| Capital assets, net of depreciation             | 73,640                  | 36,931            |                          | 6,178           | 73,640            | 43,109            |
| <b>Total assets</b>                             | <b>427,380</b>          | <b>188,815</b>    | <b>-</b>                 | <b>6,178</b>    | <b>427,380</b>    | <b>194,993</b>    |
|                                                 |                         |                   |                          |                 |                   |                   |
| Other liabilities                               | 35,194                  | 10,235            | -                        | -               | 35,194            | 10,235            |
| <b>Total liabilities</b>                        | <b>35,194</b>           | <b>10,235</b>     | <b>-</b>                 | <b>-</b>        | <b>35,194</b>     | <b>10,235</b>     |
|                                                 |                         |                   |                          |                 |                   |                   |
| Invested in capital assets, net of related debt | 73,640                  | 36,931            |                          | 6,178           | 73,640            | 43,109            |
| Unrestricted                                    | 318,546                 | 141,649           |                          | -               | 318,546           | 141,649           |
| <b>Total net assets</b>                         | <b>\$ 392,186</b>       | <b>\$ 178,580</b> | <b>\$ -</b>              | <b>\$ 6,178</b> | <b>\$ 392,186</b> | <b>\$ 184,758</b> |

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.
- Funding increased proportionately with the 18.50 percent increase in the student enrollment.
- The School continued to obtain additional classroom space at very competitive rental rates.

**Management's Discussion and Analysis**  
**Charter Day School**  
**June 30, 2006**

**Figure 3**  
**Charter Day School's Changes in Net Assets**

|                                                           | Governmental Activities |                   | Business-Type Activities |                 | Total             |                   |
|-----------------------------------------------------------|-------------------------|-------------------|--------------------------|-----------------|-------------------|-------------------|
|                                                           | 2006                    | 2005              | 2006                     | 2005            | 2006              | 2005              |
| Other Revenues                                            | \$ 21,551               | \$ 5,337          | \$ -                     | \$ -            | \$ 21,551         | \$ 5,337          |
| Charges for Services                                      | -                       | -                 | -                        | 25,278          | -                 | 25,278            |
| Operating Grants and Contributions                        | 173,245                 | 121,484           | -                        | -               | 173,245           | 121,484           |
| County, State, and Federal Funds                          | 3,797,101               | 3,039,058         | -                        | -               | 3,797,101         | 3,039,058         |
| <b>Total revenues</b>                                     | <b>3,991,897</b>        | <b>3,165,879</b>  | <b>-</b>                 | <b>25,278</b>   | <b>3,991,897</b>  | <b>3,191,157</b>  |
| Instructional Programs                                    | 2,959,118               | 1,777,720         | -                        | -               | 2,959,118         | 1,777,720         |
| Support services                                          | 825,351                 | 1,217,358         | -                        | -               | 825,351           | 1,217,358         |
| Fund raising                                              | -                       | -                 | -                        | 67,200          | -                 | 67,200            |
| Interest on short-term debt                               | -                       | 153               | -                        | -               | -                 | 153               |
| <b>Total expenses</b>                                     | <b>3,784,469</b>        | <b>2,995,231</b>  | <b>-</b>                 | <b>67,200</b>   | <b>3,784,469</b>  | <b>3,062,431</b>  |
| <b>Increase (Decrease) in net assets before transfers</b> | <b>207,428</b>          | <b>170,648</b>    | <b>-</b>                 | <b>(41,922)</b> | <b>207,428</b>    | <b>128,726</b>    |
| <b>Transfers</b>                                          | <b>6,178</b>            | <b>-</b>          | <b>(6,178)</b>           | <b>-</b>        | <b>-</b>          | <b>-</b>          |
| <b>Increase (Decrease) in net assets</b>                  | <b>213,606</b>          | <b>170,648</b>    | <b>(6,178)</b>           | <b>(41,922)</b> | <b>207,428</b>    | <b>128,726</b>    |
| <b>Net assets, July 1</b>                                 | <b>178,580</b>          | <b>7,932</b>      | <b>6,178</b>             | <b>48,100</b>   | <b>184,758</b>    | <b>56,032</b>     |
| <b>Net assets, June 30</b>                                | <b>\$ 392,186</b>       | <b>\$ 178,580</b> | <b>\$ -</b>              | <b>\$ 6,178</b> | <b>\$ 392,186</b> | <b>\$ 184,758</b> |

**Governmental activities.** Governmental activities increased the School's net assets by \$207,428

**Business-type activities.** Charter Day School does not have 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, unreserved 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, unreserved fund balance of the General Fund was \$318,546.

**Management's Discussion and Analysis**  
**Charter Day School**  
**June 30, 2006**

**Proprietary Funds.** The School's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the School Activities Fund at the end of the fiscal year amounted to \$0. The total change in net assets for the School Activities fund was \$6,178, which was transferred to Governmental Funds. Other factors concerning the finances of this fund have already been addressed in the discussion of the School's business-type activities.

**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, 2006, totals \$73,640 (net of accumulated depreciation). Capital assets include textbooks and playground equipment. The only capital asset purchase during the year was \$48,976 of textbooks.

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

|                      | Governmental Activities |                  | Business-Type Activities |                 | Total            |                  |
|----------------------|-------------------------|------------------|--------------------------|-----------------|------------------|------------------|
|                      | 2006                    | 2005             | 2006                     | 2005            | 2006             | 2005             |
| Textbooks            | \$ 68,602               | \$ 36,931        | \$ -                     | \$ -            | \$ 68,602        | \$ 36,931        |
| Playground equipment | 5,038                   | -                | -                        | 6,178           | 5,038            | 6,178            |
| <b>Total</b>         | <b>\$ 73,640</b>        | <b>\$ 36,931</b> | <b>\$ -</b>              | <b>\$ 6,178</b> | <b>\$ 73,640</b> | <b>\$ 43,109</b> |

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, 2006, Charter Day School had no outstanding debt.

