

FINANCIAL STATEMENTS  
CHARTER DAY SCHOOL  
LELAND, NORTH CAROLINA  
JUNE 30, 2003



September 9, 2003

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To the Audit Committee  
Charter Day School

We have audited the financial statements of Charter Day School for the year ended June 30, 2003, and have issued our report thereon dated September 9, 2004. Professional standards require that we provide you with the following information related to our audit.

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

As stated in our engagement letter dated February 24, 2003, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

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

As part of obtaining reasonable assurance about whether Charter Day School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Charter Day School's compliance with the types of compliance requirements described in the Audit Manual for Governmental Auditors in North Carolina applicable to each of its major state programs for the purpose of expressing an opinion on Charter Day School's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Charter Day School's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Charter Day School are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2003. We noted no transactions entered into by Charter Day School during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

#### Accounting Estimates

To our knowledge, there have been no estimates made in the preparation of the financial statements.

#### Audit Adjustments

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

#### Disagreements with Management

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

#### Consultations with Other Independent Accountants

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

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

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

#### Difficulties Encountered in Performing the Audit

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

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

Very truly yours,

*Merritt, Petway, Mills & Hockaday, PA*

Merritt, Petway, Mills & Hockaday, PA  
Certified Public Accountants

CHARTER DAY SCHOOL  
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FINANCIAL SECTION  
CHARTER DAY SCHOOL  
LELAND, NORTH CAROLINA  
JUNE 30, 2003



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Independent Auditors' Report

Board of Directors  
Charter Day School  
Leland, North Carolina

We have audited the accompanying general purpose financial statements of Charter Day School (a public charter school) as of June 30, 2003, and for the year then ended, 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. The general purpose financial statements of Charter Day School as of June 30, 2002, were audited by other auditors whose report dated October 4, 2002, expressed an unqualified opinion on those statements.

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 Charter Day School, North Carolina as of June 30, 2003, and the results of its operations and cash flows of its proprietary fund types 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 September 9, 2003, 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 Charter Day School, North Carolina, taken as a whole. The combining and individual fund financial statements and schedules, as well as the accompanying schedule of expenditures of federal and state awards as required by U.S. Office of Management and Budget Circular A - 133, *Audits of State, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the 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.

*Merritt, Petway, Mills & Hockaday, PA*  
Merritt, Petway, Mills & Hockaday, PA  
Certified Public Accountants

September 9, 2003

EXHIBIT 1

CHARTER DAY SCHOOL  
COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
JUNE 30, 2003  
WITH COMPARATIVE TOTALS FOR JUNE 30, 2002

|                                                                    | 2003                    |                 |                        |                      |                        |                 | 2002            |  |
|--------------------------------------------------------------------|-------------------------|-----------------|------------------------|----------------------|------------------------|-----------------|-----------------|--|
|                                                                    | Governmental Fund Types |                 | Proprietary Fund Types | Account Groups       |                        | Memorandum Only | Memorandum Only |  |
|                                                                    | GENERAL                 | SPECIAL REVENUE | ENTERPRISE             | GENERAL FIXED ASSETS | GENERAL LONG-TERM DEBT | TOTALS          | TOTALS          |  |
| ASSETS:                                                            |                         |                 |                        |                      |                        |                 |                 |  |
| Cash                                                               | \$ 76,142               | \$ -            | \$ 29,316              | \$ -                 | \$ -                   | \$ 105,458      | \$ 18,503       |  |
| Accounts Receivable                                                | -                       | -               | -                      | -                    | -                      | -               | 39              |  |
| Fixed Assets                                                       | -                       | -               | -                      | 21,870               | -                      | 21,870          | 21,870          |  |
| Amount to be Provided for the Retirement of General Long-Term Debt | -                       | -               | -                      | -                    | -                      | -               | 2,846           |  |
| TOTAL ASSETS                                                       | \$ 76,142               | \$ -            | \$ 29,316              | \$ 21,870            | \$ -                   | \$ 127,328      | \$ 43,258       |  |
| LIABILITIES, EQUITY (DEFICIT) & OTHER CREDITS                      |                         |                 |                        |                      |                        |                 |                 |  |
| LIABILITIES:                                                       |                         |                 |                        |                      |                        |                 |                 |  |
| Accounts Payable & Other Accrued Liabilities                       | \$ 3,322                | \$ -            | \$ -                   | \$ -                 | \$ -                   | \$ 3,322        | \$ 959          |  |
| Accounts Payable - Related Parties                                 | 50,041                  | -               | -                      | -                    | -                      | 50,041          | -               |  |
| Short-term Notes Payable                                           | 50,000                  | -               | -                      | -                    | -                      | 50,000          | -               |  |
| Accrued Time Off                                                   | -                       | -               | -                      | -                    | -                      | -               | 2,846           |  |
| TOTAL LIABILITIES                                                  | 103,363                 | -               | -                      | -                    | -                      | 103,363         | 3,805           |  |
| EQUITY & OTHER CREDITS:                                            |                         |                 |                        |                      |                        |                 |                 |  |
| Investment in General Fixed Assets                                 | -                       | -               | -                      | 21,870               | -                      | 21,870          | 21,870          |  |
| Retained Earnings                                                  | -                       | -               | 29,316                 | -                    | -                      | 29,316          | -               |  |
| Fund Balance (Deficit):                                            |                         |                 |                        |                      |                        |                 |                 |  |
| Reserved by State Statute                                          | -                       | -               | -                      | -                    | -                      | -               | -               |  |
| Unreserved:                                                        |                         |                 |                        |                      |                        |                 |                 |  |
| Undesignated                                                       | (27,221)                | -               | -                      | -                    | -                      | (27,221)        | 17,583          |  |
| TOTAL EQUITY & OTHER CREDITS                                       | (27,221)                | -               | 29,316                 | 21,870               | -                      | 23,965          | 39,453          |  |
| TOTAL LIABILITIES, EQUITY, & OTHER CREDITS                         | \$ 76,142               | \$ -            | \$ 29,316              | \$ 21,870            | \$ -                   | \$ 127,328      | \$ 43,258       |  |

