

AUDITED FINANCIAL STATEMENTS

DOUGLASS ACADEMY

WILMINGTON, NORTH CAROLINA

JUNE 30, 2014

PM&P

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MILLS &
PEARSON, PA

Certified Public Accountants

PM&P

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Association of
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To the Board of Trustees
Douglass Academy
Wilmington, North Carolina

We have audited the financial statements of the governmental activities and each major fund of Douglass Academy as of June 30, 2014 and from inception through June 30, 2014. Professional standards require that we provide you with information about our responsibilities under U.S. generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 10, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under Government Auditing Standards

In planning and performing our audit, we considered Douglass Academy'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.

As part of obtaining reasonable assurance about whether Douglass Academy'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

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Douglass Academy are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed from inception through June 30, 2014. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

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

The disclosure of capital assets in Note III.A.2 to the financial statements and long-term debt in Note III.B.2 to the financial statements.

Capital assets are recorded at cost and depreciated over their estimated useful lives. Long-term debt is amortized over the life of the loan and future maturities are estimated based on the applicable interest rate and monthly payment amount.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 14, 2014.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, and the information is appropriate and complete in relation to our audit of the financial statements. We compared

and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Trustees and management of Douglass Academy and is not intended to be, and should not be, used by anyone other than these specified parties.

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

October 14, 2014

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DOUGLASS ACADEMY
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FINANCIAL SECTION
DOUGLASS ACADEMY
WILMINGTON, NORTH CAROLINA
JUNE 30, 2014

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Independent Auditor's Report

To the Board of Trustees
Douglass Academy
Wilmington, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Douglass Academy as of and from inception through June 30, 2014, and the related notes to the financial statements, which collectively comprise Douglass Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Douglass Academy as of June 30, 2014, and the respective changes in financial position from inception through June 30, 2014 in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6 through 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to

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be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Douglass Academy's basic financial statements. The budgetary schedule, as well as the accompanying Schedule of Expenditures of State Awards, as required by *Government Auditing Standards* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2014 on our consideration of Douglass Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Douglass Academy's internal control over financial reporting and compliance.

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

October 14, 2014

Management's Discussion and Analysis
Douglass Academy
June 30, 2014



DOUGLASS ACADEMY

"Once you learn to read, you
will be forever free."



507 North 6th Street, Wilmington, NC 28401
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Management's Discussion and Analysis
Douglass Academy
June 30, 2014



Douglass Academy is an inspiring, tuition-free, open enrollment public charter school that opened in August, 2013, with grades K-2 and will expand to K-5 by year 2017.

This tuition-free, public school is located at 507 North Sixth Street Wilmington, NC. The primary goal of Douglass Academy is to provide a safe and secure environment for students to be challenged daily to perform at high levels of achievement. The certified and highly qualified teaching staff is experienced in delivering proven curricula that produces high scores in the early grades.

Our Foundation: The Three Laws

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



School Features

- Tuition-Free, open enrollment public school.
- Located in the newly renovated, historic Peabody building in the heart of downtown Wilmington.
- In its second year, the School serves grades K-3, and will expand to a K-5 by the year 2017.
- Diverse student populations, including special needs students, 91% non-white students, and 85% low economically disadvantaged students.
- Uses research-based, proven Direct Instruction teaching method.
- Curated, rigorous Classical curriculum.
- Offers Latin, Public Speaking, Debate, and Drama components.
- Intensive new-hire training.
- Continuous in-service monitoring to evaluate and optimize instruction.
- Accelerated learning program reviews individual student performance data to promote qualifying students to advanced studies on a subject -by-subject basis.
- Prioritizes the use positive reinforcement in teaching and discipline.
- Student uniforms and professional teacher dress requirements.
- Provides bus services, as well as breakfast and lunch for students.
- Varied extracurricular activities.
- Operates on a traditional public school schedule for compatibility with district schools.
- Regular parent surveys conducted.
- Annual, third-party financial audits conducted.





Management's Discussion and Analysis
Douglass Academy
June 30, 2014

As management of Douglass Academy, we offer readers of Douglass Academy's audited financial statements this narrative overview and analysis of the financial activities of Douglass Academy for the fiscal year ended June 30, 2014. 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.