**Economic Factors**

The following key economic indicators reflect the growth and prosperity of the School:

- The low unemployment rate in Brunswick and New Hanover Counties has increased revenues in these counties and contributed to the increased funding to all public schools in the area, including charter schools. On the other hand, funding from high unemployment counties such as Columbus and Bladen has provided substantially lower revenues per pupil. Overall, however, the School operated with substantially lower amounts (nearly 30% less) than other public

**Management's Discussion and Analysis**  
**Charter Day School**  
**June 30, 2006**

schools because it receives no capital funding and must pay rent out of its operating revenue.

- The extremely high growth rate of Brunswick County will continue to increase the number of students applying to the School for the foreseeable future.
- In 2004-5, the School's recognition as a Top 25 K-8 school in the state for academic growth as well as its recognition as an Honor School of Excellence with 91.9% of students at or above grade level has already enhanced enrollment demand which must be anticipated to continue for 2006-7.
- Designation as an Honor School of Excellence results in teacher bonuses to increase level of compensation.
- In 2005, nearly 200 students attended the current Brunswick campus from neighboring Bladen and Columbus Counties. Thus, in late 2004-05, the Board authorized an application be made to the State Board of Education to establish a second charter school in Columbus County to open for the 2007-08 year. Preliminary approval was anticipated, but there can be no guarantee that final approval will be granted by the state. If final approval is granted in 2006-07, the Board believes with some of the demand from Columbus being served by the new school that more Brunswick students can be accommodated at the current campus.

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 the Board Chair, Charter Day School, 7055 Bacon's Way Leland, North Carolina 28451, telephone (910) 655-1214.

**Charter Day School  
Statement of Net Assets  
June 30, 2006**

|                                                  | Primary Government         |                             |            |
|--------------------------------------------------|----------------------------|-----------------------------|------------|
|                                                  | Governmental<br>Activities | Business-type<br>Activities | Total      |
| <b>ASSETS</b>                                    |                            |                             |            |
| Cash and cash equivalents                        | \$ 350,597                 | \$ -                        | \$ 350,597 |
| Receivables                                      | 3,143                      | -                           | 3,143      |
| Capital assets:                                  |                            |                             |            |
| Land, improvements, and construction in progress | -                          | -                           | -          |
| Other capital assets, net of depreciation        | 73,640                     | -                           | 73,640     |
| Total capital assets                             | 73,640                     | -                           | 73,640     |
| Total assets                                     | 427,380                    | -                           | 427,380    |
| <b>LIABILITIES</b>                               |                            |                             |            |
| Accounts payable and accrued expenses            | 35,194                     | -                           | 35,194     |
| Accrued salaries and wages payable               | -                          | -                           | -          |
| Long-term liabilities:                           |                            |                             |            |
| Due within one year                              | -                          | -                           | -          |
| Due in more than one year                        | -                          | -                           | -          |
| Total liabilities                                | 35,194                     | -                           | 35,194     |
| <b>NET ASSETS</b>                                |                            |                             |            |
| Invested in capital assets, net of related debt  | 73,640                     | -                           | 73,640     |
| Restricted for:                                  |                            |                             |            |
| Clubs and activities                             | -                          | -                           | -          |
| Unrestricted                                     | 318,546                    | -                           | 318,546    |
| Total net assets                                 | \$ 392,186                 | \$ -                        | \$ 392,186 |

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, 2006**

| 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                              |                                 |                |
| <b>Primary government:</b>                           |                  |                      |                                    |                                  | <b>Governmental Activities</b>                  | <b>Business-type Activities</b> | <b>Total</b>   |
| Governmental Activities:                             |                  |                      |                                    |                                  |                                                 |                                 |                |
| Instructional programs                               | \$ 2,959,118     | \$ -                 | \$ 173,245                         | \$ -                             | \$ (2,785,873)                                  | \$ -                            | \$ (2,785,873) |
| Support services                                     | 825,351          | -                    | -                                  | -                                | (825,351)                                       | -                               | (825,351)      |
| Community services                                   | -                | -                    | -                                  | -                                | -                                               | -                               | -              |
| Non-programmed charges                               | -                | -                    | -                                  | -                                | -                                               | -                               | -              |
| Interest on short-term debt                          | -                | -                    | -                                  | -                                | -                                               | -                               | -              |
| Total governmental activities                        | 3,784,469        | -                    | 173,245                            | -                                | (3,611,224)                                     | -                               | (3,611,224)    |
| <b>Business-type activities:</b>                     |                  |                      |                                    |                                  |                                                 |                                 |                |
| School food service                                  | -                | -                    | -                                  | -                                | -                                               | -                               | -              |
| Fund Raising                                         | -                | -                    | -                                  | -                                | -                                               | -                               | -              |
| Total business-type activities                       | -                | -                    | -                                  | -                                | -                                               | -                               | -              |
| Total primary government                             | \$ 3,784,469     | \$ -                 | \$ 173,245                         | \$ -                             | (3,611,224)                                     | -                               | (3,611,224)    |
|                                                      |                  |                      |                                    |                                  |                                                 |                                 |                |
| General revenues:                                    |                  |                      |                                    |                                  |                                                 |                                 |                |
| Unrestricted county appropriations                   |                  |                      |                                    |                                  | 959,230                                         | -                               | 959,230        |
| Unrestricted State appropriations                    |                  |                      |                                    |                                  | 2,837,871                                       | -                               | 2,837,871      |
| Unrestricted Federal appropriations                  |                  |                      |                                    |                                  | -                                               | -                               | -              |
| Donations - general                                  |                  |                      |                                    |                                  | -                                               | -                               | -              |
| Investment earnings, unrestricted                    |                  |                      |                                    |                                  | -                                               | -                               | -              |
| Miscellaneous, unrestricted                          |                  |                      |                                    |                                  | 21,551                                          | -                               | 21,551         |
| Transfers                                            |                  |                      |                                    |                                  | 6,178                                           | (6,178)                         | -              |
| Total general revenues, special items, and transfers |                  |                      |                                    |                                  | 3,824,830                                       | (6,178)                         | 3,818,652      |
| Change in net assets                                 |                  |                      |                                    |                                  | 213,606                                         | (6,178)                         | 207,428        |
| Net assets-beginning                                 |                  |                      |                                    |                                  | 178,580                                         | 6,178                           | 184,758        |
| Net assets-ending                                    |                  |                      |                                    |                                  | \$ 392,186                                      | \$ -                            | \$ 392,186     |

