

AUDITED FINANCIAL STATEMENTS

DOUGLASS ACADEMY

WILMINGTON, NORTH CAROLINA

JUNE 30, 2016

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DOUGLASS ACADEMY
TABLE OF CONTENTS
JUNE 30, 2016

	EXHIBIT	PAGE
 FINANCIAL SECTION		
Independent Auditors' Report		6
Management's Discussion and Analysis		8
Basic Financial Statements:		
Government-wide Financial Statements:		
Statement of Net Position	1	20
Statement of Activities	2	21
Fund Financial Statements:		
Balance Sheet - Governmental Funds	3	22
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	3	22
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	4	23
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities	5	24
Statement of Net Position - Proprietary Funds	6	25
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds	7	26
Statement of Cash Flows - Proprietary Funds	8	27
Notes to the Basic Financial Statements		28

STATEMENT PAGE

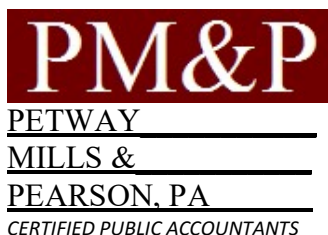
Required Supplementary Information

Balance Sheet - Non-major Governmental Fund	1	38
Statement of Revenues, Expenditures, and Changes in Fund Balance - Non-major Governmental Fund	2	39
Statement of Revenues, Expenses, and Changes in Fund Balances - Budget to Actual, Government-Wide Budget	3	40

COMPLIANCE SECTION

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		44
Independent Auditor's Report on Compliance for Each Major State Program and on Internal Control over Compliance in accordance with Uniform Guidance and the State Single Audit Implementation Act		46
Schedule of Findings and Questioned Costs		48
Corrective Action Plan		50
Summary Schedule of Prior Years' Audit Findings		51
Schedule of Expenditures of Federal and State Awards		52

FINANCIAL SECTION
DOUGLASS ACADEMY
WILMINGTON, NORTH CAROLINA
JUNE 30, 2016



Independent Auditor's Report

To the Board of Directors
Douglass Academy
Wilmington, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Douglass Academy as of and for the year ended June 30, 2016, 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, business-type activities, each major fund, and the aggregate remaining fund information of Douglass Academy as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 8 through 18 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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Phyllis M. Pearson

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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 non-major individual fund financial statements and budgetary schedules, as well as the accompanying Schedule of Expenditures of Federal and State Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the State Single Audit Implementation Act are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The non-major individual fund financial statements and the budgetary schedules, as well as the accompanying Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relate 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 non-major individual fund financial statements and budgetary schedules, and the accompanying Schedule of Expenditures of Federal and State Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2016, 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 19, 2016



DOUGLASS ACADEMY

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



507 North 6th Street, Wilmington, NC 28401
910-763-1976 www.douglassacademy.net

Management's Discussion and Analysis

Douglass Academy

June 30, 2016



DOUGLASS
ACADEMY



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

Management's Discussion and Analysis

Douglass Academy

June 30, 2016



**DOUGLASS
ACADEMY**

- K-5 tuition-free, open enrollment public charter school.
- Located in the newly renovated, historic Peabody building in the heart of downtown Wilmington.
- Outperformed the neighboring, demographically-similar schools by a range of 23-29 percentage points on End-of-Grade tests in 2015-2016.
- Diverse student populations, including 7% special needs students, 95% non-white students, and 89% economically disadvantaged students.
- Provides bus services, as well as free breakfast and lunch for students.
- Uses research-based, proven Direct Instruction teaching method.
- Curated, rigorous Classical curriculum.
- Offers Latin, Public Speaking, Debate, and Drama components.
- Accelerated learning program reviews individual student performance data to promote qualifying students to advanced studies on a subject -by-subject basis.
- Prioritizes the use of positive reinforcement in teaching and discipline.
- Student uniforms and professional teacher dress requirements.
- Varied extracurricular activities and clubs, including signature, annual “FASTAR” academic competition.
- Operates on a traditional public school schedule for compatibility with district schools.
- Intensive new-hire training.
- Continuous teacher professional development provided by instructional support coaches and curriculum specialists, who evaluate and optimize instruction.
- 2016 recipient of the NC Department of Labor’s Gold Employee Safety Award.
- Regular parent surveys conducted.
- Annual, third-party financial and compliance audits conducted.





Academic Performance 2015-2016

Douglass Academy EOG Results 2015-16	Percent of Students Proficient			
	All Subjects	ELA/Reading	Math	Science
Douglass Academy	55.0	60.0	50.0	N/A
A.H. Snipes Academy	32.2	32.4	30.7	35.7
Gregory Elementary	28.9	28.9	25.7	40.0
Rachel Freeman Elementary	25.6	23.9	20.1	56.8
State	58.3	56.9	54.7	72.7
New Hanover County	64.4	62.3	61.1	78.8

Summary

In its second year of EOG testing and third year of operation, Douglass Academy significantly outscored the three chronically low-performing elementary schools it was established to address. The three elementary schools, Rachel Freeman, Snipes Academy, and Gregory, are neighboring schools that serve majority populations of economically disadvantaged and minority students. Similarly, Douglass Academy served 92% economically disadvantaged students and 96% minority students in 2015-2016. Douglass Academy was established in downtown Wilmington specifically to provide a successful tuition-free school for families in the area.