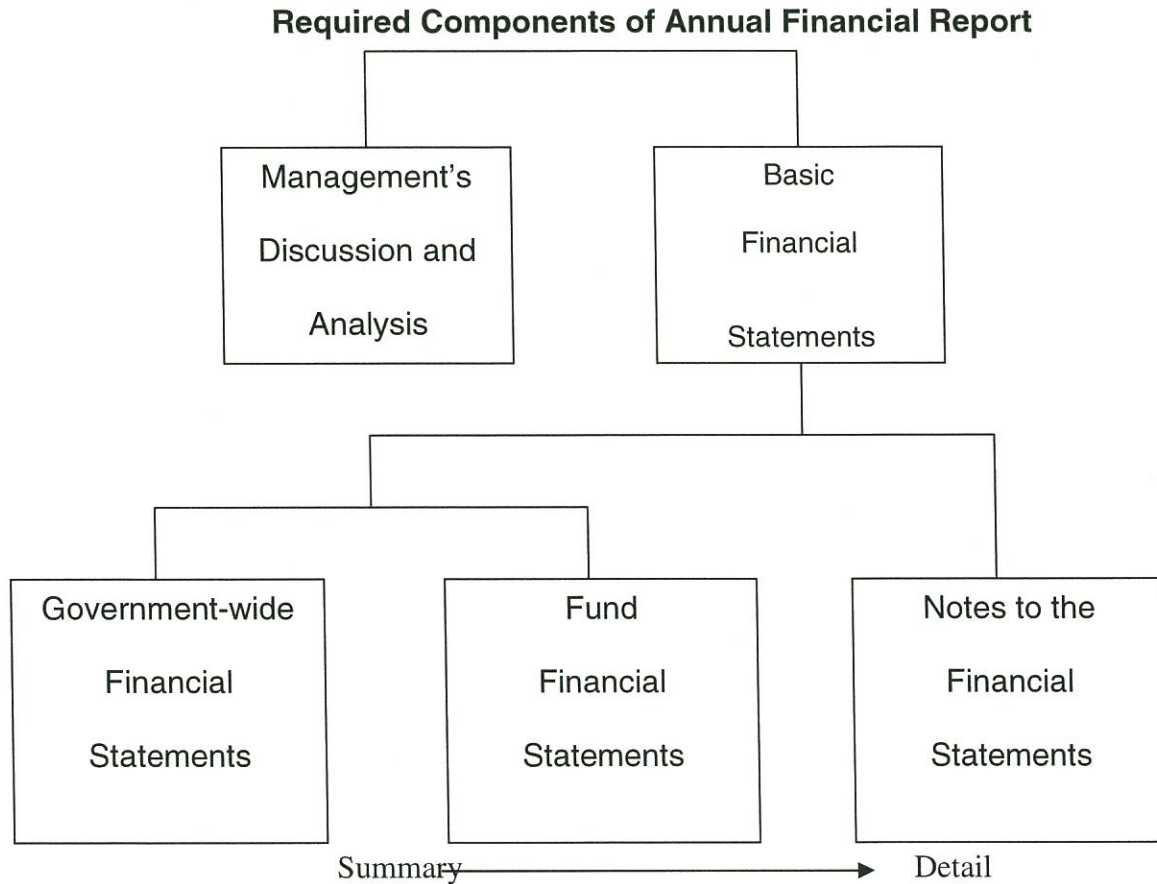
Financial Highlights

- As of the close of the current fiscal year, Douglass Academy's governmental funds reported combined ending fund balances of \$8,111.
- As of the close of the current fiscal year, Douglass Academy reported fixed assets net of depreciation of \$303,062.
- The School opened for its first year in 2013-2014 with an enrollment of 33. The current enrollment for the 2014-2015 school year has increased dramatically to 98 students.
- Per-pupil revenue from governmental sources was \$8,128.
- Douglass Academy has \$400,000 in long-term debt owed to Charter Day School.
- Douglass Academy received \$101,150 from donors.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Douglass Academy 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 Douglass Academy.

Figure 1



Basic Financial Statements

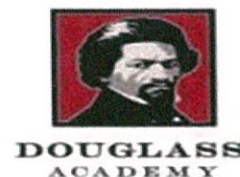
The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the School's financial standing.

