

Charter Day School, Inc.

*General Purpose and Combining
Financial Statements
For the Year Ended June 30, 2002
With Comparative Totals for 2001*

Earney & Company, LLP
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Charter Day School, Inc.
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as of June 30, 2002

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EARNEY COMPANY

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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Charter Day School, Inc.
Wilmington, North Carolina

We have audited the accompanying general purpose financial statements of the Charter Day School, Inc., (a North Carolina non-profit corporation), as of and for the year ended June 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of Charter Day School's management. Our responsibility is to express an opinion on these general purpose 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 general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Charter Day School, Inc., North Carolina as of June 30, 2002, and the results of its operations 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 October 4, 2002 on our consideration of the Charter Day School North Carolina internal controls over financial reporting and our tests of its compliance with certain provisions of law, 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.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the Charter Day School, North Carolina, taken as a whole. The combining and individual fund financial statements and schedules are not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "James H. Long".

Wilmington, North Carolina
October 4, 2002

Charter Day School, Inc.

COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS

As of June 30, 2002

With Comparative Totals for June 30, 2001

	Governmental Fund Type		Account Group		Totals (Memorandum Only)	
	General	Special Revenue	General Fixed Assets	General Long-term Liability	2002	2001
Assets and other debits						
Assets:						
Cash and cash equivalents	\$ 18,503	\$ -	\$ -	\$ -	\$ 18,503	\$ 15,115
Due from other governments	-	-	-	-	-	-
Accounts receivable, net	39	-	-	-	39	39
Due from other fund	-	-	-	-	-	-
Prepaid items	-	-	-	-	-	1,491
Inventories	-	-	-	-	-	-
Fixed assets, net	-	-	21,870	-	21,870	-
Other debits:						
Amount to be provided for retirement of general long - term debt	-	-	-	2,846	2,846	17,500
Total assets and other debits	<u>\$ 18,542</u>	<u>\$ -</u>	<u>\$ 21,870</u>	<u>\$ 2,846</u>	<u>\$ 43,258</u>	<u>\$ 34,145</u>
Liabilities, equity and other credits						
Liabilities:						
Accounts payable and accrued liabilities	\$ 959	\$ -	\$ -	\$ -	\$ 959	\$ 7,092
Accrued salaries and wages payable	-	-	-	2,846	2,846	-
Due to other governments	-	-	-	-	-	-
Due to other fund	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-
Line of credit payable	-	-	-	-	-	17,500
Total liabilities	<u>959</u>	<u>-</u>	<u>-</u>	<u>2,846</u>	<u>3,805</u>	<u>24,592</u>
Equity and other credits:						
Investment in general fixed assets	-	-	21,870	-	21,870	-
Fund balances:						
Reserved for prepaid items	-	-	-	-	-	1,491
Reserved for inventories	-	-	-	-	-	-
Unreserved:						
Designated for subsequent year's expenditures	-	-	-	-	-	-
Undesignated	17,583	-	-	-	17,583	8,062
Total equity and other credits	<u>17,583</u>	<u>-</u>	<u>21,870</u>	<u>-</u>	<u>39,453</u>	<u>9,553</u>
Total liabilities, equity and other credits	<u>\$ 18,542</u>	<u>\$ -</u>	<u>\$ 21,870</u>	<u>\$ 2,846</u>	<u>\$ 43,258</u>	<u>\$ 34,145</u>

The Accompanying Notes are an integral part of the Financial Statements

Charter Day School, Inc.
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
For the Year Ended June 30, 2002
With Comparative Totals for June 30, 2001