Douglass Academy's performance average is 55%. For comparison, performance averages for the three neighboring elementary schools—Rachel Freeman, Snipes Academy, and Gregory—reveal that only 25.6%, 32.2%, and 28.9% of students passed their EOGs, respectively. Of note, of students who had attended Douglass Academy since Kindergarten, an astonishing 75% passed. State and New Hanover County EOG performance averages are 58.3% and 64.4%, respectively. Douglass Academy's performance average of 55% was slightly below the state average and below the county average. The school earned a school performance grade of "C." Notably, Douglass Academy's performance average exceeded neighboring, demographically-similar schools' averages by a range of 23-29 percentage points.

“Of students who had attended Douglass Academy since Kindergarten, an astonishing 75% passed.”



Douglass Academy June 30, 2016

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, 2016. 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

Douglass Academy is one of four, replicate public charter schools operated by nonprofit educational group, Charter Day School, Inc. The following financial highlights are reflective of Douglass Academy, specifically.

- As of the close of the current fiscal year, Douglass Academy's governmental funds reported combined ending fund balances of \$87,140 an increase of \$15,081 in comparison with the prior year.
- As of the close of the current fiscal year, Douglass Academy reported fixed assets net of depreciation of \$379,544, an increase of \$87,399 in comparison with the prior year.
- Enrollment grew at the School in the 2015-2016 school year with an enrollment of 135 students. Historically, the enrollment was 85 for 2014-2015 and 36 in the school's first year, 2013-2014. Enrollment for the 2016-2017 school year has increased to 235 students.
- Per-pupil revenue from governmental sources was \$7,918.

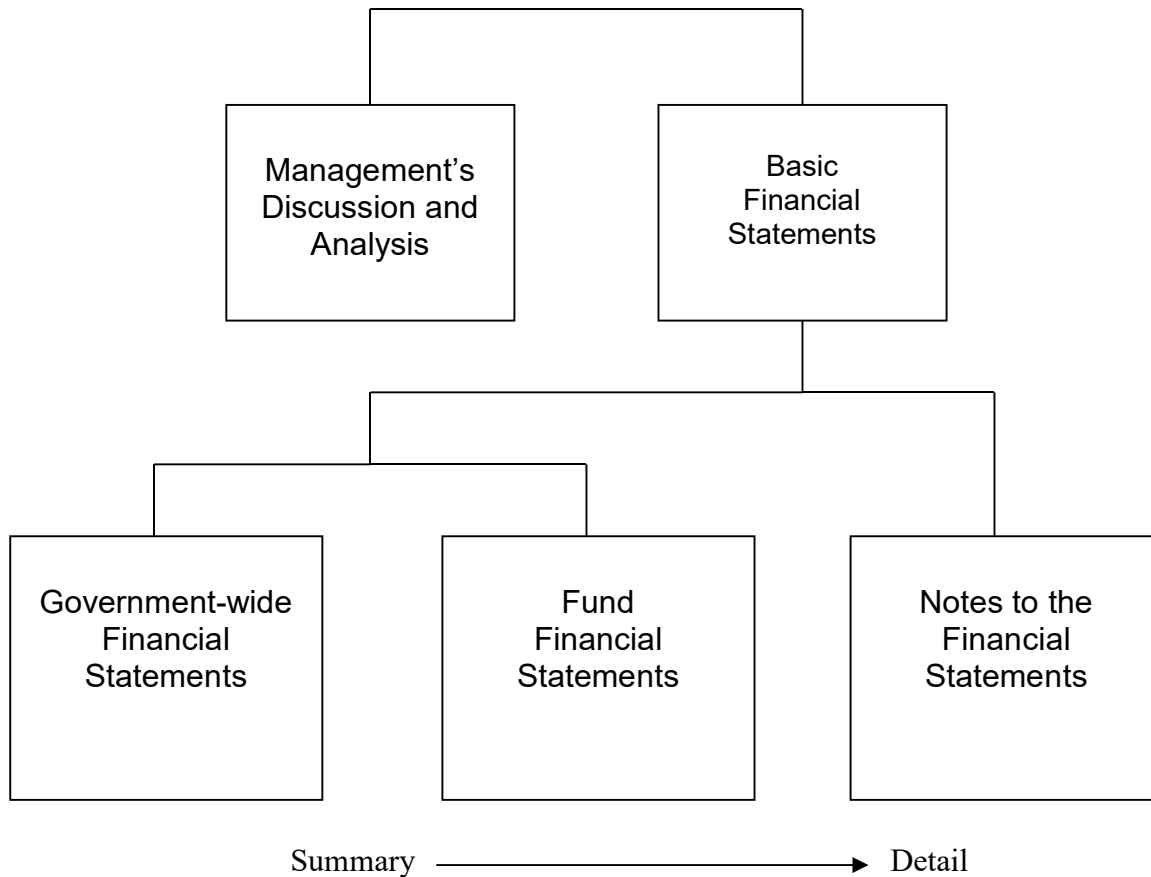
Cumulatively, the Charter Day School, Inc. family of public charter schools experienced enrollment growth of 6.4% from the 2014-2015 academic year to the 2015-2016 academic year, with enrollment rising from 1,983 students to 2,109 students. This growth continues in the 2016-2017 year with an increase of 8.0% and cumulative student enrollment of 2,278.