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

**Charter Day School  
Balance Sheet  
Governmental Funds  
June 30, 2006**

**ASSETS**

|                           | <b>Major Funds</b> |                                | <b>Total Non-major<br/>Funds</b> | <b>Total<br/>Governmental<br/>Funds</b> |
|---------------------------|--------------------|--------------------------------|----------------------------------|-----------------------------------------|
|                           | <b>General</b>     | <b>State Public<br/>School</b> | <b>Federal Grants</b>            |                                         |
| Cash and cash equivalents | \$ 350,597         | \$ -                           | \$ -                             | \$ 350,597                              |
| Accounts Receivable - net | 3,143              | -                              | -                                | 3,143                                   |
| <b>Total assets</b>       | <b>\$ 353,740</b>  | <b>\$ -</b>                    | <b>\$ -</b>                      | <b>\$ 353,740</b>                       |

**LIABILITIES AND FUND BALANCES****Liabilities:**

|                                          |               |          |          |               |
|------------------------------------------|---------------|----------|----------|---------------|
| Accounts payable and accrued liabilities | \$ 35,194     | \$ -     | \$ -     | \$ 35,194     |
| Short term note payable                  | -             | -        | -        | -             |
| <b>Total liabilities</b>                 | <b>35,194</b> | <b>-</b> | <b>-</b> | <b>35,194</b> |

**Fund balances:****Reserved for:**

Inventories

Prepaid items

Unreserved, General Fund

Unreserved, reported in:

Special Revenue Fund

Capital Projects Fund

Total fund balances

Total liabilities and fund balances

|            |      |      |         |
|------------|------|------|---------|
| -          | -    | -    | -       |
| -          | -    | -    | -       |
| 318,546    | -    | -    | 318,546 |
| -          | -    | -    | -       |
| -          | -    | -    | -       |
| 318,546    | -    | -    | 318,546 |
| \$ 353,740 | \$ - | \$ - |         |

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

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

73,640

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 assets of governmental activities

\$ 392,186

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

**Charter Day School**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended June 30, 2006**

|                                                   | Major Funds |                        | Total Non-major<br>Funds | Total<br>Governmental<br>Funds |
|---------------------------------------------------|-------------|------------------------|--------------------------|--------------------------------|
|                                                   | General     | State Public<br>School | Federal Grants           |                                |
| <b>REVENUES</b>                                   |             |                        |                          |                                |
| State of North Carolina                           | \$ -        | \$ 2,883,608           | \$ -                     | \$ 2,883,608                   |
| Local education agencies                          | 959,230     | -                      | -                        | 959,230                        |
| U.S. Government                                   | -           | -                      | 127,508                  | 127,508                        |
| Contributions and donations                       | -           | -                      | -                        | -                              |
| Other                                             | 21,551      | -                      | -                        | 21,551                         |
| Total revenues                                    | 980,781     | 2,883,608              | 127,508                  | 3,991,897                      |
| <b>EXPENDITURES</b>                               |             |                        |                          |                                |
| <b>Current:</b>                                   |             |                        |                          |                                |
| Instructional programs                            | 570,023     | 2,261,587              | 127,508                  | 2,959,118                      |
| Support services                                  | 233,861     | 573,045                | -                        | 806,906                        |
| Non-programmed charges                            | -           | -                      | -                        | -                              |
| <b>Capital outlay</b>                             | -           | 48,976                 | -                        | 48,976                         |
| <b>Debt service:</b>                              |             |                        |                          |                                |
| Principal                                         | -           | -                      | -                        | -                              |
| Interest and other charges                        | -           | -                      | -                        | -                              |
| Total expenditures                                | 803,884     | 2,883,608              | 127,508                  | 3,815,000                      |
| Excess (deficiency) of revenues over expenditures | 176,897     | -                      | -                        | 176,897                        |
| <b>OTHER FINANCING SOURCES (USES)</b>             |             |                        |                          |                                |
| Transfers from other funds                        | -           | -                      | -                        | -                              |
| Proceeds from short-term note                     | -           | -                      | -                        | -                              |
| Capital lease obligations issued                  | -           | -                      | -                        | -                              |
| Total other financing sources (uses)              | -           | -                      | -                        | -                              |
| Net change in fund balance                        | 176,897     | -                      | -                        | 176,897                        |
| Fund balances-beginning                           | 141,649     | -                      | -                        | 141,649                        |
| Fund balances-ending                              | \$ 318,546  | \$ -                   | \$ -                     | \$ 318,546                     |