	Governmental Fund Type		Totals (Memorandum Only)	
	General	Special Revenue	2002	2001
Revenues:				
State of North Carolina	\$ -	\$ 605,494	\$ 605,494	\$ 267,509
Board(s) of Education	208,081	-	208,081	104,042
U.S. Government	-	172,750	172,750	28,862
Donations	-	-	-	3,242
Total revenues	<u>208,081</u>	<u>778,244</u>	<u>986,325</u>	<u>403,655</u>
Expenditures:				
Current:				
Instructional programs	49,011	417,826	466,837	225,674
Supporting services	174,674	316,369	491,043	227,866
Non-programmed charges	540	-	540	1,407
Capital outlay				
Debt service:				
Principal payments		43,500	43,500	15,000
Interest	335	549	884	73
Total expenditures	<u>224,560</u>	<u>778,244</u>	<u>1,002,804</u>	<u>470,020</u>
Revenues over (under) expenditures	<u>(16,479)</u>	<u>-</u>	<u>(16,479)</u>	<u>(66,365)</u>
Other financing sources:				
Operating transfers out	-	-	-	-
Proceeds of line of credit	26,000	-	26,000	32,500
Total other financing sources	<u>26,000</u>	<u>-</u>	<u>26,000</u>	<u>32,500</u>
Revenues and other sources over (under) expenditures and other uses	9,521	-	9,521	(33,865)
Fund balances, beginning of year	<u>8,062</u>	<u>-</u>	<u>8,062</u>	<u>41,927</u>
Fund balances, end of year	<u>\$ 17,583</u>	<u>\$ -</u>	<u>\$ 17,583</u>	<u>\$ 8,062</u>

The Accompanying Notes are an integral part of the Financial Statements

Charter Day School, Inc.
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
BUDGET & ACTUAL – GENERAL & SPECIAL REVENUE
For the Year Ended June 30, 2002

	General Fund			Special Revenue Funds		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:						
State of North Carolina	\$ -	\$ -	\$ -	\$ 605,494	\$605,494	\$ -
Board(s) of Education	208,081	208,081	-	-	-	-
U.S. Government	-	-	-	172,750	172,750	-
Donations	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total revenues	<u>208,081</u>	<u>208,081</u>	<u>-</u>	<u>778,244</u>	<u>778,244</u>	<u>-</u>
Expenditures:						
Current:						
Instructional programs	48,861	49,011	(150)	417,826	417,826	-
Supporting services	181,019	174,674	6,345	316,369	316,369	-
Non-programmed charges	478	540	(62)	-	-	-
Capital outlay	-	-	-	-	-	-
Debt service:						
Principal payments	-	-	-	43,500	43,500	-
Interest	335	335	-	549	549	-
Total expenditures	<u>230,693</u>	<u>224,560</u>	<u>6,133</u>	<u>778,244</u>	<u>778,244</u>	<u>-</u>
Revenues over (under) expenditures	(22,612)	(16,479)	6,133	-	-	-
Other financing sources (uses):						
Operating transfers out						
Proceeds of line of credit	<u>26,000</u>	<u>26,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ 3,388</u>	<u>\$ 9,521</u>	<u>\$ 6,133</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balances, beginning of year	<u>15,115</u>	<u>8,062</u>	<u>(7,053)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, end of year	<u>\$ 18,503</u>	<u>\$ 17,583</u>	<u>\$ (920)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The Accompanying Notes are an integral part of the Financial Statements

Charter Day School, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

1. ORGANIZATION

The Charter Day School, Inc. (School) was incorporated August 17, 1999 as a North Carolina non-profit corporation. On March 8, 2002, the school received a letter of tax exemption under section 501(c)(3) of the Internal Revenue Code. Accordingly, income from exempt purposes is not taxable and contributions are deductible to donors in accordance with IRS guidelines.

Charter Day School, Inc. operates a public school in Brunswick County, North Carolina, serving approximately 154 students in 2002 and 70 in 2001. The School began classes on July 18, 2000 in facilities rented from a church. On November 18, 2000, it occupied its permanent facilities. The School operates under an approved charter received from the North Carolina State Board of Education (SBE) on February 3, 2000, and applied for under the provisions of General Statute (G.S.) 115C-238.29B. A related statute (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.

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

On July 18, 2000, Charter Day School entered into an agreement with 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 17% of revenues, as defined in a management agreement. The agreement was approved by the Board of Charter Day School, State Board of Education, and the Internal Revenue Service. During fiscal 2002, management and maintenance fees of \$234,163 were budgeted and paid. Rent budgeted, approved, and paid Roger Bacon Academy for use of facility and equipment from July 1, 2001, to June 30, 2002, was \$128,502.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the School conform to generally accepted accounting principles (GAAP) as applicable to governments. Although charter schools are independent not-for-profit entities, the State Board of Education (SBE) may revoke their charter and require reversion of state funded assets to a local education agency. Accordingly, 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:

Basis of Presentation - Fund Accounting

The accounts of the Charter Day School, Inc. are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts comprised of assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. The account groups are not funds but are a reporting device used to account for certain assets and liabilities of the governmental funds that are not recorded directly in those funds.