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

Required Components of Annual Financial Report



Basic Financial Statements

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

The next statements (Exhibits 3 through 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, 2016



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

Management's Discussion and Analysis

Douglass Academy

June 30, 2016



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

Although not compelled or required to do so by federal, state, or local law, 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 20 of this report.

Government-Wide Financial Analysis

The assets of Douglass Academy were \$485,549 as of June 30, 2016. As of June 30, 2015, the net assets of Douglass Academy stood at \$383,945. The School's net assets increased by \$101,604 for the fiscal year ended June 30, 2016. The amount of \$379,544 reflects the School's investment in capital assets (e.g. leasehold improvements, textbooks). Douglass Academy uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. 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 \$87,140 is unrestricted. In 2015, the unrestricted net assets were \$72,059.



Figure 2
Douglass Academy's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 103,870	\$ 66,916	\$ -	\$ -	\$ 103,870	\$ 66,916
Due from other governments	4,644	24,885	-	-	4,644	24,885
Capital assets, net of depreciation	379,544	292,145	-	-	379,544	292,145
Total assets	<u>\$488,078</u>	<u>\$383,946</u>	<u>-</u>	<u>-</u>	<u>\$488,078</u>	<u>\$383,946</u>
Other liabilities	21,600	19,741	-	-	21,600	19,741
Long-term liabilities outstanding	814,331	650,000	-	-	814,331	650,000
Total liabilities	<u>\$835,951</u>	<u>\$669,741</u>	<u>-</u>	<u>-</u>	<u>\$835,951</u>	<u>\$669,741</u>
Invested in capital assets, net of related debt	<434,787>	<357,855 >	-	-	<434,787>	<357,855 >
Restricted	-	-	-	-	-	-
Unrestricted	86,934	72,060	-	-	86,934	72,060
Total net assets	<u>\$<347,853></u>	<u>\$ <285,795></u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$<347,853></u>	<u>\$<285,795></u>

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	
	2016	2015	2016	2015	2016	2015
Other Revenues	\$ 2,639	\$ <33,980>	-	-	\$ 2,639	\$ <33,980>
Charges for Services	-	-	-	-	-	-
Operating Grants and Contributions	100,575	16,566	-	-	100,575	16,566
County, State, and Federal Funds	1,124,138	631,045	-	-	1,124,138	631,045
Total revenues	\$1,227,352	\$613,831	-	-	\$1,227,352	\$613,831
Instructional Programs	945,362	420,222	-	-	945,362	420,222
Support services	318,235	390,577	-	-	318,235	390,577
Non-program charges	22,921	-	-	-	22,921	-
Interest on short-term debt	2,891	-	-	-	2,891	-
Total expenses	\$1,289,409	\$810,799	-	-	\$1,289,409	\$810,799
Increase (Decrease) in net assets before transfers	<62,057>	<196,968>	-	-	<62,057>	<196,968>
Transfers	-	-	-	-	-	-
Increase (Decrease) in net assets	<62,057>	<196,968>	-	-	<62,057>	<196,968>
Net assets, July 1	<285,798>	<88,827>	-	-	<285,798>	<88,827>
Net assets, June 30	\$ <347,853>	\$ <285,795>	-	-	\$ <347,853>	\$ <285,795>

Governmental activities. Governmental activities resulted in a negative net asset position of \$<347,853>.

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

Management's Discussion and Analysis

Douglass Academy

June 30, 2016



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 \$87,140.

At June 30, 2015, the governmental funds of Douglass Academy reported a combined fund balance of \$72,059.

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, 2016, totals \$379,544 (net of accumulated depreciation). Capital assets include textbooks.

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Leasehold Improvements	\$ 271,669	\$ 278,987	\$0	\$0	\$ 271,669	\$ 278,987
Textbooks	24,891	10,059	-	-	24,891	10,059
Vehicles	82,984	3,099	-	-	82,984	3,099
Total	<u>\$379,544</u>	<u>\$292,145</u>	<u>\$0</u>	<u>\$0</u>	<u>\$379,544</u>	<u>\$292,145</u>

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, 2016, Douglass Academy had \$814,331 in outstanding debt.