The next statements (Exhibits 3 through 4) are **Fund Financial Statements**. These statements focus on the activities of the individual segments of the School's government. 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.

Management's Discussion and Analysis

Douglass Academy

June 30, 2014



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

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

The fund financial statements provide a more detailed look at the School's most significant activities. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Douglass Academy, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related statutory requirements, such as the North Carolina General Statutes or the School's budget ordinance, where and when applicable. All of the funds of Douglass Academy 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

Management's Discussion and Analysis

Douglass Academy

June 30, 2014



governmental funds is described in reconciliation, which is an integral part of the fund financial statements.

Although not compelled or required to do so by federal, state, or local law, Douglass Academy 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 faculty, 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 ordinance and whether or not the School has succeeded in providing the services as originally planned.

Proprietary Funds – Douglass Academy has no proprietary funds, which are enterprise funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. Douglass Academy did not operate any enterprise funds.

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

Government-Wide Financial Analysis

The assets of Douglass Academy were \$364,037 as of June 30, 2014. The amount of \$303,062 reflects the School's investment in capital assets (e.g. leasehold Improvements and textbooks), less any related debt still outstanding that was issued to acquire those items. Douglass Academy uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although Douglass Academy's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the School's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$8,111 is unrestricted.

Management's Discussion and Analysis
Douglass Academy
 June 30, 2014



Figure 2
Douglass Academy's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 60,975	\$ -	\$ -	\$ -	\$ 60,975	\$ -
Due from other governments	-	-	-	-	-	-
Capital assets, net of depreciation	303,062	-	-	-	303,062	-
Total assets	364,037	-	-	-	364,037	-
Other liabilities	52,864	-	-	-	52,864	-
Long-term liabilities outstanding	400,000	-	-	-	400,000	-
Total liabilities	452,864	-	-	-	452,864	-
Invested in capital assets, net of related debt	(96,938)	-	-	-	(96,938)	-
Restricted	-	-	-	-	-	-
Unrestricted	8,111	-	-	-	8,111	-
Total net assets	\$ (88,827)	\$ -	\$ -	\$ -	\$ (88,827)	-

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.

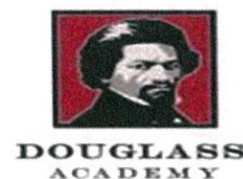


Figure 3
Douglass Academy's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Other Revenues	\$ 101,624	\$ -	-	-	\$ 101,624	\$ -
Charges for Services	-	-	-	-	-	-
Operating Grants and Contributions	-	-	-	-	-	-
County, State, and Federal Funds	268,238	-	-	-	268,238	-
Total revenues	369,862	-	-	-	369,862	-
Instructional Programs	258,481	-	-	-	258,481	-
Support services	171,322	-	-	-	171,322	-
Non – Program Charges	28,886	-	-	-	28,886	-
Interest on short-term debt	-	-	-	-	-	-
Total expenses	458,689	-	-	-	458,689	-
Increase (Decrease) in net assets before transfers	(88,827)	-	-	-	(88,827)	-
Transfers	-	-	-	-	-	-
Increase (Decrease) in net assets	(88,827)	-	-	-	(88,827)	-
Net assets, July 1	-	-	-	-	-	-
Net assets, June 30	\$ (88,827)	-	-	-	\$ (88,827)	-

Governmental activities. Governmental activities resulted in a negative net asset position of \$88,827.

Business-type activities. Douglass Academy did not operate any Business-type activities during the year.

Financial Analysis of the School's Funds

As noted earlier, Douglass Academy uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of Douglass Academy's governmental funds is to provide information on near-term inflows, outflows, and balances of usable financial resources. Such information is useful in assessing Douglass Academy's financing requirements. Specifically,

Management's Discussion and Analysis
Douglass Academy
June 30, 2014



unrestricted fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of Douglass Academy. At the end of the current fiscal year, unrestricted fund balance of the General Fund was \$8,111.

Proprietary Funds. Douglass Academy does not operate any proprietary funds.

Capital Asset and Debt Administration

Capital assets. Douglass Academy's investment in capital assets for its governmental and business-type activities as of June 30, 2014, totals \$54,987 (net of accumulated depreciation). Capital assets include textbooks.