The School has the following fund categories and account group:

Governmental Funds are used to account for the School's general government activities. Governmental funds include the following fund types:

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.

Special Revenue Funds - Special Revenue Funds account for specific revenue sources (other than expendable trusts) that are legally restricted to expenditures for specified purposes. The School maintains two Special Revenue Funds: the State Public School Fund and the Federal Grants Fund. The sources of funds in the Special Revenue Funds are from the Department of Public Instruction (DPI) and/or federal grants. Moneys in these funds are expended in accordance with DPI requirements, federal requirements, and State law.

Account Group - The general fixed assets account group is used to account for fixed assets. The general long-term debt account group is used to account for general long-term debt.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and the expendable trust fund are accounted for using the current financial resources measurement focus. With this measurement focus, generally only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All funds of the School are maintained during the year using the modified accrual basis of accounting. The governmental fund types are presented in the financial statements under the modified accrual basis. Revenues are recognized in the accounting period when they become susceptible to accrual (i.e., when they are "measurable" and available) to pay the liabilities of the current period. In addition, expenditures are recorded when the related fund liability is incurred, if measurable, except for unmatured principal and interest on general long-term debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

As required by GASB Statement No. 33, the School has begun recognizing assets of nonexchange transactions in the period when the underlying transaction occurs, when an enforceable legal claim has arisen, or when all eligibility requirements are met. Revenues are recognized, on the modified accrual basis, when they are measurable and available. Nonexchange transactions occur when one government provides (or receives) value to another party without receiving (or giving) equal or nearly equal value in return. State shared sales tax, property taxes, federal grants funding federal mandates, and most donations are examples of nonexchange transactions.

Investment earnings and intergovernmental revenues received from the Department of Public Instruction are accrued because they are measurable at year end and are collected within 60 days after year end. Most other intergovernmental revenues are not susceptible to accrual because they generally are not measurable until received in cash. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been satisfied.

Annual budgets are adopted for all funds. 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 should not exceed appropriations, for all of the School's funds, based on the adopted budget and subsequent amendments. The budget presented in these financial statements represents the budget of the School at June 30, 2002. All state appropriations lapse at year-end.

Assets, Liabilities, and Fund Equity

Cash and Cash Equivalents

The School pools money from several funds to facilitate disbursement and investments and to maximize investment income. Therefore, all cash is essentially demand deposits and are considered cash and cash equivalents. All deposits of the School were held in a local bank, whose accounts are FDIC insured.

Inventories

Inventories of the School, if any, are valued at cost, applying the first-in, first-out (FIFO) flow assumption in determining cost. The School's policy is to expense library books and textbooks in the period obtained.

Fixed Assets

The School's general fixed assets are recorded at original cost. Donated assets are listed at their estimated fair value at the date of donation. The School's policy is to capitalize any long term fixed assets worth an individual value over \$1,000.

Long-Term Obligations

All long-term debt is carried at face value in the general long-term debt account group. The debt service requirements for all of the debt carried in the general long-term debt account group are appropriated annually in the general fund.

Fund Equity

Reservations or restrictions of equity represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of equity represent tentative management plans that are subject to change.

The governmental fund types classify fund balances as follows:

Reserved:

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

Reserved for inventories is the 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 is the portion of total fund balance available for appropriation, which has been designated for the adopted 2001-2002 budget ordinance.

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

Revenues, Expenditures, and Expenses

Funding

The Charter Day School, Inc. is funded by the State Board of Education, receiving 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. Carolina County Board of Education) for each child attending the School except for the allocation for children with special needs and an additional amount for each child attending the School who is a child with special needs [G.S. 1 15C-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, 2002, the Charter Day School received funding from the Boards of Education for Brunswick County, Columbus County, Pender County and New Hanover County.

Furthermore, the School may receive donations of cash and/or equipment from private organizations.

Compensated Absences

Employees are entitled to six days of paid time off per school year. Unused PTO days can be carried over to the next year, but may not accumulate for more than two years. Upon termination of an employee's employment, no more than 10 days of accumulated PTO will be paid. The school's liability for accumulated earned vacation and the related salary-related payments as of June 30, 2002 is recorded in the general long-term debt account group.