Economic Factors

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

- The School operated with substantially lower amounts (nearly 30% less) than other public schools. Additionally, the School:
 - Received no capital funding and must fund facility costs out of its operating revenue.
 - Furnished bus transportation without government reimbursement.
 - Provided free breakfast and lunch to economically disadvantaged students.
- Enrollment rose from 36 students in 2013-2014 to 85 students in 2014-2015 and to 135 students in 2015-2016. Current 2016-2017 enrollment sees the School continue its growth to 235 students.
- The School renovated four classrooms and a restroom for the 2016-2017 school year.
- The School received donations of \$100,000 during the 2015-2016 school year.

Management's Discussion and Analysis

Douglass Academy

June 30, 2016



- Cumulatively, the Charter Day School, Inc. family of public charter schools experienced enrollment growth of 6.4% from the 2014-2015 academic year to the 2015-2016 academic year, with enrollment rising from 1,983 students to 2,109 students.
- Competitive salary increases effective for the 2015-2016 school year increased the School's expenditures, but were partially offset by state revenue increases.
- With the lifting of the "Charter School Cap" it is important for the School to maintain its unrestricted funds surplus since there 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, Inc., 7055 Bacon's Way, Leland, NC 28451, (910) 655-3600.

Douglass Academy
Statement of Net Position
June 30, 2016

	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
ASSETS			
Cash and cash equivalents	\$ 103,870	\$ -	\$ 103,870
Due from other governments	-	-	-
Accounts Receivable	2,135	2,529	4,664
Capital assets:			
Land, improvements, and construction in progress	-	-	-
Other capital assets, net of depreciation	379,544	-	379,544
Total capital assets	379,544	-	379,544
Total assets	485,549	2,529	488,078
LIABILITIES			
Accounts payable - trade	18,865	2,735	21,600
Accrued salaries and wages payable	-	-	-
Short-term payables	-	-	-
Long - term liabilities:			
Due within one year	352,856	-	352,856
Due in more than one year	461,475	-	461,475
Total liabilities	833,196	2,735	835,931
NET POSITION			
Net investment in capital assets	(434,787)	-	(434,787)
Restricted for:			
Clubs and activities	-	-	-
Unrestricted	87,140	(206)	86,934
Total net position	\$ (347,647)	\$ (206)	\$ (347,853)

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

**Douglass Academy
Statement of Activities
For the Year Ended June 30, 2016**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for	Operating Grants and	Capital Grants and	Primary Government		
		Services	Contributions	Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental Activities:							
Instructional programs	\$ 945,362	\$ -	\$ 55,199	\$ -	\$ (890,163)	\$ -	\$ (890,163)
Support services	318,235	-	-	-	(318,235)	-	(318,235)
Non-programmed charges	-	-	-	-	-	-	-
Interest on short-term debt	2,891	-	-	-	(2,891)	-	(2,891)
Total governmental activities	1,266,488	-	55,199	-	(1,211,289)	-	(1,211,289)
Business-type activities:							
School food service	74,722	51,801	-	-	-	(22,921)	(22,921)
Fund Raising	-	-	-	-	-	-	-
Total business-type activities	74,722	51,801	-	-	-	(22,921)	(22,921)
Total primary government	\$ 1,341,210	\$ 51,801	\$ 55,199	\$ -	(1,211,289)	(22,921)	(1,234,210)
General revenues:							
Unrestricted County appropriations					368,946	-	368,946
Unrestricted State appropriations					699,993	-	699,993
Unrestricted Federal appropriations					-	-	-
Donations - general					100,575	-	100,575
Investment earnings, unrestricted					20	-	20
Miscellaneous, unrestricted					2,619	-	2,619
Transfers					(22,715)	22,715	-
Total general revenues, special items, and transfers					1,149,438	22,715	1,172,153
Change in net position					(61,851)	(206)	(62,057)
Net position-beginning					(285,796)	-	(285,796)
Net position-ending					\$ (347,647)	\$ (206)	\$ (347,853)

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

**Douglass Academy
Balance Sheet
Governmental Funds
June 30, 2016**

	Major Funds		Total Non-major Funds	Total Governmental Funds
	General	State Public School	Federal Grants	
ASSETS				
Cash and cash equivalents	\$ 103,870	\$ -	\$ -	\$ 103,870
Accounts Receivable - other (net)	2,135	-	-	2,135
Due from other governments	-	-	-	-
Prepaid items	-	-	-	-
Total assets	<u>\$ 106,005</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 106,005</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable - trade	\$ 18,865	\$ -	\$ -	\$ 18,865
Accrued salaries and wages payable	-	-	-	-
Total liabilities	<u>18,865</u>	<u>-</u>	<u>-</u>	<u>18,865</u>
Fund balances:				
Unassigned:	87,140	-	-	87,140
Total fund balances	<u>87,140</u>	<u>-</u>	<u>-</u>	<u>87,140</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 106,005</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.