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

**Charter Day School**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended June 30, 2006**

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

|                                                               |            |
|---------------------------------------------------------------|------------|
| Net changes in fund balances - total governmental funds       | \$ 176,897 |
| 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

36,709

*current year outlays over dep.*

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 assets. 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

-

Compensated absences

-

Loss on disposal of assets

-

Total changes in net assets of governmental activities

\$ 213,606

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

**Charter Day School  
Statement of Net Assets  
Proprietary Fund  
June 30, 2006**

|                                                 | Enterprise Fund<br>Non-Major Fund<br>School Activities<br>Fund |
|-------------------------------------------------|----------------------------------------------------------------|
| <b>ASSETS</b>                                   |                                                                |
| Current assets:                                 |                                                                |
| Cash and cash equivalents                       | \$ -                                                           |
| Due from other governments                      | -                                                              |
| Receivables (net)                               | -                                                              |
| Inventories                                     | -                                                              |
| Total current assets                            | -                                                              |
| Noncurrent assets:                              |                                                                |
| Capital assets:                                 |                                                                |
| Playground equipment, net                       | -                                                              |
| Computer equipment, net                         | -                                                              |
| Total noncurrent assets                         | -                                                              |
| Total assets                                    | \$ -                                                           |
| <b>LIABILITIES</b>                              |                                                                |
| Current liabilities:                            |                                                                |
| Accounts payable and accrued expenses           | \$ -                                                           |
| Due to other funds                              | -                                                              |
| Total current liabilities                       | -                                                              |
| Long-term liabilities:                          |                                                                |
| Due within one year                             | -                                                              |
| Due in more than one year                       | -                                                              |
| Total long-term liabilities                     | -                                                              |
| Total liabilities                               | -                                                              |
| <b>NET ASSETS</b>                               |                                                                |
| Invested in capital assets, net of related debt | -                                                              |
| Unrestricted                                    | -                                                              |
| Total net assets                                | \$ -                                                           |

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

**Charter Day School**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Fund**  
**For the Year Ended June 30, 2006**

|                                                  | Enterprise Fund<br>Non-Major Fund<br>School Activities<br>Fund |
|--------------------------------------------------|----------------------------------------------------------------|
| <b>OPERATING REVENUES</b>                        |                                                                |
| School activities income                         | \$ -                                                           |
| Total operating revenues                         | <u>-</u>                                                       |
| <b>OPERATING EXPENSES</b>                        |                                                                |
| School activities expenses                       | -                                                              |
| Depreciation Expense                             | -                                                              |
| Total operating expenses                         | <u>-</u>                                                       |
| Operating income (loss)                          | <u>-</u>                                                       |
| <b>NONOPERATING REVENUES (EXPENSES)</b>          |                                                                |
| Federal reimbursements                           | -                                                              |
| Total nonoperating revenue (expenses)            | <u>-</u>                                                       |
| Income (loss) before contributions and transfers | -                                                              |
| Capital contributions                            | -                                                              |
| Transfers to other funds                         | (6,178)                                                        |
| Change in net assets                             | <u>(6,178)</u>                                                 |
| Total net assets - beginning                     | 6,178                                                          |
| Total net assets - ending                        | <u><u>\$ -</u></u>                                             |

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

**Charter Day School  
Statement of Cash Flows  
Proprietary Fund  
For the Year Ended June 30, 2006**

|                                                                                            | <b>Enterprise Fund<br/>Non-Major Fund<br/>School Activities<br/>Fund</b> |
|--------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                                |                                                                          |
| Cash received from customers                                                               | \$ -                                                                     |
| Cash paid for goods and services                                                           | -                                                                        |
| Cash paid to employees for services                                                        | -                                                                        |
| Net cash provided (used) by operating activities                                           | -                                                                        |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING<br/>ACTIVITIES</b>                                 |                                                                          |
| Transfer to local fund                                                                     | (6,178)                                                                  |
| <b>CASH FLOWS FROM CAPITAL AND RELATED<br/>FINANCING ACTIVITIES</b>                        |                                                                          |
| Capital contributions                                                                      | -                                                                        |
| Acquisition of capital assets                                                              | -                                                                        |
| Net cash (used) by capital and related financing activities                                | -                                                                        |
| Net increase (decrease) in cash and cash equivalents                                       | (6,178)                                                                  |
| Balances-beginning of the year                                                             | 6,178                                                                    |
| Balances-end of the year                                                                   | \$ -                                                                     |
| Reconciliation of operating income to net cash provided by<br>operating activities         |                                                                          |
| Operating income                                                                           | \$ -                                                                     |
| Adjustments to reconcile operating income to net cash<br>provided by operating activities: |                                                                          |
| Depreciation                                                                               | -                                                                        |
| Salaries paid by special revenue fund                                                      | -                                                                        |
| Changes in assets and liabilities:                                                         |                                                                          |
| (Increase) in due from other governments                                                   | -                                                                        |
| Decrease in accounts receivable                                                            | -                                                                        |
| (Increase) in inventory                                                                    | -                                                                        |
| Increase (decrease) in accounts payable and accrued<br>liabilities                         | -                                                                        |
| Transfer to other funds                                                                    | -                                                                        |
| Total adjustments                                                                          | -                                                                        |
| Net cash provided by operating activities                                                  | \$ -                                                                     |

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, 2006**

**I. Summary of Significant Accounting Policies**

The accounting policies of Charter Day School, North Carolina (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 576 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 assets 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.

The School reports the following non-major governmental funds:

*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.

The School reports the following non major fund:

*School Activities Fund.* The School Activities Fund is used to account for the fund raising activities within the school system.