See Auditors' Report and Notes to the General Purpose Financial Statements.

EXHIBIT 2

CHARTER DAY SCHOOL  
COMBINED STATEMENT OF REVENUES, EXPENDITURES, &  
CHANGES IN FUND BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2002

|                                                            | GENERAL     | SPECIAL<br>REVENUE | TOTALS       |            |
|------------------------------------------------------------|-------------|--------------------|--------------|------------|
|                                                            |             |                    | 2003         | 2002       |
| REVENUES:                                                  |             |                    |              |            |
| State of North Carolina                                    | \$ -        | \$ 1,076,779       | \$ 1,076,779 | \$ 605,494 |
| Local Education Agencies                                   | 380,846     | -                  | 380,846      | 208,081    |
| US Government                                              | -           | 50,743             | 50,743       | 172,750    |
| Other                                                      | 16,472      | -                  | 16,472       | -          |
| TOTAL REVENUES                                             | 397,318     | 1,127,522          | 1,524,840    | 986,325    |
| EXPENDITURES:                                              |             |                    |              |            |
| Current:                                                   |             |                    |              |            |
| Instructional Programs                                     | 96,358      | 824,961            | 921,319      | 466,837    |
| Supporting Services                                        | 329,414     | 302,197            | 631,611      | 491,043    |
| Non-Programmed Charges                                     | 1,129       | -                  | 1,129        | 540        |
| Total Current Expenditures                                 | 426,901     | 1,127,158          | 1,554,059    | 958,420    |
| Capital Outlay                                             | -           | -                  | -            | -          |
| Debt Service:                                              |             |                    |              |            |
| Principal Payments                                         | 15,134      | 87                 | 15,221       | 43,500     |
| Interest                                                   | 87          | 277                | 364          | 884        |
| Total Debt Service Expenditures                            | 15,221      | 364                | 15,585       | 44,384     |
| TOTAL EXPENDITURES                                         | 442,122     | 1,127,522          | 1,569,644    | 1,002,804  |
| REVENUES OVER (UNDER) EXPENDITURES                         | (44,804)    | -                  | (44,804)     | (16,479)   |
| OTHER FINANCING SOURCES (USES):                            |             |                    |              |            |
| Proceeds from Line of Credit                               | -           | -                  | -            | 26,000     |
| TOTAL OTHER FINANCING SOURCES(USES)                        | -           | -                  | -            | 26,000     |
| REVENUES & OTHER SOURCES OVER<br>EXPENDITURES & OTHER USES | (44,804)    | -                  | (44,804)     | 9,521      |
| FUND BALANCE -- Beginning of Year                          | 17,583      | -                  | 17,583       | 8,062      |
| FUND BALANCE -- End of Year                                | \$ (27,221) | \$ -               | \$ (27,221)  | \$ 17,583  |

See Auditors' Report and Notes to the General Purpose Financial Statements.