379,544

Liabilities for earned but unavailable 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).

(814,331)

Net position of governmental activities

\$ (347,647)

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
For the Year Ended June 30, 2016

	Major Funds		Total Non-major Funds	Total Governmental Funds
	General	State Public School	Federal Grants	
REVENUES				
State of North Carolina	\$ -	\$ 699,993	\$ -	\$ 699,993
Local education agencies	368,946	-	-	368,946
U.S. Government	-	-	55,199	55,199
Investment earnings	20	-	-	20
Contributions	100,575	-	-	100,575
Other	2,619	-	-	2,619
Total revenues	472,160	699,993	55,199	1,227,352
EXPENDITURES				
Current:				
Instructional programs	273,493	511,656	55,199	840,348
Support services	236,148	161,606	-	397,754
Non-programmed charges	-	-	-	-
Capital outlay	92,568	20,326	-	112,894
Debt service:				
Principal	10,302	4,056	-	14,358
Interest and other charges	542	2,349	-	2,891
Total expenditures	613,053	699,993	55,199	1,368,245
Excess (deficiency) of revenues over (under) expenditures	(140,893)	-	-	(140,893)
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	(22,715)	-	-	(22,715)
Proceeds from long-term note	178,689	-	-	178,689
Repayment to long-term note	-	-	-	-
Capital lease obligations issued	-	-	-	-
Total other financing sources (uses)	155,974	-	-	155,974
Net change in fund balance	15,081	-	-	15,081
Fund balances-beginning	72,059	-	-	72,059
Fund balances-ending	\$ 87,140	\$ -	\$ -	\$ 87,140

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
For the Year Ended June 30, 2016

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

Net changes in fund balances - total governmental funds	\$ 15,081
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	87,398
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.	(164,331)
Rounding	<u>1</u>
Total changes in net position of governmental activities	<u><u>\$ (61,851)</u></u>

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

Douglass Academy
Statement of Net Position
Proprietary Funds
June 30, 2016

ASSETS

Current assets:

Cash and cash equivalents	\$	-
Due from other governments		-
Receivables (net)		2,529
Inventories		-
Total current assets		<u>2,529</u>

Non-current assets:

Capital assets:

Furniture and office equipment, net		-
Food service equipment		-
Computer equipment, net		-
Total Non-current assets		<u>-</u>
Total assets	\$	<u>-</u>

LIABILITIES

Current liabilities:

Accounts payable and accrued expenses	\$	2,735
Due to other funds		-
Total current liabilities		<u>2,735</u>

Long-term liabilities:

Due within one year		-
Due in more than one year		-
Total long-term liabilities		<u>-</u>
Total liabilities		<u>-</u>

NET POSITION

Net invested in capital assets		-
Unrestricted		(206)
Total net position	\$	<u>(206)</u>

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

Douglass Academy
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2016

	Enterprise Funds	
	Major Funds	
	School Lunch	
OPERATING REVENUES		
Lunch sales	\$	51,801
Before and after school revenue		-
Total operating revenues		<u>51,801</u>
OPERATING EXPENSES		2,619
Purchase of food		-
Salaries and benefits		-
Contracted Services		74,722
Supplies and Materials		-
Total operating expenses		<u>74,722</u>
Operating income (loss)		<u>(22,921)</u>
NON-OPERATING REVENUES (EXPENSES)		
Transfers from other funds		22,715
Total non-operating revenue (expenses)		<u>22,715</u>
Income (loss) before contributions and transfers		<u>(206)</u>
Change in net position		(206)
Total net position- beginning		-
Total net position - ending	\$	<u><u>(206)</u></u>

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

Douglass Academy
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2016

	Enterprise Funds
	Major Fund
	School Lunch
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 54,331
Cash paid for goods and services	(77,458)
Cash paid to employees for services	-
Net cash provided (used) by operating activities	(23,127)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers	22,715
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital contributions	-
Acquisition of capital assets	-
Net cash (used) by capital and related financing activities	-
Net increase (decrease) in cash and cash equivalents	(412)
Balances-beginning	-
Balances-ending	\$ -
Reconciliation of operating income to net cash provided by operating activities	
Operating income (loss)	\$ (22,921)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	-
Salaries paid by special revenue fund	-
Changes in assets and liabilities:	
Increase in due from other governments	(2,529)
Increase in accounts receivable	
Increase in inventory	-
Increase (decrease) in accounts payable and accrued liabilities	2,735
Increase (decrease) in salaries and wages payable	-
Total adjustments	206
Net cash provided by operating activities	\$ (23,127)

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

Douglass Academy, North Carolina

Notes to the Financial Statements

June 30, 2016

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 one of four public charter schools operated by a North Carolina non-profit corporation, Charter Day School, Inc., serving approximately 135 students. The School operates under an approved charter received from the SBE, and applied for under the provisions of General Statute (G.S.) 115C-238.29B. G.S. 115C-238.29F(f)(1) states that a charter school shall be subject to the audit requirements adopted by the SBE, which includes the audit requirements established by G.S. 115C-447 of the School Budget and Fiscal Control Act (SBFCA). G.S. 115C-447 also requires financial statements to be prepared in accordance with GAAP.