Total (Memorandum Only) Columns

The total columns on the accompanying financial statements are captioned as "Total (Memorandum Only)" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations, or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

Reclassification

Certain budgeted revenue and expenditures have been re-classed for consistent comparison to actual.

3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Material Violations of Finance-Related Legal and Contractual Provisions

Noncompliance with North Carolina General Statutes

NONE

Contractual Violations

NONE

Deficit Fund Balance or Retained Earnings of Individual Funds

NONE

4. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS

Assets

Deposits

At June 30, 2002 & 2001, the School had deposits with banks and savings and loans with a carrying amount of \$ 18,503 and \$15,115, respectively. The bank balances with the financial institutions were \$ 18,503 and \$15,115, which were covered by federal depository insurance.

Investments

At June 30, 2002 and 2001, the School had no investments.

Fixed Assets

A summary of changes in the School's general fixed assets follows:

	Balance July 1, 2001	Additions	Retirements	Balance at June 30, 2002
Land	\$ -	\$ -	\$ -	\$ -
Building	-	-	-	-
School furnishings	-	-	-	-
School equipment	-	-	-	-
Electronic equipment	-	21,870	-	21,870
	<u>\$ -</u>	<u>\$ 21,870</u>	<u>\$ -</u>	<u>\$ 21,870</u>
Fixed Asset Additions				
Land		-		
Building		-		
School equipment		-		
Electronic equipment		21,870		
Total		<u>\$ 21,870</u>		

Liabilities

Pension Plan Obligations

a. Retirement Plan

The Charter Day School, Inc. does not participate in the North Carolina Teachers' and State Employees' Retirement System. In January 2002, Charter Day School offered a SIMPLE plan to employees in which CDS would match up to 3 percent of salary.

b. Post-employment Benefits

The Charter Day School does not offer any post-employment benefits.

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 does not participate in the Teachers' and State Employees' Comprehensive Major Medical Plan. The School paid full time staff a supplement of \$215 per month to cover medical insurance costs through December 2001. In January 2002, the school enrolled in a group medical policy in which the premium per employee is \$237.88. Therefore those employees who elected coverage under this plan are payroll deducted the difference between the premium and the staff supplement.

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 time during the year.

Claims and Judgments

At June 30, 2002, there are no claims or judgments against the school.

Changes in General Long-Term Debt

The following is a summary of changes in the School's long-term debt for the fiscal year ended June 30, 2002

	<u>Balance</u> <u>July 1, 2001</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2002</u>
By type:				
Line of Credit	\$ <u>17,500</u>	\$ <u>26,000</u>	\$ <u>43,500</u>	\$ <u>0</u>

Interfund Receivables and Payables

NONE

5.SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

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.

Charter Day School, Inc.
GENERAL FUND
COMPARATIVE BALANCE SHEET
as of Year Ended June 30, 2002 and June 30, 2001

	<u>2002</u>	<u>2001</u>
Assets		
Cash and cash equivalents	\$ 18,503	\$ 15,115
Sales tax receivable	39	39
Prepaid items	-	1,491
Inventories	-	-
Total assets	<u>\$ 18,542</u>	<u>\$ 16,645</u>
Liabilities and Fund Balances		
Liabilities:		
Accounts payable and accrued liabilities	\$ 959	\$ 7,092
Accrued salaries and wages payable	-	-
Due to other fund	-	-
Deferred revenue	-	-
Total liabilities	<u>959</u>	<u>7,092</u>
Fund Balances:		
Reserved for prepaid items	-	1,491
Reserved for inventories	-	-
Unreserved:		
Designated for subsequent year's expenditures	-	-
Undesignated	<u>17,583</u>	<u>8,062</u>
Total fund balances	<u>17,583</u>	<u>9,553</u>
Total liabilities and fund balances	<u>\$ 18,542</u>	<u>\$ 16,645</u>

Charter Day School, Inc.
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended June 30, 2002