EXHIBIT 3-A

CHARTER DAY SCHOOL  
COMBINED STATEMENT OF REVENUES, EXPENDITURES, & CHANGES IN FUND BALANCES  
BUDGET & ACTUAL -- ALL GOVERNMENTAL FUND TYPES  
ACTIVITIES PRESENTED ON CASH BASIS FOR BUDGET COMPARISON  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2002

|                                                                                                                      | Total for All Governmental Fund Types |                                   |                                        |                  |
|----------------------------------------------------------------------------------------------------------------------|---------------------------------------|-----------------------------------|----------------------------------------|------------------|
|                                                                                                                      | CASH BASIS<br>PRESENTATION            | CASH BASIS<br>ACCOUNTING          | VARIANCE<br>FAVORABLE<br>(UNFAVORABLE) | 2002<br>ACTUAL   |
|                                                                                                                      | 2003<br>BUDGET                        | RESULTS<br>FOR YEAR<br>ENDED 2003 |                                        |                  |
| REVENUES:                                                                                                            |                                       |                                   |                                        |                  |
| State of North Carolina                                                                                              | \$ 1,076,779                          | \$ 1,076,779                      | \$ -                                   | \$ 605,494       |
| Local Education Agencies                                                                                             | 381,134                               | 380,846                           | (288)                                  | 208,081          |
| US Government                                                                                                        | 76,378                                | 50,743                            | (25,635)                               | 172,750          |
| Donations                                                                                                            | -                                     | -                                 | -                                      | -                |
| Other                                                                                                                | -                                     | 16,472                            | 16,472                                 | -                |
| TOTAL REVENUES                                                                                                       | 1,534,291                             | 1,524,840                         | (9,451)                                | 986,325          |
| EXPENDITURES:                                                                                                        |                                       |                                   |                                        |                  |
| Current:                                                                                                             |                                       |                                   |                                        |                  |
| Instructional Programs                                                                                               | 986,117                               | 891,135                           | 94,982                                 | 466,837          |
| Supporting Services                                                                                                  | 593,664                               | 608,432                           | (14,768)                               | 491,043          |
| Non-Programmed Charges                                                                                               | 6,052                                 | 1,129                             | 4,923                                  | 540              |
| Total Current Expenditures                                                                                           | 1,585,833                             | 1,500,696                         | 85,137                                 | 958,420          |
| Capital Outlay                                                                                                       | -                                     | -                                 | -                                      | -                |
| Debt Service:                                                                                                        |                                       |                                   |                                        |                  |
| Principal Payments                                                                                                   | 498                                   | 15,221                            | (14,723)                               | 43,500           |
| Interest                                                                                                             | -                                     | 364                               | (364)                                  | 884              |
| Total Debt Service Expenditures                                                                                      | 498                                   | 15,585                            | (15,087)                               | 44,384           |
| TOTAL EXPENDITURES                                                                                                   | 1,586,331                             | 1,516,281                         | 70,050                                 | 1,002,804        |
| REVENUES OVER (UNDER) EXPENDITURES                                                                                   | (52,040)                              | 8,559                             | 60,599                                 | (16,479)         |
| OTHER FINANCING SOURCES (USES):                                                                                      |                                       |                                   |                                        |                  |
| Proceeds from Line of Credit                                                                                         | -                                     | -                                 | -                                      | 26,000           |
| REVENUES & OTHER SOURCES OVER<br>EXPENDITURES & OTHER USES                                                           | <u>\$ (52,040)</u>                    | 8,559                             | <u>\$ 60,599</u>                       | 9,521            |
| <b>Reconciliation of Cash Basis Presentation<br/>to Modified Accrual Basis Used by the<br/>School for Reporting:</b> |                                       |                                   |                                        |                  |
| Effect of Accounts Payable                                                                                           | -                                     | (53,363)                          | -                                      | -                |
| REVENUES & OTHER SOURCES OVER<br>EXPENDITURES & OTHER USES COMPUTED<br>ON THE MODIFIED ACCRUAL BASIS                 |                                       | (44,804)                          |                                        | 9,521            |
| FUND BALANCE -- Beginning of Year                                                                                    |                                       | 17,583                            |                                        | 8,062            |
| FUND BALANCE -- End of Year                                                                                          |                                       | <u>\$ (27,221)</u>                |                                        | <u>\$ 17,583</u> |

See Auditors' Report and Notes to the General Purpose Financial Statements.

EXHIBIT 3-B

CHARTER DAY SCHOOL  
COMBINED STATEMENT OF REVENUES, EXPENDITURES, & CHANGES IN FUND BALANCES  
ALL GOVERNMENTAL FUND TYPES  
CONVERSION FROM MODIFIED ACCRUAL BASIS FOR REPORTING TO CASH BASIS  
FOR BUDGET ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