B. Basis of Presentation

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

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

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

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

The School reports the following major governmental funds:

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

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

The School reports the following non-major governmental fund:

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

The School reports the following major enterprise funds:

School Food Service Fund. The School Food Service Fund is used to account for the food service program within the school system.

C. Measurement Focus and Basis of Accounting

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

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

Under the terms of grant agreements, the School funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net 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.

Douglass Academy, North Carolina

Notes to the Financial Statements

June 30, 2016

The governing board has voluntarily established the policy, as a sound business practice, that expenditures may not exceed appropriations, for all of the School's funds, based on the adopted budget and subsequent amendments. During the year, several amendments to the original budget were necessary, the effects of which were not material. The budget presented in the supplemental data represents the budget of the School at June 30, 2016. 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 donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at their acquisition cost. 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.

	<u>Years</u>
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.

Douglass Academy, North Carolina

Notes to the Financial Statements

June 30, 2016

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

Douglass Academy, North Carolina

Notes to the Financial Statements

June 30, 2016

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 (\$434,787) 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).	\$ 424,656
Less accumulated depreciation	(45,112)
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not reported in the fund statements:	
Note Payable, Current Portion	(352,856)
Long-term note payable	(461,475)
Total adjustment	<u>\$ (434,787)</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)]. For the fiscal year ended June 30, 2016, Douglass Academy received funding from the Boards of Education for Brunswick County and New Hanover County.

Douglass Academy, North Carolina

Notes to the Financial Statements

June 30, 2016

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 \$(76,932) 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.	\$ 112,895
Depreciation expense that is recorded on the statement of activities but not in the fund statements.	(25,496)
New debt issued during the year is recorded as a source of funds on the fund statements but has no effect on the statement of activities, only the statement of net position.	(178,689)
Principal payments on debt owed are recorded as a use of funds on the fund statements but again affect only the statement of net position in the government-wide statements.	14,358
Total	<u><u>\$ (76,932)</u></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

B. Deficit Fund Balance or Net Position of Individual Funds

The School has a net position of (\$347,853) due to the costs of expanding to add another grade level. The net position included a deficit balance of (\$347,647) in Governmental Funds and a deficit balance of (\$206) in Enterprise Funds.

III. Detail Notes on All Funds

A. Assets

Douglass Academy, North Carolina

Notes to the Financial Statements

June 30, 2016

1. Deposits

As of June 30, 2016, the School had deposits with banks, savings and loans with a carrying amount of \$103,870. The bank balance with the financial institutions was \$199,003, all of which was covered by the Federal Deposit Insurance Corporation. There is no credit risk as of June 30, 2016. 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, 2016, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets being depreciated:				
Leasehold	\$ 292,703	\$ -	\$ -	\$ 292,703
Textbooks	15,340	20,361	-	35,701
Vehicle	3,718	92,534	-	96,252
Total capital assets being depreciated	311,761	112,895	-	424,656
Less accumulated depreciation for:				
Leasehold	\$ 13,716	\$ 7,318	\$ -	\$ 21,034
Textbooks	5,281	5,529	-	10,810
Vehicle	619	12,649	-	13,268
Total accumulated depreciation	19,616	\$ 25,496	\$ -	\$ 45,112
Total capital assets being depreciated, net	292,145			379,544
Governmental activity capital assets, net	\$ 292,145			\$ 379,544

Depreciation expense was charged to governmental functions as follows:

Instructional Programs	\$ 19,122
Supporting Services	6,374
	<u>\$ 25,496</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 2016. 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. For the year ended June 30, 2016, the retirement cost for the 401(k) plan to the School was \$10,517, with employees contributing \$13,176.

Douglass Academy, North Carolina

Notes to the Financial Statements

June 30, 2016

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 the prior year.

3. Long-Term Obligations

a. Notes Payable to Related Parties

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.

On April 30, 2015, a note was obtained from Charter Day School with a principal balance of \$100,000. The note was obtained to assist with facilities development.

On June 3, 2015, a note was obtained from Charter Day School with a principal balance of \$150,000. The note was obtained to assist with facilities development.

On June 24, 2015, a note was obtained from Charter Day School with a principal balance of \$85,000. The note was obtained to assist with facilities development.