### 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 assets 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.

All governmental and business-type activities and enterprise funds of the School follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

#### 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, 2006. All appropriations lapse at year-end.

#### E. Assets, Liabilities, 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 \$1,000 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:

|                      | <u>Years</u> |
|----------------------|--------------|
| Textbooks            | 5            |
| Playground Equipment | 7            |
| Electronic Equipment | 3            |

##### 4. 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 assets.

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

## 5. Compensated Absences

Employees earn seven days of paid time off each year. Paid time off must be taken within the fiscal year, or it is lost. Since the School has no obligation for paid time off; no paid time off accrual has been made.

## 6. Net Assets/Fund Balances

Net assets 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 assets 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, reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

The governmental fund types classify fund balances as follows:

### Reserved:

Reserved for prepaid items - portion of fund balance not available for appropriation because it represents the year-end balance of prepaid rent on the school facility, which is not an expendable, available resource.

Reserved for inventories - portion of fund balance not available for appropriation because it represents the year-end fund balance of ending inventories, which are not expendable, available resources.

### Unreserved:

Designated for subsequent year's expenditures - portion of total fund balance available for appropriation which has been designated for the adopted 2006-07 budget ordinance.

Undesignated - portion of total fund balance available for appropriation which is uncommitted at year-end.

7. The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. The net adjustment of \$73,640 consists of several elements as follows:

| <u>DESCRIPTION</u>                                                                                                                                                                                       | <u>AMOUNT</u>    |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| Capital assets used in governmental activities are not financial resources and therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column. | \$ 123,376       |
| Less accumulated depreciation                                                                                                                                                                            | (49,736)         |
| Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not reported in the fund statements:                             |                  |
| Bond, leases, and installment financing                                                                                                                                                                  | -                |
| Compensated absences                                                                                                                                                                                     | -                |
| Accrued interest payable                                                                                                                                                                                 | -                |
| Total adjustment                                                                                                                                                                                         | <u>\$ 73,640</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, 2006, 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 assets - governmental funds as reported on the government-wide statement of activities. The net difference of \$36,709 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.                                                       | \$ 48,976     |
| Depreciation expense that is recorded on the statement of activities but not in the fund statements.                                                                        | (18,445)      |
| New debt issued during the year is recorded as a source of funds on the fund statements but has no effect on the statement of activities, only the statement of net assets. | -             |
| Principal payments on debt owed are recorded as a use of funds on the fund statements but again affect only the statement of net assets in the government-wide statements.  | -             |
| Transfer of enterprise fund asset to governmental fund.                                                                                                                     | 6,178         |
| Expenses reported on the statement of activities that do not require the use of current resources to pay are not recorded as expenditures in the fund statements.           | -             |
| Difference in interest expense between fund statements (modified accrual) and government-wide statements (full accrual).                                                    | -             |
| Compensated absences are accrued in the government-wide statements but not in the fund statements, as they do not use current resources.                                    | -             |
| Total                                                                                                                                                                       | \$ 36,709     |

## 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 Assets of Individual Funds

None.

III. Detail Notes on All Funds

A. Assets

1. Deposits

At June 30, 2006, the School had deposits with banks and savings and loans with a carrying amount of \$350,597. The bank balance with the financial institutions was \$499,240 of which \$100,000 was covered by federal depository insurance. The remaining \$399,240 was a credit risk at June 30, 2006. The School does not have a deposit policy for custodial credit risk.

2. Capital Assets

Capital asset activity for the year ended June 30, 2006, was as follows:

|                                              | Beginning<br>Balances | Increases | Decreases | Ending<br>Balances |
|----------------------------------------------|-----------------------|-----------|-----------|--------------------|
| Governmental activities:                     |                       |           |           |                    |
| Capital assets being depreciated:            |                       |           |           |                    |
| Electronic equipment                         | \$ 21,870             | \$ -      | \$ -      | \$ 21,870          |
| Textbooks                                    | 44,546                | 48,976    | -         | 93,522             |
| Playground equipment                         | -                     | 7,984     | -         | 7,984              |
| Total capital assets being depreciated       | 66,416                | 56,960    | -         | 123,376            |
| Less accumulated depreciation for:           |                       |           |           |                    |
| Electronic equipment                         | 21,870                | -         | -         | 21,870             |
| Textbooks                                    | 7,615                 | 17,305    | -         | 24,920             |
| Playground equipment                         | 1,806                 | 1,140     | -         | 2,946              |
| Total accumulated depreciation               | 31,291                | \$ 18,445 | \$ -      | 49,736             |
| Total capital assets being depreciated, net  | 35,125                |           |           | 73,640             |
| Governmental activity capital assets, net    | \$ 35,125             |           |           | \$ 73,640          |
| Business-type activities:                    |                       |           |           |                    |
| Capital assets being depreciated:            |                       |           |           |                    |
| Playground equipment                         | \$ 7,984              | \$ -      | \$ 7,984  | \$ -               |
| Total capital assets being depreciated       | 7,984                 | -         | 7,984     | -                  |
| Less accumulated depreciation for:           |                       |           |           |                    |
| Playground equipment                         | 1,806                 | -         | 1,806     | -                  |
| Total accumulated depreciation               | 1,806                 | \$ -      | \$ 1,806  | -                  |
| Total capital assets being depreciated, net  | 6,178                 |           |           | -                  |
| Business-type activities capital assets, net | \$ 6,178              |           |           | \$ -               |

Governmental activities depreciation expense is allocated to the following functions:

|                        |           |
|------------------------|-----------|
| Instructional programs | \$ 17,305 |
| Supporting programs    | \$ 1,140  |

Playground equipment with a total cost of \$7,984 and \$1,806 in accumulated depreciation was transferred from the Enterprise Fund to Governmental Funds.