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Leasehold Improvements	\$ 286,306	\$ -	\$ -	\$ -	\$ 286,306	\$ -
Textbooks	13,127	-	-	-	13,127	-
Transportation equipment	-	-	-	-	-	-
Vehicles	3,629	-	-	-	3,629	-
Total	\$ 303,062	\$ -	\$ -0	\$ -0	\$ 303,062	\$ -

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, 2014, Douglass Academy had \$400,000 in outstanding debt.

Economic Factors

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

- The School operated with substantially lower amounts (nearly 30% less) than other public schools because it receives no capital funding and must pay rent out of its operating revenue.
- The enrollment for the School's first year was significantly lower than projected. This was caused by a change in venue which made extensive renovations necessary in less than two months. This confusion, as well as a massive recruitment mailer being returned, is factors directly linked to the school's low enrollment.

Management's Discussion and Analysis

Douglass Academy

June 30, 2014



**DOUGLASS
ACADEMY**

- Because of the 2013-2014 enrollment numbers, the School was placed on governance cautionary status by the NC Office of Charter Schools. An enrollment waiver for 2013-2014 was unanimously recommended by that body, followed by a unanimous approval by the NC State Board of Education.
- The School received an anonymous donation of \$100,000.
- The School received a donation from First Bank in the amount of \$500.
- With the lifting of the "Charter School Cap" it is important for the School to maintain its unrestricted funds surplus since there now is possible impact with other competing charter schools.

Requests for Information

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

Douglass Academy
Statement of Net Position
June 30, 2014

	Primary Government	
	Governmental	Business-type
	Activities	Activities
		Total
ASSETS		
Cash and cash equivalents	\$ 60,975	\$ - \$ 60,975
Due from other governments	-	
Prepaid items	-	-
Capital assets:		
Land, improvements, and construction in progress	-	-
Other capital assets, net of depreciation	303,062	303,062
Total capital assets	303,062	303,062
Total assets	364,037	364,037
LIABILITIES		
Accounts payable - trade	45,930	45,930
Accrued salaries and wages payable	6,934	6,934
Short-term payables	-	-
Long - term liabilities:		
Due within one year	-	-
Due in more than one year	400,000	400,000
Total liabilities	452,864	452,864
NET POSITION		
Net investment in capital assets	(96,938)	(96,938)
Restricted for:		
Clubs and activities	-	-
Unrestricted	8,111	8,111
Total net position	\$ (88,827)	\$ (88,827)

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

Douglass Academy
Statement of Activities
From Inception Through June 30, 2014

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental Activities:							
Instructional programs	\$ 258,481	\$ -	\$ -	\$ -	\$ (258,481)	\$ -	\$ (258,481)
Support services	171,322	-	-	-	(171,322)	-	(171,322)
Non-programmed charges	28,886	-	-	-	(28,886)	-	(28,886)
Interest on short-term debt	-	-	-	-	-	-	-
Total governmental activities	458,689	-	-	-	(458,689)	-	(458,689)
Business-type activities:							
School food service	-	-	-	-	-	-	-
Fund Raising	-	-	-	-	-	-	-
Total business-type activities	-	-	-	-	-	-	-
Total primary government	\$ 458,689	\$ -	\$ -	\$ -	(458,689)	-	(458,689)
General revenues:							
Unrestricted County appropriations					97,691	-	97,691
Unrestricted State appropriations					170,547	-	170,547
Unrestricted Federal appropriations					-	-	-
Donations - general					101,150	-	101,150
Investment earnings, unrestricted					24	-	24
Miscellaneous, unrestricted					450	-	450
Transfers					-	-	-
Total general revenues, special items, and transfers					369,862	-	369,862
Change in net position					(88,827)	-	(88,827)
Net position-beginning					-	-	-
Net position-ending					\$ (88,827)	\$ -	\$ (88,827)