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
State of North Carolina	\$ -	\$ -	\$ -
Boards of Education:			
Brunswick County	149,705	149,705	-
Columbus County	32,760	32,760	-
New Hanover County	22,316	22,316	-
Pender County	3,300	3,300	-
U.S. Government	-	-	-
Donations	-	-	-
Others	-	-	-
Total	<u>208,081</u>	<u>208,081</u>	<u>-</u>
Expenditures:			
Current:			
Instructional programs:			
Regular programs	42,030	41,514	516
Special programs	370	77	293
Student services	1,913	1,913	-
Other programs	<u>4,548</u>	<u>5,507</u>	<u>(959)</u>
Total instructional programs	<u>48,861</u>	<u>49,011</u>	<u>(150)</u>
Support services:			
Pupil services	-	-	-
Administrative services	<u>181,019</u>	<u>174,674</u>	<u>6,345</u>
Total support services	<u>181,019</u>	<u>174,674</u>	<u>6,345</u>
Non-programmed charges:			
Other	<u>478</u>	<u>540</u>	<u>(62)</u>
Total non-programmed charges	<u>478</u>	<u>540</u>	<u>(62)</u>
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>
Debt service:			
Principal payments	-	-	-
Interest	<u>335</u>	<u>335</u>	<u>-</u>
Total debt service	<u>335</u>	<u>335</u>	<u>-</u>
Total expenditures	<u>230,693</u>	<u>224,560</u>	<u>6,133</u>
Other financing sources:			
Proceeds of line of credit	<u>26,000</u>	<u>26,000</u>	<u>-</u>
Excess of revenue over expenditures	<u>\$ 3,388</u>	<u>\$ 9,521</u>	<u>\$ 6,133</u>
Fund balance:			
Beginning of the year	<u>15,115</u>	<u>15,115</u>	<u>-</u>
End of the year	<u>\$ 18,503</u>	<u>\$ 24,636</u>	<u>\$ 6,133</u>

Charter Day School, Inc.
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
as of June 30, 2002

	State Public School Fund	Federal Grants Fund	Total
Assets			
Cash and cash equivalents	\$ -	\$ -	\$ -
Due from other governments			
Due from other fund	-	-	-
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities and fund balances			
Liabilities:			
Accrued salaries and wages payable	\$ -	\$ -	\$ -
Due to other governments			
Deferred revenue	-	-	-
Total liabilities	-	-	-
Fund balances	-	-	-
Total liabilities and fund equity	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Charter Day School, Inc.
SPECIAL REVENUE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2002

	State Public School Fund	Federal Grants Fund	Total
Revenues:			
State of North Carolina:			
State Public School Fund	\$ 605,494	\$ -	\$ 605,494
Total	<u>605,494</u>	<u>-</u>	<u>605,494</u>
U.S. Government:			
Title X - PRC-86 Program 84.282	-	153,805	153,805
Title I - PRC-50 Program 84.010		14,341	14,341
Other U.S. government	-	4,604	4,604
Total	<u>-</u>	<u>172,750</u>	<u>172,750</u>
Total revenues	<u>605,494</u>	<u>172,750</u>	<u>778,244</u>
Expenditures:			
Current:			
Instructional programs:			
Regular programs	316,942	28,605	345,547
Special programs	2,275	19,170	21,445
Student services	6,345	563	6,908
Other	40,122	3,804	43,926
Total	<u>365,684</u>	<u>52,142</u>	<u>417,826</u>
Supporting services:			
Pupil services	-	-	-
Instructional staff services	-	-	-
General administrative	188,912	93,080	281,992
School administrative	-	-	-
Business support	32,876		32,876
Other	1,501	-	1,501
Total	<u>223,289</u>	<u>93,080</u>	<u>316,369</u>
Non-programmed charges:			
Other	-	-	-
Total	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>588,973</u>	<u>145,222</u>	<u>734,195</u>
Revenues over expenditures	<u>16,521</u>	<u>27,528</u>	<u>44,049</u>
Other financing uses:			
Operating transfers out:			
Debt service	<u>16,521</u>	<u>27,528</u>	<u>44,049</u>
Revenues over expenditures and other financing uses	<u>-</u>	<u>-</u>	<u>-</u>

Charter Day School, Inc.
FEDERAL GRANTS FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES – BUDGET TO ACTUAL
For the Year Ended June 30, 2002