|                                                                                                                      | TOTALS FOR ALL<br>GOVERNMENTAL FUND TYPES |                                                               |              |
|----------------------------------------------------------------------------------------------------------------------|-------------------------------------------|---------------------------------------------------------------|--------------|
|                                                                                                                      | MODIFIED<br>ACCRUAL<br>BASIS              | CONVERSION<br>FROM MODIFIED<br>ACCRUAL BASIS<br>TO CASH BASIS | CASH BASIS   |
| REVENUES:                                                                                                            |                                           |                                                               |              |
| State of North Carolina                                                                                              | \$ 1,076,779                              | \$ -                                                          | \$ 1,076,779 |
| County Boards of Education                                                                                           | 380,846                                   | -                                                             | 380,846      |
| US Government                                                                                                        | 50,743                                    | -                                                             | 50,743       |
| Other                                                                                                                | 16,472                                    | -                                                             | 16,472       |
| TOTAL REVENUES                                                                                                       | 1,524,840                                 | -                                                             | 1,524,840    |
| EXPENDITURES:                                                                                                        |                                           |                                                               |              |
| Current:                                                                                                             |                                           |                                                               |              |
| Instructional Programs                                                                                               | 921,319                                   | (30,184)                                                      | 891,135      |
| Supporting Services                                                                                                  | 631,611                                   | (23,179)                                                      | 608,432      |
| Non-Programmed Charges                                                                                               | 1,129                                     | -                                                             | 1,129        |
| Total Current Expenditures                                                                                           | 1,554,059                                 | (53,363)                                                      | 1,500,696    |
| Capital Outlay                                                                                                       | -                                         | -                                                             | -            |
| Debt Service:                                                                                                        |                                           |                                                               |              |
| Principal Payments                                                                                                   | 15,221                                    | -                                                             | 15,221       |
| Interest                                                                                                             | 364                                       | -                                                             | 364          |
| Total Debt Service Expenditures                                                                                      | 15,585                                    | -                                                             | 15,585       |
| TOTAL EXPENDITURES                                                                                                   | 1,569,644                                 | (53,363)                                                      | 1,516,281    |
| REVENUES OVER (UNDER) EXPENDITURES                                                                                   | (44,804)                                  | 53,363                                                        | 8,559        |
| OTHER FINANCING SOURCES (USES):                                                                                      |                                           |                                                               |              |
| Operating Transfers In (Out)                                                                                         | -                                         | -                                                             | -            |
| REVENUES & OTHER SOURCES OVER<br>EXPENDITURES & OTHER USES<br>COMPUTED ON THE CASH BASIS                             | (44,804)                                  | 53,363                                                        | 8,559        |
| <b>Reconciliation of Cash Basis Presentation<br/>to Modified Accrual Basis Used by the<br/>School for Reporting:</b> |                                           |                                                               |              |
| Effect of Accounts Receivable                                                                                        | -                                         | -                                                             | -            |
| Effect of Accounts Payable and Other<br>Accrued Liabilities                                                          | -                                         | (53,363)                                                      | (53,363)     |
| REVENUES & OTHER SOURCES OVER<br>EXPENDITURES & OTHER USES<br>COMPUTED ON THE MODIFIED ACCRUAL<br>BASIS              | (44,804)                                  | -                                                             | (44,804)     |
| FUND BALANCE -- Beginning of Year                                                                                    | 17,583                                    | -                                                             | 17,583       |
| FUND BALANCE -- End of Year                                                                                          | \$ (27,221)                               | \$ -                                                          | \$ (27,221)  |

See Auditors' Report and Notes to the General Purpose Financial Statements.

EXHIBIT 3-C

CHARTER DAY SCHOOL  
COMBINED STATEMENT OF REVENUES, EXPENDITURES, & CHANGES IN FUND BALANCES  
ALL GOVERNMENTAL FUND TYPES  
MODIFIED ACCRUAL BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