## B. Liabilities

### 1. Pension Plan Obligations

#### a. Retirement Plan

The School maintains a simple IRA retirement plan for the benefit of its employees. 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. The Charter Day School made all required contributions. For the year ended June 30, 2006, the retirement cost to the School was \$23,706, with employees contributing \$37,255.

### 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 \$353,422 on this lease agreement for the year ended June 30, 2006. Future lease payments are included in the schedule below.

The School also has a lease agreement for the rental of computers, furniture and equipment from Coastal Habitat Conservancy, LLC. They paid a total of \$161,824 on this lease agreement during the year ended June 30, 2006.

Future minimum lease payments are included in the schedule below.

#### Year Ending June 30

|      |            |
|------|------------|
| 2007 | \$ 664,296 |
| 2008 | 664,296    |
| 2009 | 664,296    |
| 2010 | 664,296    |
| 2011 | 664,296    |

#### V. Related Party Transactions

Charter Day School has agreements for management services and property use with Roger Bacon Academy, Inc. Roger Bacon Academy, in turn, rents the land, building, and equipment from Coastal Habitat Conservancy, LLC, which owns all the physical facilities and equipment used by the School. The owner of Roger Bacon Academy 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 for management and faculty services. Roger Bacon Academy 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 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, 2006, management and maintenance fees were paid to Roger Bacon Academy in the amount of \$1,104,804. Rent paid to Roger Bacon Academy for the use of facility and equipment was \$353,422 for the year ended June 30, 2006.

Mark Cramer, headmaster of Charter Day School, is an employee of the Roger Bacon Academy. Mr. Cramer is also on the board of trustees. The School made no direct payments to Mr. Cramer during the year ended June 30, 2006.

#### VI. 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.

#### VII. Significant Effects of Subsequent Events

None.

## **NONMAJOR FUNDS**

|                          |                                                                                                                                       |
|--------------------------|---------------------------------------------------------------------------------------------------------------------------------------|
| Federal Grants Fund -    | This fund is used to account for the Federal monies that are passed through the State Department of Public Instruction to the School. |
| School Activities Fund - | This fund is used to account for the fund raising activities that occurred during the school year.                                    |

**Charter Day School  
Non-Major Governmental Funds  
Combining Balance Sheet  
as of June 30, 2006**

**Statement 1**

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

Charter Day School  
**Non-Major Governmental Funds**  
**Combining Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances**  
For the Fiscal Year Ended June 30, 2006

**Statement 2**

|                                | Special<br>Revenue Funds |
|--------------------------------|--------------------------|
|                                | Totals                   |
|                                | 2006                     |
| Revenues:                      |                          |
| U.S. Government:               |                          |
| Idea VI-B Capacity             | \$ 1,068                 |
| Title I - Basic Funding        | 48,398                   |
| Title VI - Formula Grant       | 1,553                    |
| Idea VI-B Handicapped          | 67,038                   |
| Improving Teacher Quality      | 9,451                    |
| Total                          | <u>127,508</u>           |
| Donations                      | -                        |
| Other                          | -                        |
| Total                          | -                        |
| Total revenues                 | <u>127,508</u>           |
| Expenditures:                  |                          |
| Current:                       |                          |
| Instructional programs:        |                          |
| Regular programs               | 6,047                    |
| Special programs               | 109,786                  |
| Other                          | 11,675                   |
| Total                          | <u>127,508</u>           |
| Support services:              |                          |
| Pupil services                 | -                        |
| Instructional staff services   | -                        |
| General administrative         | -                        |
| School administrative          | -                        |
| Club and activity expenditures | -                        |
| Total                          | <u>-</u>                 |
| Non-programmed charges:        |                          |
| Other                          | -                        |
| Total                          | <u>-</u>                 |
| Total expenditures             | <u>127,508</u>           |
| Revenues over expenditures     | <u>-</u>                 |
| Fund balances:                 |                          |
| Beginning of year, July 1      | -                        |
| End of year, June 30           | <u><u>\$ -</u></u>       |

**Statement 3**

Charter Day School  
Statement of Net Assets  
Non-Major Proprietary Funds  
June 30, 2006

|                                                 | School Activities<br>Fund |
|-------------------------------------------------|---------------------------|
| <b>ASSETS</b>                                   |                           |
| Current assets:                                 |                           |
| Cash and cash equivalents                       | \$ -                      |
| Due from other governments                      | -                         |
| Receivables (net)                               | -                         |
| Inventories                                     | -                         |
| Total current assets                            | -                         |
| Noncurrent assets:                              |                           |
| Capital assets:                                 |                           |
| Playground equipment, net                       | -                         |
| Computer equipment, net                         | -                         |
| Total noncurrent assets                         | -                         |
| Total assets                                    | \$ -                      |
| <b>LIABILITIES</b>                              |                           |
| Current liabilities:                            |                           |
| Accounts payable and accrued expenses           | \$ -                      |
| Due to other funds                              | -                         |
| Total current liabilities                       | -                         |
| Long-term liabilities:                          |                           |
| Due within one year                             | -                         |
| Due in more than one year                       | -                         |
| Total long-term liabilities                     | -                         |
| Total liabilities                               | -                         |
| <b>NET ASSETS</b>                               |                           |
| Invested in capital assets, net of related debt | -                         |
| Unrestricted                                    | -                         |
| Total net assets                                | \$ -                      |