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
U.S. Government	\$ 172,750	\$ 172,750	\$ -
Total Revenues	<u>172,750</u>	<u>172,750</u>	<u>-</u>
Expenditures:			
Current			
Instructional programs	52,142	52,142	-
Supporting services	93,080	93,080	-
Non-programmed charges	-	-	-
Debt service	<u>27,528</u>	<u>27,528</u>	<u>-</u>
Total Expenditures	<u>145,222</u>	<u>145,222</u>	<u>-</u>
Revenues Over Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund Balances			
Beginnng of year		<u>-</u>	
End of year		<u>\$ -</u>	

Charter Day School, Inc.
STATE PUBLIC SCHOOL FUND – MAJOR PROGRAM
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended June 30, 2002

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
State of North Carolina	\$ 605,494	\$ 605,494	\$ -
Total Revenues	<u>605,494</u>	<u>605,494</u>	<u>-</u>
Expenditures:			
Current			
Instructional programs	365,684	365,684	-
Supporting services	223,289	223,289	-
Non-programmed charges	-	-	-
Debt service	<u>16,521</u>	<u>16,521</u>	<u>-</u>
Total Expenditures	<u>605,494</u>	<u>605,494</u>	<u>-</u>
Revenues Over Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund Balances			
Beginnng of year		<u>-</u>	
End of year		<u>\$ -</u>	

EARNEY COMPANY

L L P

Certified Public Accountants

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees
Charter Day School, Inc.

We have audited the financial statements of Charter Day School, Inc. as of and for the year ended June 30, 2002, and have issued our report thereon dated October 4, 2002. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Charter Day School, Inc.'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 and, accordingly, we do not express such an opinion. The results of our tests disclosed one immaterial instance of noncompliance and one immaterial questioned cost that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Charter Day School, Inc.'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. 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 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 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.

This report is intended for the information of the Board of Trustees, Finance Committee and management of Charter Day School and the North Carolina State Board of Education. However, this report is a matter of public record and its distribution is not limited.

Wilmington, North Carolina
October 4, 2002



EARNEY COMPANY

L L P

Certified Public Accountants

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR STATE PROGRAM AND INTERNAL CONTROL OF
COMPLIANCE IN ACCORDANCE WITH APPLICABLE SECTIONS OF
OMB CIRCULAR A-133 AND THE STATE SINGLE AUDIT IMPLEMENTATION ACT**

To the Board of Trustees
Charter Day School, Inc.

Compliance

We have audited the compliance of the Charter Day School, Inc. 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, 2002. The School's major State program is the State Public School Fund. Receipts and expenditures for this program are reported on Exhibit VI. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States; 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 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 School's compliance with those requirements.

In our opinion, the 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, 2002. However, the results of our auditing procedures disclosed one immaterial instance of non-compliance and one immaterial questioned cost that are required to be reported in accordance with applicable sections of OMB Circular A-133 and the State Single Audit Implementation Act and which are described in the accompanying schedule of findings and questioned costs.

Internal Control Over Financial Reporting

The management of the 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 the 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.

We noted certain matters involving the internal control over compliance and its operations that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the School's ability to administer a State program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that noncompliance with applicable requirements of laws, regulations, contracts and grants 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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information and use of the Board of Trustees, Finance Committee, management of Charter Day School, and federal and State awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Wilmington, North Carolina
October 4, 2002

A handwritten signature in dark ink, appearing to read "Erin S. [unclear]".

Charter Day School, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2002

Section I – Summary of Auditors' Results

Financial Statements

Type of auditor's report issued: unqualified

- | | | |
|--|------------------------------|--|
| • Material weakness identified | ☐ Yes | ☒ No |
| • Reportable condition identified that is not considered to be material weakness | ☐ Yes | ☒ No |

Noncompliance material to financial statements noted?	☐ Yes	☒ No
---	------------------------------	--

State Awards

Internal control over major programs:

- | | | |
|--|---|--|
| • Material weakness identified | ☐ Yes | ☒ No |
| • Reportable condition identified that is not considered to be material weakness | ☒ Yes | ☐ No |

Type of auditor's report issued on compliance for major program: unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	☒ Yes	☐ No
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Identification of major programs:

General Statute
115C-238.29H

Name of State Program or Cluster
North Carolina State Public School Fund

Dollar threshold used to distinguish type A and type B programs	\$300,000
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Auditee qualified as low-risk auditee?	☒ Yes	☐ No
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Charter Day School, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2002

Section II

MATERIAL INSTANCES OF NONCOMPLIANCE

There were no material instances of noncompliance.