|                                                            |                                         |                 | SPECIAL REVENUE<br>FUND TYPES                    |                                   |                           |
|------------------------------------------------------------|-----------------------------------------|-----------------|--------------------------------------------------|-----------------------------------|---------------------------|
|                                                            | TOTAL ALL<br>GOVERNMENTAL<br>FUND TYPES | GENERAL<br>FUND | TOTAL ALL<br>SPECIAL<br>REVENUE<br>FUND<br>TYPES | STATE<br>PUBLIC<br>SCHOOL<br>FUND | FEDERAL<br>GRANTS<br>FUND |
| REVENUES:                                                  |                                         |                 |                                                  |                                   |                           |
| State of North Carolina                                    | \$ 1,076,779                            | \$ -            | \$ 1,076,779                                     | \$ 1,076,779                      | \$ -                      |
| Local School Systems                                       | 380,846                                 | 380,846         | -                                                | -                                 | -                         |
| US Government                                              | 50,743                                  | -               | 50,743                                           | -                                 | 50,743                    |
| Donations                                                  | -                                       | -               | -                                                | -                                 | -                         |
| Other                                                      | 16,472                                  | 16,472          | -                                                | -                                 | -                         |
| TOTAL REVENUES                                             | 1,524,840                               | 397,318         | 1,127,522                                        | 1,076,779                         | 50,743                    |
| EXPENDITURES:                                              |                                         |                 |                                                  |                                   |                           |
| Current:                                                   |                                         |                 |                                                  |                                   |                           |
| Instructional Programs                                     | 921,319                                 | 96,358          | 824,961                                          | 795,468                           | 29,493                    |
| Supporting Services                                        | 631,611                                 | 329,414         | 302,197                                          | 280,947                           | 21,250                    |
| Non-Programmed Charges                                     | 1,129                                   | 1,129           | -                                                | -                                 | -                         |
| Total Current Expenditures                                 | 1,554,059                               | 426,901         | 1,127,158                                        | 1,076,415                         | 50,743                    |
| Capital Outlay                                             | -                                       | -               | -                                                | -                                 | -                         |
| Debt Service:                                              |                                         |                 |                                                  |                                   |                           |
| Principal Payments                                         | 15,221                                  | 15,134          | 87                                               | 87                                | -                         |
| Interest                                                   | 364                                     | 87              | 277                                              | 277                               | -                         |
| Total Debt Service Expenditures                            | 15,585                                  | 15,221          | 364                                              | 364                               | -                         |
| TOTAL EXPENDITURES                                         | 1,569,644                               | 442,122         | 1,127,522                                        | 1,076,779                         | 50,743                    |
| REVENUES OVER (UNDER) EXPENDITURES                         | (44,804)                                | (44,804)        | -                                                | -                                 | -                         |
| OTHER FINANCING SOURCES (USES):                            |                                         |                 |                                                  |                                   |                           |
| Operating Transfers In (Out)                               | -                                       | -               | -                                                | -                                 | -                         |
| REVENUES & OTHER SOURCES OVER<br>EXPENDITURES & OTHER USES | (44,804)                                | (44,804)        | -                                                | -                                 | -                         |
| FUND BALANCE -- Beginning of Year                          | 17,583                                  | 17,583          | -                                                | -                                 | -                         |
| FUND BALANCE -- End of Year                                | \$ (27,221)                             | \$ (27,221)     | \$ -                                             | \$ -                              | \$ -                      |

See Auditors' Report and Notes to the General Purpose Financial Statements.

EXHIBIT 4

CHARTER DAY SCHOOL  
STATEMENT OF REVENUES, EXPENSES, &  
CHANGES IN RETAINED EARNINGS  
ALL PROPRIETARY FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
WITH COMPARATIVE TOTALS FOR FISCAL YEAR ENDED JUNE 30, 2002

---

|                                         | 2003                    | 2002               |
|-----------------------------------------|-------------------------|--------------------|
| OPERATING REVENUES:                     |                         |                    |
| Fund Raising Revenue                    | \$ 40,493               | \$ -               |
| TOTAL OPERATING REVENUES                | <u>40,493</u>           | <u>-</u>           |
| OPERATING EXPENSES:                     |                         |                    |
| Supplies and Materials                  | 11,177                  | -                  |
| TOTAL OPERATING EXPENSES                | <u>11,177</u>           | <u>-</u>           |
| OPERATING INCOME                        | 29,316                  | -                  |
| NON-OPERATING REVENUES:                 |                         |                    |
| Federal Reimbursements                  | <u>-</u>                | <u>-</u>           |
| INCOME BEFORE OPERATING TRANSFERS       | 29,316                  | -                  |
| OPERATING TRANSFERS OUT TO GENERAL FUND | <u>-</u>                | <u>-</u>           |
| NET INCOME                              | 29,316                  | -                  |
| RETAINED EARNINGS -- Beginning of Year  | <u>-</u>                | <u>-</u>           |
| RETAINED EARNINGS -- End of Year        | <u><u>\$ 29,316</u></u> | <u><u>\$ -</u></u> |

See Auditors' Report and Notes to the General Purpose Financial Statements.

EXHIBIT 5

CHARTER DAY SCHOOL  
STATEMENT OF CASH FLOWS  
ALL PROPRIETARY FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2002

|                                                                | 2003      | 2002 |
|----------------------------------------------------------------|-----------|------|
| CASH FLOWS FROM OPERATING ACTIVITIES:                          |           |      |
| Cash Received From Customers                                   | \$ 40,493 | \$ - |
| Cash Paid for Goods & Services                                 | (11,177)  | -    |
|                                                                |           |      |
| NET CASH PROVIDED BY<br>OPERATING ACTIVITIES                   | 29,316    | -    |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:              |           |      |
| Federal Reimbursements                                         |           | -    |
|                                                                |           |      |
| NET CASH PROVIDED BY<br>NON-CAPITAL FINANCING ACTIVITIES       | -         | -    |
| CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES:        |           |      |
| None                                                           | -         | -    |
|                                                                |           |      |
| NET CASH PROVIDED BY<br>CAPITAL & RELATED FINANCING ACTIVITIES | -         | -    |
| CASH FLOWS FROM INVESTING ACTIVITIES:                          |           |      |
| None                                                           | -         | -    |
|                                                                |           |      |
| NET CASH PROVIDED BY<br>INVESTING ACTIVITIES                   | -         | -    |
| NET INCREASE IN CASH                                           | 29,316    | -    |
| CASH -- Beginning of Year                                      | -         | -    |
| CASH -- End of Year                                            | \$ 29,316 | \$ - |

See Auditors' Report and Notes to the General Purpose Financial Statements.