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

**Douglass Academy
Balance Sheet
Governmental Funds
June 30, 2014**

	Major Funds		Total Non-major Funds	Total Governmental Funds
	General	State Public School	Federal Grants	
ASSETS				
Cash and cash equivalents	\$ 60,975	\$ -	\$ -	\$ 60,975
Accounts Receivable - other (net)	-	-	-	-
Due from other governments	-	-	-	-
Prepaid items	-	-	-	-
Total assets	<u>\$ 60,975</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60,975</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable - trade	\$ 45,930	\$ -	\$ -	\$ 45,930
Accrued salaries and wages payable	6,934	-	-	6,934
Total liabilities	<u>52,864</u>	<u>-</u>	<u>-</u>	<u>52,864</u>
Fund balances:				
Nonspendable:				
Inventories	-	-	-	-
Prepaid items	-	-	-	-
Restricted:				
Capital outlay	-	-	-	-
Assigned:				
Clubs and Activities	-	-	-	-
Unassigned:	8,111	-	-	8,111
Total fund balances	<u>8,111</u>	<u>-</u>	<u>-</u>	<u>8,111</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 60,975</u>	<u>\$ -</u>	<u>\$ -</u>	

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

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

303,062

Liabilities for earned but uncollectible 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).

(400,000)

Net position of governmental activities

\$ (88,827)

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

Douglass Academy
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
From Inception Through June 30, 2014

	Major Funds		Total Non-major Funds	Total Governmental Funds
	General	State Public School	Federal Grants	
REVENUES				
State of North Carolina	\$ -	\$ 170,547	\$ -	\$ 170,547
Local education agencies	97,691	-	-	97,691
U.S. Government	-	-	-	-
Investment earnings	24	-	-	24
Contributions	101,150	-	-	101,150
Other	450	-	-	450
Total revenues	199,315	170,547	-	369,862
EXPENDITURES				
Current:				
Instructional programs	166,266	85,690	-	251,956
Support services	84,290	84,857	-	169,147
Non-programmed charges	28,886	-	-	28,886
Capital outlay	311,762	-	-	311,762
Debt service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Total expenditures	591,204	170,547	-	761,751
Excess (deficiency) of revenues over expenditures	(391,889)	-	-	(391,889)
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	-	-	-	-
Proceeds from long-term note	400,000	-	-	400,000
Repayment to long-term note	-	-	-	-
Capital lease obligations issued	-	-	-	-
Total other financing sources (uses)	400,000	-	-	400,000
Net change in fund balance	8,111	-	-	8,111
Fund balances-beginning	-	-	-	-
Fund balances-ending	\$ 8,111	\$ -	\$ -	\$ 8,111

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

Douglass Academy
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds to the Statement of Activities
From Inception Through June 30, 2014

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

Net changes in fund balances - total governmental funds	\$ 8,111
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	303,062
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Amount of donated assets	-
Difference in accrued investment income and income reported in fund statements	-
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(400,000)
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.	
Compensated absences	-
Loss on disposal of assets	-
Total changes in net position of governmental activities	<u>\$ (88,827)</u>

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

Douglass Academy, North Carolina

Notes to the Financial Statements

From Inception Through June 30, 2014

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

The Douglass Academy is a public school operated by a local non-profit corporation, serving approximately 37 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(1) states that a charter school shall be subject to the audit requirements adopted by the SBE, which includes the audit requirements established by G.S. 115C-447 of the School Budget and Fiscal Control Act (SBFCA). G.S. 115C-447 also requires financial statements to be prepared in accordance with GAAP.

B. Basis of Presentation

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

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the School and for each function of the School's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

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

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

The School reports the following major governmental funds:

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

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

C. Measurement Focus and Basis of Accounting

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

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The School considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. These could include federal, State, and county grants, and some charges for services. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

D. Budgetary Data

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

The governing board has voluntarily established the policy, as a sound business practice, that expenditures may not exceed appropriations, for all of the School's funds, based on the adopted budget and subsequent amendments. During the year, several amendments to the original budget were necessary, the effects of which were not material. The budget presented in the supplemental data represents the budget of the School from inception through June 30, 2014. All appropriations lapse at year-end.

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

1. Deposits and Investments

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

2. Cash and Cash Equivalents

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

3. Capital Assets

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

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

	Years
Leasehold	10
Textbooks	5
Vehicle	7

4. Deferred outflows/inflows of resources

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

5. Long-term obligations

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

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

6. Compensated Absences

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

7. Net Position/Fund Balances

Net Position

Net position in the government-wide and proprietary fund financial statements is classified as net investment in capital assets, net of related debt; restricted; and unrestricted. Restricted net position

represents 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.