Douglass Academy, North Carolina

Notes to the Financial Statements

June 30, 2016

b. Daimler Bus Loan

The School borrowed \$93,689 from Daimler Truck Financial on August 14, 2015. The School borrowed this money in order to cover the cost of a new school bus. The loan carries a 3.99% interest rate and requires fixed principal and interest payments until August 13, 2020, when all principal and interest is due. As of June 30, 2016, the balance on this loan is \$79,331. Future maturities are:

Year ended June 30,	Principal	Interest	Total
2017	\$ 17,856	\$ 2,841	\$ 20,697
2018	18,582	2,116	20,698
2019	19,338	1,361	20,699
2020	20,124	575	20,699
2021	3,431	8	3,439
	<u>\$ 79,331</u>	<u>\$ 6,901</u>	<u>\$ 86,232</u>

c. Changes in Long-Term Obligations

	Beginning Balance	Increases	Decreases	Balance June 30, 2016	Current Portion
Governmental activities:					
Note payable	\$ 650,000	\$ 85,000	\$ -	\$ 735,000	\$ 335,000
Daimler Bus loan	-	93,689	(14,358)	79,331	17,856
Total	<u>\$ 650,000</u>	<u>\$ 178,689</u>	<u>\$ (14,358)</u>	<u>\$ 814,331</u>	<u>\$ 352,856</u>

4. 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	\$ 87,140
Less:	
Inventories	-
Prepaid Items	-
Remaining Fund Balance	<u>\$ 87,140</u>

Douglass Academy, North Carolina

Notes to the Financial Statements

June 30, 2016

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, 2016, management and administration fees were paid by Roger Bacon Academy in the amount of \$283,370. Future obligations under the management agreement are subject to change and are indeterminable since terms are based on projected enrollments and revenues.

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.

VII. Management Company

The School paid Roger Bacon Academy, Inc., their managing agent, for the following services during the fiscal year ended June 30, 2016:

<u>Roger Bacon Academy, Inc.</u>	<u>Amount</u>
Management & Administrative Fees	\$ 283,370
Contracted Services	<u>109,384</u>
Total	<u>\$ 392,754</u>

VIII. Transfers

The Local Fund transferred \$22,715 to the Enterprise Fund to finance the lunch program.

REQUIRED SUPPLEMENTARY INFORMATION

NON-MAJOR FUNDS

Federal Grants Fund	This fund is used to account for the Federal moneys that are passed through the State Department of Public Instruction to the School.
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Douglass Academy
Non-major Governmental Funds
Balance Sheet
as of June 30, 2016

Statement 1

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

Statement 2

Douglass Academy
Non-major Governmental Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balance
For the Fiscal Year Ended June 30, 2016

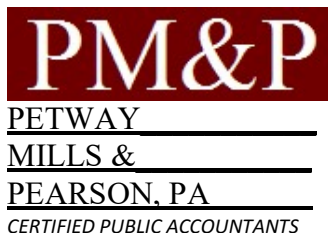
	Special Revenue Funds
	2016
Revenues:	
U.S. Government:	
Title I, Basic	35,680
IDEA VI-B Targeted Assistance	18,965
IDEA - VI B Handicapped	\$ 554
Total revenues	<u>55,199</u>
Expenditures:	
Current:	
Instructional programs:	55,199
Special programs	
Total	<u>55,199</u>
Support services:	
Pupil services	-
Instructional staff services	-
General administrative	-
School administrative	-
Club and activity expenditures	-
Total	<u>-</u>
Total expenditures	<u>55,199</u>
Revenues over expenditures	<u>-</u>
Fund balances:	
Beginning of year, July 1	-
End of year, June 30	<u>\$ -</u>

Statement 3

Douglass Academy
All Fund Types
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For Year Ended June 30, 2016

	2016		
	Final Budget	Actual	Favorable (Unfavorable) Variance
Revenues:			
State Revenue	\$ 699,993	\$ 699,993	\$ -
Local Revenue	472,160	368,946	(103,214)
Federal Revenue	56,116	55,199	(917)
Nutrition Revenue	51,801	51,801	-
Miscellaneous Revenue	-	103,214	103,214
Total revenues	<u>1,280,070</u>	<u>1,279,153</u>	<u>(917)</u>
Expenditures:			
Salaries & Benefits			
Salaries & Bonuses	529,109	529,660	(551)
Benefits	<u>92,780</u>	<u>92,776</u>	<u>4</u>
Total Salaries & Benefits	<u>621,889</u>	<u>622,436</u>	<u>(547)</u>
Books & Supplies	49,416	49,748	(332)
Technology	6,885	6,882	3
Non-Cap Equipment & Leases	35,576	35,574	2
Contracted Student Services	127,175	127,169	6
Staff Development	1,557	1,211	346
Administrative Services	315,724	315,717	7
Insurance	17,246	17,239	7
Rents & Debt Service	19,001	17,249	1,752
Facilities Repairs & Maintenance	34,790	34,781	9
Utilities	38,511	38,491	20
Nutrition & Food	75,522	75,519	3
Transportation & Travel	7,266	7,417	(151)
Capital Purchases	-	93,534	(93,534)
Total expenditures	<u>1,350,558</u>	<u>1,442,967</u>	<u>(92,409)</u>
Other financing sources (uses):			
Note payable issued	85,000	178,689	(93,689)
Unappropriated fund balance	<u>(14,512)</u>	<u>-</u>	<u>(14,512)</u>
Total other financing sources and (uses)	<u>70,488</u>	<u>178,689</u>	<u>(108,201)</u>
Excess of revenue over expenditures	<u>\$ -</u>	<u>\$ 14,875</u>	<u>\$ 14,875</u>