EXHIBIT 5 -- Continued

CHARTER DAY SCHOOL  
STATEMENT OF CASH FLOWS  
ALL PROPRIETARY FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2002

|                                                                                               | <u>2003</u>      | <u>2002</u> |
|-----------------------------------------------------------------------------------------------|------------------|-------------|
| Reconciliation of Operating Income<br>to Net Cash Provided by Operating<br>Activities:        |                  |             |
| Operating Income                                                                              | \$ 29,316        | \$ -        |
| Adjustments to Reconcile Operating Income<br>to Net Cash Provided by<br>Operating Activities: |                  |             |
| Increase in Accounts Receivable                                                               | <u>-</u>         | <u>-</u>    |
| Net Cash Provided by Operating<br>Activities                                                  | <u>\$ 29,316</u> | <u>\$ -</u> |
| Noncash Operating and Noncapital Financing Activities:                                        |                  |             |
| None                                                                                          | <u>\$ -</u>      | <u>\$ -</u> |

See Auditors' Report and Notes to the General Purpose Financial Statements.

CHARTER DAY SCHOOL  
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Charter Day School (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 model, as used by the local education agencies. The following is a summary of the more significant accounting policies:

A. Reporting Entity

Charter Day School is a public charter school operated by a local non-profit corporation, serving approximately 253 students in grades K-4. The School operates under an approved charter received from the SBE, and applied for under the provisions of General Statute (GS) 115C-238.29B. GS 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 GS 115C-447 of the School Budget and Fiscal Control Act (SBFCA). GS 115C-447 also requires financial statements to be prepared in accordance with GAAP.

B. Basis of Presentation – Fund Accounting

The accounts of Charter Day School 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 reporting devices 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 (further divided by fund type) and account groups:

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) or

federal grants. Monies in these funds are expended in accordance with DPI requirements, federal requirements, and state law.

Proprietary Funds include the following fund type:

Enterprise Funds – Enterprise Funds account for those operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; (b) where the governing body has decided that the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The School has one enterprise fund: the Fund Raising Fund.

Account Groups -- The general fixed assets account group is used to account for fixed assets that are not accounted for in proprietary or trust funds. The general long-term debt account group is used to account for general long-term debt and certain other liabilities that are not specific liabilities of proprietary or trust funds.

C. 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 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.

The proprietary funds are accounted for on a flow-of-economic-resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund type equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Operating statements for these funds present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. As required for periods beginning after June 15, 2000 by Statement 33 of the Government Accounting Standards Board, *Accounting and Financial Reporting of Nonexchange Transactions*, the School has begun recognizing capital contributions as revenue in the current year, rather than contributed capital. No adjustment to the balance of the contributed capital account is required.

The basis of accounting determines when the revenues and expenditures or expenses and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

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 on this same basis. 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 of 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.

Investment earnings and intergovernmental revenues received from DPI 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.

The proprietary funds are presented in the financial statements on the accrual basis of accounting. Under this basis, revenues are recognized in the accounting period when earned and expenses are recognized in the period they are incurred. As permitted by generally accepted accounting principles, the School has elected to apply only applicable FASB Statements and Interpretations issued before November 30, 1989 in its accounting and reporting practices for proprietary operations.

D. Budgetary Data

Annual budgets are adopted on an entity-wide level and are presented with all governmental fund types combined into one budget presentation. The budgets are prepared using the cash basis of accounting.

The governing board has voluntarily established the policy, as a sound business practice, that expenditures may not exceed appropriations, for all the School's funds, based on the adopted budget and the subsequent amendments. During the year, several amendments to the original budget were necessary, the effects of which were not material. The budget presented in these financial statements represents the budget in effect for the School as of June 30, 2003.

E. Assets, Liabilities, and Fund Equity

1. Deposits and Investments

All deposits of the School are made in a local bank, whose accounts are FDIC insured. The School's investments with a maturity of more than one year at acquisition and non-money-market investments are reported at fair value as determined by quoted market prices.

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 or cash equivalents.

3. 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 total of these estimates is not considered large enough that any errors would be material when fixed assets are considered as a whole. Assets in the general fixed asset account group are not depreciated.