Fund Balances

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

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

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

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

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

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

Assigned Fund Balance – portion of fund balance that Douglass Academy intends to use for specific purposes.

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

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

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

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

8. The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. The net adjustment of (\$96,938) consists of several elements as follows:

<u>DESCRIPTION</u>	<u>AMOUNT</u>
Capital assets used in governmental activities are not financial resources are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column).	\$ 311,762
Less accumulated depreciation	<u>(8,700)</u>
Long-term Note Payable	<u>(400,000)</u>
Total adjustment	<u>\$ (96,938)</u>

F. Revenues, Expenditures, and Expenses

1. Funding

The Douglass Academy 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)]. From inception through June 30, 2014, the Douglass Academy received funding from the Boards of Education for Brunswick County, New Hanover County, and Pender County.

2. Reconciliation between government-wide and fund statements

The governmental fund statement of revenues, expenditures, and changes in fund balance is followed by a reconciliation between the change in fund balance – governmental activities and the change in net position –governmental funds as reported on the government-wide statement of activities. The net difference of \$303,062 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.	\$ 311,762
Depreciation expense that is recorded on the statement of activities but not in the fund statements.	<u>(8,700)</u>
Total	<u>\$ 303,062</u>

II. Stewardship, Compliance, and Accountability

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

None.

Contractual Violations

None.

B. Deficit Fund Balance or Net Position of Individual Funds

None.

III. Detail Notes on All Funds

A. Assets

1. Deposits

As of June 30, 2014, the School had deposits with banks, savings and loans with a carrying amount of \$60,975. The bank balance with the financial institutions was \$73,391, all of which was covered by the Federal Deposit Insurance Corporation. There is no credit risk as of June 30, 2014. The School invests excess cash overnight in U.S. government securities in accordance with its deposit policy for custodial credit risk.

2. Capital Assets

Capital asset activity as of June 30, 2014, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets being depreciated:				
Leasehold	\$ -	\$ 292,704	\$ -	\$ 292,704
Textbooks	-	15,340	-	15,340
Vehicle	-	3,718	-	3,718
Total capital assets being depreciated	-	311,762	-	311,762
Less accumulated depreciation for:				
Leasehold	\$ -	\$ 6,398	\$ -	\$ 6,398
Textbooks	-	2,213	-	2,213
Vehicle	-	89	-	89
Total accumulated depreciation	-	\$ 8,700	\$ -	\$ 8,700
Total capital assets being depreciated, net	-			303,062
Governmental activity capital assets, net	\$ -			\$ 303,062

Depreciation expense was charged to governmental functions as follows:

Instructional Programs	\$ 6,525
Supporting Services	2,175
	<u>\$ 8,700</u>

B. Liabilities

1. Pension Plan Obligations

a. Retirement Plan

The School maintains a 401(k) retirement plan for the benefit of its employees for fiscal year 2014. 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 Douglass Academy made all required contributions. From inception through June 30, 2014, the retirement cost for the 401(k) plan to the School was \$4,006, with employees contributing \$5,083.

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. Short-Term Obligations

The School did not have any short-term obligations outstanding at year end.

4. Long-Term Obligations

a. Note Payable

On July 8, 2013 a note was obtained from Charter Day School with a principal balance of \$300,000 with interest at a rate of 0.00%. The principal will be due on or before June 30, 2023 in the form of a lump sum payment. The note was obtained to assist with construction costs.

On September 13, 2013 a note was obtained from Charter Day School with a principal balance of \$100,000 with interest at a rate of 0.00%. The principal will be due on or before June 30, 2023 in the form of a lump sum payment. The note was obtained to assist with construction costs.

b. Changes in Long-Term Obligations

	Beginning Balance	Increases	Decreases	Balance June 30, 2014	Current Portion
Governmental activities:					
Note payable	\$ -	\$ 400,000	\$ -	\$ 400,000	\$ -

c. Fund Balance

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

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

Total fund balance	\$ 8,111
Less:	
Inventories	-
Prepaid Items	-
Restricted for USDA Debt Service	-
Appropriated Fund Balance in 2014 Budget	-
Remaining Fund Balance	\$ 8,111

IV. Related Party Transactions

On July 1, 2013, Douglass Academy 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 Douglass Academy, State Board of Education and the Internal Revenue Service. During the fiscal year ended June 30, 2014, management and administration fees were waived by Roger Bacon Academy. Future obligations under the management agreement are subject to change and are indeterminable since terms are based on projected enrollments and revenues.