Charter Day School, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2002

Section III

IMMATERIAL INSTANCES OF NONCOMPLIANCE – STATE PUBLIC SCHOOL FUND

1. Compliance with G.S. 1 15C-238.29E(b)

CONDITION

During our audit, we reviewed the Internal Revenue Service tax-exempt 501(c)3 determination letter dated March 8, 2002. This letter was received after the required timeline of 24 months.

CRITERIA

The Department of Public Instruction requires every charter school to be operated by a private nonprofit corporation that shall receive federal tax-exempt status no later than 24 months following final approval of the charter application.

EFFECT

Schools with out the tax-exempt status may have to pay taxes on state money. Since an exemption was obtained within 33 days of the deadline, there was no effect.

CAUSE

The board of directors applied for the exemption within an appropriate time to obtain the exemption status. The initial response by the IRS was delayed by seven months. Charter Day School responded to each of the IRS's request in a timely manner. See the summary of facts listed below.

1. The 1023 application was dated February 26, 2001, almost 12 months prior to the required date of exemption.
2. CDS received a letter from IRS agent Bruce Lewis requesting additional information for the exemption seven months later on October 1, 2001
3. CDS responded to Mr. Lewis's letter for additional information on a letter and attachment dated October 5, 2001.
4. CDS received a rejection letter dated November 14, 2001 from the IRS.
5. CDS responded in a letter of protest dated December 13, 2001 from their attorney, Kent Schenkel, and requested a conference in the national office.
6. Kent Schenkel, the attorney for CDS, participated in a telephone conference with representatives of the IRS national office in Washington, DC on February 7, 2002, when he received notice that several items would need to be addressed before the adverse determination could be reversed.

Charter Day School, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2002

Section III - Continued

7. In a memo dated February 11, 2002, Mr. Schenkel made the Board of Directors aware of the IRS's request.
8. On March 6, 2002 Mr. Schenkel responded by letter to the IRS conference with the requested policy changes.
9. CDS received their exemption status letter on March 8, 2002.

Charter Day School, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2002

Section III - Continued

2. Questioned Costs - Compliance with Period of Availability of State Funds

CONDITION

During our audit, we found an invoice for prior year expenses paid from state funds. Due to an oversight, this invoice of \$7,092 was posted as paid from state funds rather than local funds and not corrected by June 30, 2002.

CRITERIA

It is the State Board of Education's policy that the State Public School Funds appropriated in the current fiscal year are used to pay for the obligations incurred during the same fiscal year.

EFFECT

No prepayment of expenditures is permitted with state funds. However, in this case, equivalent other expenditures have been made and no refund should be due the State of North Carolina. Further, sufficient local funds were available to cover the expenses.

CAUSE

The payable invoice was not posted to the appropriate fund. The error was not discovered until the outside CPA audit was done in September, 2002. The Department of Public Instruction does not accept corrections submitted after June 30, 2002.

RECOMMENDATION

To avoid this problem in the future, we recommend management as well as the record keepers review all invoices paid from state funds to ensure they are for current year expenses. Appropriate expenditures in excess of \$7,092 have been made from local funds. We recommend reclassifying the questioned cost from state funds to local funds from which they can be paid. Appropriate local fund expenditures can and should be identified and reclassified to state funds. Accordingly, no refund is recommended.

Charter Day School, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2002

Section IV

SCHEDULE OF PRIOR YEAR FINDINGS

1. Compliance with G.S. 1 15C-238H(a)(a1)

CONDITION

During our testing, we reviewed a contract (promissory note for a bank line of credit) Charter Day School, Inc. signed that did not include appropriate debt language required by the Department of Public Instruction.

CRITERIA

The Department of Public Instruction requires every contract or lease into which a charter school enters shall include the following statement:

"No indebtedness of any kind incurred or created by the charter school shall constitute an indebtedness of the State or its political subdivisions, and no indebtedness of the charter school shall involve or be secured by the faith, credit, or taxing power of the State or its political subdivision."

CORRECTIVE ACTION

The school amended the promissory note to include the appropriate debt language required by the Department of Public Instruction. In addition, a board motion required any contract entered into in the future to include the proper language.