It is the policy of the School to capitalize all fixed assets costing more than \$1,000 with an estimated useful life of two or more years. In addition, other items which are purchased and used in large quantities such as student desks and office furniture are capitalized and reported in the general fixed asset account group. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

4. Long-Term Obligations

Long-term debt is carried at face value in the general long-term debt account group. The debt-service requirements for all the debt carried in the general long-term debt account group are appropriated annually in the general fund. Other governmental fund obligations not expected to be financed with current available resources are also recorded in the general long-term debt account group.

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

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

Unreserved

Designated for Subsequent Year's Expenditures – portion of total fund balance available for appropriation, which has been designated for the adopted 2002-2003 budget.

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

F. Revenues, Expenditures, and Expenses

1. Funding

Charter Day School is funded by the State Board of Education, receiving (i) an amount equal to the average per pupil allocation for the average daily membership (ADM) from the local school administrative unit allotments in which the School is located (i.e. Brunswick 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 [GS 115C-238.29H(a)]. Additionally the appropriate local school administrative units 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 [GS 115C-238.29H (b)]. For the fiscal year ended June 30, 2003, Charter Day School received funding from the boards of education of Brunswick, Bladen, Columbus, New Hanover and Pender counties.

Furthermore, Charter Day School has received donations of cash and/or equipment from private organizations and individuals. The cash has been used for the normal operations of the School.

2. Compensated Absences

Employees earn two weeks of vacation leave each year. Vacation leave must be taken within the fiscal year, or it is lost. Since the School has no obligation for vacation leave; no accrual for vacation leave has been made. The sick leave policy of the School provides for an accumulation of six days of sick leave per year. Sick leave does not vest and it may not be carried over to the next school year. Since the School has no obligation for accumulated sick leave until it is actually taken; no accrual for sick leave has been made.

G. 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.

H. Comparative Data/Reclassifications

Comparative total data for the prior year has been presented in selected sections of the accompanying financial statements in order to provide an understanding of the changes in the School's financial position and operations. Comparative totals have not been included on the statements where their inclusion would not provide enhanced understanding of the School's financial position and operations or would cause the statements to be unduly complex or difficult to understand. Prior year comparative data has been reclassified to conform to the presentation in the current year financial statements.

I. Use of Estimates and Assumptions

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenditures.

II. Stewardship, Compliance, and Accountability

A. Material Violations of Finance-Related Legal and Contractual Provisions

Noncompliance with North Carolina General Statutes

None.

Contractual Violations

None.

Deficit Fund Balance or Retained Earnings of Individual Funds

Due to Accounts Payable and a Line of Credit, the School's general fund has a deficit fund balance at June 30, 2003 of \$27,221.

B. Excess of Expenditures Over Appropriations

While the School is under no statutory authority to prepare and present an annual budget, the board of directors has voluntarily submitted a budget for the fiscal year ended June 30, 2003. None of the unfavorable balances in the budget were material to the financial statements at June 30, 2003.

III. Detail Notes on All Funds and Account Groups

A. Assets

1. Deposits

At June 30, 2003, the School had deposits with banks with a carrying amount of \$105,458. The School has two bank accounts with two different financial institutions, which allows the entire amount of deposits to be covered by FDIC.

2. Investments

At June 30, 2003, the School had no investments.

3. Fixed Assets

At June 30, 2003, the School's general fixed assets were:

| ASSET TYPE              | 07/01/02<br>BALANCE | ADDITIONS | RETIREMENTS | 06/30/03<br>BALANCE |
|-------------------------|---------------------|-----------|-------------|---------------------|
| Computers and Equipment | \$ 21,870           | \$ -      | \$ -        | \$ 21,870           |

B. Liabilities

1. Pension Plan Obligations

a. Retirement Plan

The School maintains a simple IRA retirement plan for the benefit of its employees. The School will match up to a maximum of 3% of the employee's gross salary. Employees may contribute up to 6% of their salary into the retirement plan.

b. Post-employment Benefits

None.

2. Deferred Revenues

At June 30, 2003, the School had no items requiring the presentation of deferred revenue (e.g., receipt of federal, state, or private grant money in excess of expenditures).

3. Risk Management

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

The School has obtained a major medical insurance policy for its personnel through a commercial insurer. Through the plan, permanent, full-time employees of the School are eligible to receive health care benefits.

The School carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and claims have not exceeded coverage in any of the past two fiscal years.

4. Claims and Judgments

There have been no legal claims or suits filed against the School during the fiscal year ended June 30, 2003.

5. Short-Term Note Payable

The School has a line of credit with Branch Banking and Trust Company for a maximum of \$50,000. At June 30, 2003, the School had made draws totaling \$50,000. The line of credit is valid for one year from inception, with interest payments due monthly. The line of credit held by the School is due March 15, 2004.