**Statement 4**

Charter Day School  
Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Non-Major Proprietary Funds  
For the Year Ended June 30, 2006

|                                                  | <b>School Activities<br/>Fund</b> |
|--------------------------------------------------|-----------------------------------|
| <b>OPERATING REVENUES</b>                        |                                   |
| School activities income                         | \$ -                              |
| Total operating revenues                         | <u>-</u>                          |
| <b>OPERATING EXPENSES</b>                        |                                   |
| School activities expenses                       | -                                 |
| Depreciation Expense                             | -                                 |
| Total operating expenses                         | <u>-</u>                          |
| Operating income (loss)                          | <u>-</u>                          |
| <b>NONOPERATING REVENUES (EXPENSES)</b>          |                                   |
| Federal reimbursements                           | -                                 |
| Total nonoperating revenue (expenses)            | <u>-</u>                          |
| Income (loss) before contributions and transfers | -                                 |
| Capital contributions                            | -                                 |
| Transfers to other funds                         | (6,178)                           |
| Change in net assets                             | (6,178)                           |
| Total net assets - beginning                     | 6,178                             |
| Total net assets - ending                        | <u><u>\$ -</u></u>                |

**Charter Day School  
All Fund Types  
Statement of Revenues, Expenditures, and  
Changes in Fund Balances - Budget and Actual  
For the Fiscal Year Ended June 30, 2006**

|                              | 2006             |                  |                                        |
|------------------------------|------------------|------------------|----------------------------------------|
|                              | Final<br>Budget  | Actual           | Favorable<br>(Unfavorable)<br>Variance |
| Revenues:                    |                  |                  |                                        |
| State of North Carolina      | \$ 2,883,608     | \$ 2,883,608     | \$ -                                   |
| Board(s) of Education:       |                  |                  |                                        |
| Bladen County                | 19,183           | 19,183           | -                                      |
| Brunswick County             | 706,607          | 704,754          | (1,853)                                |
| Columbus County              | 125,011          | 125,011          | -                                      |
| New Hanover County           | 106,971          | 106,611          | (360)                                  |
| Pender County                | 2,448            | 2,448            | -                                      |
| Whiteville City              | 1,223            | 1,223            | -                                      |
| U.S. Government              | 127,508          | 127,508          | -                                      |
| Fines and forfeitures        | 13,134           | 13,134           | -                                      |
| Others                       | 8,036            | 8,417            | 381                                    |
| Total                        | <u>3,993,729</u> | <u>3,991,897</u> | <u>(1,832)</u>                         |
| Expenditures:                |                  |                  |                                        |
| Current:                     |                  |                  |                                        |
| Instructional programs:      |                  |                  |                                        |
| Regular programs             | -                | 2,373,702        | -                                      |
| Special programs             | -                | 274,218          | -                                      |
| Other                        | -                | 311,198          | -                                      |
| Total instructional programs | <u>2,181,283</u> | <u>2,959,118</u> | <u>(777,835)</u>                       |
| Support services:            |                  |                  |                                        |
| Pupil services               | -                | 37,896           | -                                      |
| Instructional staff services | -                | -                | -                                      |
| Administrative services      | -                | 769,010          | -                                      |
| Total support services       | <u>1,612,923</u> | <u>806,906</u>   | <u>806,017</u>                         |
| Non-programmed charges:      |                  |                  |                                        |
| Other                        | -                | -                | -                                      |
| Total non-programmed charges | <u>-</u>         | <u>-</u>         | <u>-</u>                               |
| School activities expenses:  |                  |                  |                                        |
| School activities expense    | -                | -                | -                                      |
| Depreciation expense         | -                | -                | -                                      |
| Total school activities      | <u>-</u>         | <u>-</u>         | <u>-</u>                               |

## Statement 5

**Charter Day School**  
**All Fund Types**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2006**

|                                          | 2006            |            |                                        |
|------------------------------------------|-----------------|------------|----------------------------------------|
|                                          | Final<br>Budget | Actual     | Favorable<br>(Unfavorable)<br>Variance |
| Child care expenditures                  |                 |            |                                        |
| Salaries and benefits                    | -               | -          | -                                      |
| Materials and supplies                   | -               | -          | -                                      |
| Contracted services                      | -               | -          | -                                      |
| Total child care                         | -               | -          | -                                      |
| Capital outlay                           | 48,976          | 48,976     | -                                      |
| Debt service:                            |                 |            |                                        |
| Principal                                | -               | -          | -                                      |
| Interest and other charges               | -               | -          | -                                      |
| Total debt service                       | -               | -          | -                                      |
| Total expenditures                       | 3,843,182       | 3,815,000  | 28,182                                 |
| Other financing sources (uses):          |                 |            |                                        |
| Transfers out                            | -               | -          | -                                      |
| Transfers in                             | -               | -          | -                                      |
| Proceeds from short-term note            | -               | -          | -                                      |
| Federal reimbursements                   | -               | -          | -                                      |
| Capital lease obligations issued         | -               | -          | -                                      |
| Total other financing sources and (uses) | -               | -          | -                                      |
| Capital contributions                    | -               | -          | -                                      |
| Excess of revenue over<br>expenditures   | \$ 150,547      | \$ 176,897 | \$ 26,350                              |

COMPLIANCE SECTION  
CHARTER DAY SCHOOL  
LELAND, NORTH CAROLINA  
JUNE 30, 2006

PM&P

**PETWAY  
MILLS &  
PEARSON, PA**

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*Memberships:*

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Association of  
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Accountants

American Institute  
of Certified Public  
Accountants

Medical Group  
Management  
Association

**Report On Internal Control Over Financial Reporting And On Compliance and Other  
Matters Based On An Audit Of Financial Statements Performed In Accordance With  
Government Auditing Standards**