COMPLIANCE SECTION
DOUGLASS ACADEMY
WILMINGTON, NORTH CAROLINA
JUNE 30, 2016



C. Briggs Petway, Jr.
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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, business-type activities, each major fund and the aggregate remaining fund information of Douglass Academy, as of and for the year ended June 30, 2016, 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 19, 2016.

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.

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*.

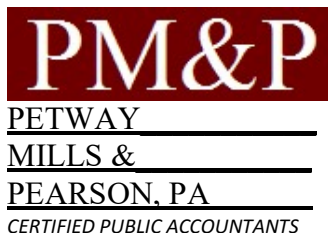
Purpose of this Report

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 19, 2016



C. Briggs Petway, Jr.
Phyllis M. Pearson

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Independent Auditors' Report on Compliance for Each Major State Program and on Internal Control over Compliance in accordance with Uniform Guidance and the State Single Audit Implementation Act

To the Board of Directors
Douglass Academy
Wilmington, North Carolina

Report on Compliance for Each Major State Program

We have audited Douglass Academy's compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on Douglass Academy's major State program for the year ended June 30, 2016. Douglass Academy's major State program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Douglass Academy's major State program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in and applicable sections of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, Uniform Guidance, 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 Douglass Academy's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

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

Opinion on Each Major State Program

In our opinion, Douglass Academy complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major State program for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of Douglass Academy is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Douglass Academy's internal control over compliance with the types of requirements that could have a direct and material effect on a major State program to determine the auditing procedures that are appropriate in the circumstances for the purpose of

expressing our opinion on compliance for each major State program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

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

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

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

Petway Mills & Pearson, PA

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

October 19, 2016

DOUGLASS ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

SECTION I. -- SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified.

Internal control over financial reporting:

Material weakness(es) identified? yes X no

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

Noncompliance material to financial
statements noted yes X no

State Awards

Internal control over major State programs:

Material weakness(es) identified? yes X no

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

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

Any audit findings disclosed that are required
to be reported in accordance with
Uniform Guidance yes X no

Identification of major State programs:

Program Name

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

DOUGLASS ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

SECTION II. -- FINANCIAL STATEMENT FINDINGS

None required.

SECTION III. -- STATE AWARD FINDINGS AND QUESTIONED COSTS

None reported.

DOUGLASS ACADEMY
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2016

SECTION II. -- FINANCIAL STATEMENT FINDINGS

None required.

SECTION III. -- STATE AWARD FINDINGS AND QUESTIONED COSTS

None required.

DOUGLASS ACADEMY
SUMMARY SCHEDULE OF PRIOR YEARS' AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings for the fiscal year ended June 30, 2015.

DOUGLASS ACADEMY
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

GRANTOR/PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	STATE/ PASS-THROUGH GRANTOR'S NUMBER	EXPENDITURES
FEDERAL GRANTS:			
CASH ASSISTANCE			
<u>US Department of Education</u>			
Special Education Cluster			
IDEA VI B Targeted Assistance	84.027	PRC 118	\$ 554
Idea VI-B Handicapped	84.027	PRC 060	18,965
Total Special Education Cluster			<u>19,519</u>
Title I, Part A Cluster			
IASA Title I - LEA Basic Funding	84.010	PRC 050	35,680
Total Title 1, Part A Cluster			<u>35,680</u>
TOTAL FEDERAL CASH ASSISTANCE			<u>55,199</u>
NC STATE GRANTS:			
CASH ASSISTANCE			
<u>NC Department of Public Instruction</u>			
State Public School Funds (Charter School Funds)		PRC 036	699,993
TOTAL STATE CASH ASSISTANCE			<u>699,993</u>
TOTAL FEDERAL AND STATE AWARDS			<u>\$ 755,192</u>

Note to the Schedule of Expenditures of State Financial Awards:

Basis of Presentation

The accompanying Schedule of Expenditures of Federal and State Awards includes the federal and State grant activity of Douglass Academy under the programs of the federal government and the State of North Carolina for the year ended June 30, 2016. The information in this SEFSA is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of Douglass Academy, it is not intended Federal Awards (Uniform Guidance) and the State Single Audit to and does not present the financial position, changes in net assets or cash flows of Douglass Academy.

Indirect Costs

The School has not elected to charge a 10% de minimis indirect cost rate to its grants and has not elected to obtain a federal indirect cost rate.