Melissa Gott, Attorney at Gott-Johnson Law Firm, PLLC, is on the Board of Trustees at Roger Bacon Academy. During the fiscal year, Douglass Academy paid Gott-Johnson Law Firm \$1,750 in legal fees.

V. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

The School has received proceeds from State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant moneys to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant moneys.

VI. Subsequent Events

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

REQUIRED SUPPLEMENTARY INFORMATION

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BUDGETARY SCHEDULE

Statement 3

Douglass Academy
All Fund Types
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2014

	2014		Favorable (Unfavorable) Variance
	Final Budget	Actual	
Revenues:			
State of North Carolina	\$ 170,547	\$ 170,547	\$ -
Board(s) of Education:			
Brunswick County	5,015	5,074	59
New Hanover County	92,430	92,366	(64)
Pender County	246	251	5
Investment earnings	24	24	-
Others	501,600	501,600	-
Total revenues	769,862	769,862	-
Expenditures:			
Salaries & Bonuses	\$ 187,790	\$ 187,332	\$ 458
Benefits	36,345	35,303	1,042
Books & Supplies	42,840	42,814	26
Technology	6,460	6,456	4
Non-Cap Equipment & Leases	66,215	66,181	34
Contracted Student Services	360	354	6
Staff Development	670	665	5
Administrative Services	28,370	28,335	35
Insurance	4,925	4,910	15
Rents & Debt Service	1	-	1
Facilities Repairs & Maintenance	312,740	312,119	621
Utilities	28,690	28,675	15
Nutrition & Food	29,295	29,290	5
Transportation & Travel	15,690	15,685	5
Capital Purchases	3,720	3,718	2
Total expenditures	764,111	761,836	2,275
Other financing sources (uses):			
Fund balance appropriated	(5,751)	85	5,836
Total other financing sources and (uses)	(5,751)	85	5,836
Excess of revenue over expenditures	\$ -	\$ 8,111	\$ 8,111

COMPLIANCE SECTION
DOUGLASS ACADEMY
WILMINGTON, NORTH CAROLINA
JUNE 30, 2014

PM&P

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MILLS &
PEARSON, PA

CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Trustees
Douglass Academy
Wilmington, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities and each major fund of Douglass Academy, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Douglass Academy's basic financial statements, and have issued our report thereon dated October 14, 2014.

Internal Control Over Financial Reporting

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

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

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

Memberships:

North Carolina
Association of
Certified Public
Accountants

American Institute
of Certified Public
Accountants

Medical Group
Management
Association

Compliance and Other Matters

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

Purpose of this Report

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

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

October 14, 2014

DOUGLASS ACADEMY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2014

SECTION I. -- SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified.

Internal control over financial reporting:

Material weakness(es) identified? yes X no

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

Noncompliance material to financial
statements noted yes X no

DOUGLASS ACADEMY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2014

SECTION II. – FINANCIAL STATEMENT FINDINGS

None reported.

DOUGLASS ACADEMY
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2014

SECTION II. – FINANCIAL STATEMENT FINDINGS

None required.

DOUGLASS ACADEMY
SUMMARY SCHEDULE OF PRIOR YEARS' AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014

This was the first year in operation.

DOUGLASS ACADEMY
SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

GRANTOR/PASS-THROUGH GRANTOR PROGRAM TITLE	STATE/ PASS-THROUGH GRANTOR'S NUMBER	EXPENDITURES
NC STATE GRANTS:		
CASH ASSISTANCE		
<u>NC Department of Public Instruction</u>		
State Public School Funds		
Indian Gaming	PRC 025	-
Charter School Funds	PRC 036	170,547
Total State Funds		<u>170,547</u>
TOTAL STATE AWARDS		<u>\$ 170,547</u>

Note to the Schedule of Expenditures of State Financial Awards:

Basis of Presentation

The accompanying Schedule of Expenditures of State Awards includes the State grant activity of Douglass Academy and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *Government Auditing Standards*. Therefore some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.