Board of Directors  
Charter Day School  
Leland, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregated remaining fund information of the Charter Day School, North Carolina, as of and for the year ended June 30, 2006, which collectively comprises the Charter Day School's basic financial statements, and have issued our report thereon dated August 25, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Charter Day School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, others within the organization, and federal and State awarding agencies and pass-through entities 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

August 25, 2006

PM&P

**PETWAY  
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**Report On Compliance With Requirements Applicable To Each Major State Program  
And Internal Control Over Compliance In Accordance With Applicable Sections of OMB  
Circular A-133 and the State Single Audit Implementation Act**

Board of Directors  
Charter Day School  
Leland, North Carolina

Compliance

We have audited the compliance of the Charter Day School, North Carolina, with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major State programs for the year ended June 30, 2006. The Charter Day School's major State programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of Charter Day School's management. Our responsibility is to express an opinion on Charter Day School's compliance based on our audit.

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 *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable sections of OMB Circular A-133, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, applicable sections of 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 the 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. Our audit does not provide a legal determination on the Charter Day School's compliance with those requirements.

In our opinion, Charter Day School complied, in all material respects, with the requirements referred to above that are applicable to each of its major State programs for the year ended June 30, 2006.

#### Internal Control Over Compliance

The management of the Charter Day School is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered Charter Day School's 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 opinion on compliance and to test and report on internal control over compliance in accordance with applicable sections of OMB Circular A-133 and the State Single Audit Implementation Act.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major State program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management, others within the organization, and federal and State awarding agencies and pass-through entities 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

August 25, 2006

CHARTER DAY SCHOOL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2006

SECTION I. -- SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified.

Internal control over financial reporting:

|                                                                                             |           |                       |
|---------------------------------------------------------------------------------------------|-----------|-----------------------|
| Material weakness(es) identified?                                                           | _____ yes | ___X___ no            |
| Reportable condition(s) identified<br>that are not considered to be<br>material weaknesses? | _____ yes | ___X___ none reported |
| Noncompliance material to financial<br>statements noted                                     | _____ yes | ___X___ no            |

State Awards

Internal control over major state programs:

|                                                                                             |           |                       |
|---------------------------------------------------------------------------------------------|-----------|-----------------------|
| Material weakness(es) identified?                                                           | _____ yes | ___X___ no            |
| Reportable condition(s) identified<br>that are not considered to be<br>material weaknesses? | _____ yes | ___X___ none reported |

Type of auditors' report issued on compliance for major state programs: Unqualified.

|                                                                                                                         |           |            |
|-------------------------------------------------------------------------------------------------------------------------|-----------|------------|
| Any audit findings disclosed that are required<br>to be reported in accordance with Section 510(a)<br>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, 2006

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, 2006

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, 2006

There were no reported findings or questioned costs as a result of the audit for the fiscal year ended June 30, 2005.

CHARTER DAY SCHOOL  
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

| GRANTOR/PASS-THROUGH GRANTOR<br>PROGRAM TITLE                 | FEDERAL<br>CFDA<br>NUMBER | STATE/<br>PASS-THROUGH<br>GRANTOR'S<br>NUMBER | EXPENDITURES        |
|---------------------------------------------------------------|---------------------------|-----------------------------------------------|---------------------|
| FEDERAL GRANTS:                                               |                           |                                               |                     |
| CASH ASSISTANCE:                                              |                           |                                               |                     |
| <u>US Department of Education</u>                             |                           |                                               |                     |
| Idea VI-B Capacity Grant                                      | 84.027                    |                                               | \$ 1,068            |
| Title 1 Basic Funding                                         | 84.010                    |                                               | 48,398              |
| Title VI Formula Grant                                        | 84.298                    |                                               | 1,553               |
| Idea VI-B Handicapped Grant                                   | 84.027                    |                                               | 67,038              |
| Improving Teacher Quality                                     | 84.336                    |                                               | <u>9,451</u>        |
| TOTAL FEDERAL CASH ASSISTANCE                                 |                           |                                               | 127,508             |
| NC STATE GRANTS:                                              |                           |                                               |                     |
| CASH ASSISTANCE                                               |                           |                                               |                     |
| <u>NC Department of Public Instruction</u>                    |                           |                                               |                     |
| State Public School Funds<br>(PRC 36 -- Charter School Funds) |                           | XXXX                                          | <u>2,883,608</u>    |
| TOTAL FEDERAL AND STATE AWARDS                                |                           |                                               | <u>\$ 3,011,116</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.

PM&P

**PETWAY  
MILLS &  
PEARSON, PA**

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Medical Group  
Management  
Association

August 25, 2006

To the Audit Committee  
Charter Day School

We have audited the financial statements of Charter Day School for the year ended June 30, 2006, and have issued our report thereon dated August 25, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated January 17, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

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 opinion on compliance and to test and report on internal control over compliance.

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, we examined, on a test basis, evidence about Charter Day School's compliance with the types of compliance requirements described in the Audit Manual for Governmental Auditors in North Carolina applicable to each of its major state programs 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 Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. 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 the year ended June 30, 2006. We noted no transactions entered into by Charter Day School during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

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 the financial statements was:

Management's estimate of the 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.

#### Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Charter Day School's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Charter Day School, either individually or in the aggregate, indicate matters that could have a significant effect on the Charter Day School's financial reporting process.

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter 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.

#### 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.

#### Issues Discussed Prior to Retention of Independent Auditors

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 Charter Day School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

#### Difficulties Encountered in Performing the Audit

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

This information is intended solely for the use of 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*

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Certified Public Accountants  
Zebulon, North Carolina