6. Long-Term Obligations

a. Notes Payable

Charter Day School accrued paid time off in the general long term debt account group for the year ended June 30, 2002; however, the School changed to their policy to no longer allow a carry over of paid time off. The total accrual at June 30, 2002 was \$2,846.

b. Operating Leases

The School rents space for the School under a ten-year lease from the Roger Bacon Academy. The rent is payable in monthly installments of \$8,624 for the year ending June 30, 2003. The contract states that the rent payable shall increase on each lease year anniversary as agreed upon between the Landlord and the Tenant. Therefore, the future minimum lease payments are based on the current rent amount because future rent amounts are unpredictable, but will be at least the following:

|                                       |            |
|---------------------------------------|------------|
| For the year ended June 30, 2004      | \$ 103,488 |
| For the year ended June 30, 2005      | 103,488    |
| For the year ended June 30, 2006      | 103,488    |
| For the year ended June 30, 2007      | 103,488    |
| For the year ended June 30, 2008-2011 | 413,952    |

c. Interfund Receivables and Payables

As of June 30, 2003, there were no interfund receivables and payables.

IV. Related Party Transactions

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

On July 18, 2000, Charter Day School entered into an agreement with Roger Bacon Academy for management and faculty services. Roger Bacon Academy provides supervision and administration services for the management, operation and maintenance of the School in accordance with the educational program as adopted by the Board of the School and included in its operational documents. Any documents or policies adopted by the Board of the School may be modified from time to time in the sole and absolute discretion of the Board.

Roger Bacon Academy is entitled to compensation for its services based on 17% of revenues, as defined in the management agreement. The agreement was approved by the Board of Charter Day School, State Board of Education and the Internal Revenue Services. During the fiscal years ended June 30, 2003 and 2002, management and maintenance fees of \$451,529 and \$234,163, respectively. Rent paid to Roger Bacon Academy for use of facility and equipment was \$92,840 and \$128,502 for the years ended June 30, 2003 and 2002, respectively.

At June 30, 2003, the School owed Roger Bacon Academy \$50,041 in management fees and reimbursable expenditures. This amount has been accrued on the financial statements as a separate line item.

V. Summary Disclosure of Significant Contingencies

NC State Public School System

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 monies 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 monies.

VI. Interfund Transfers

None.

VII. Segment Information

The School maintains one enterprise fund: the School Food Service Fund. Financial segment information, as of and for the fiscal year ended June 30, 2003 is as follows:

|                              | Enterprise Fund |             |
|------------------------------|-----------------|-------------|
|                              | <u>2003</u>     | <u>2002</u> |
| Operating Revenues           | \$ 40,493       | \$ -        |
| Depreciation Expense         | -               | -           |
| Operating Income (Loss)      | 29,316          | -           |
| Operating Transfers In (Out) | -               | -           |
| Federal Reimbursements       | -               | -           |
| Capital Contributions        | -               | -           |
| Net Income                   | 29,316          | -           |
| Net Working Capital          | 29,316          | -           |
| Total Assets                 | 29,316          | -           |
| Total Equity                 | 29,316          | -           |

VIII. Significant Effects of Subsequent Events

None.

COMBINING & INDIVIDUAL FUND FINANCIAL STATEMENTS SECTION

CHARTER DAY SCHOOL

LELAND, NORTH CAROLINA

JUNE 30, 2003

EXHIBIT A-1

CHARTER DAY SCHOOL  
GENERAL FUND  
COMPARATIVE BALANCE SHEETS  
AS OF JUNE 30, 2003  
WITH COMPARATIVE TOTALS FOR JUNE 30, 2002

|                                    | <u>2003</u>      | <u>2002</u>      |
|------------------------------------|------------------|------------------|
| ASSETS                             |                  |                  |
| Cash and cash equivalents          | \$ 76,142        | \$ 18,503        |
| Accounts Receivable                | -                | 39               |
|                                    |                  |                  |
| TOTAL ASSETS                       | <u>\$ 76,142</u> | <u>\$ 18,542</u> |
|                                    |                  |                  |
| LIABILITIES & FUND BALANCE         |                  |                  |
|                                    |                  |                  |
| LIABILITIES:                       |                  |                  |
| Accounts Payable                   | \$ 3,322         | \$ 959           |
| Accounts Payable - Related Parties | 50,041           | -                |
| Short-Term Notes Payable           | 50,000           | -                |
|                                    |                  |                  |
| TOTAL LIABILITIES                  | \$ 103,363       | \$ 959           |
|                                    |                  |                  |
| FUND BALANCE:                      |                  |                  |
| Unreserved                         | (27,221)         | 17,583           |
|                                    |                  |                  |
| TOTAL LIABILITIES & FUND BALANCE   | <u>\$ 76,142</u> | <u>\$ 18,542</u> |

See Auditors' Report and Notes to the General Purpose Financial Statements.

EXHIBIT A-2

CHARTER DAY SCHOOL  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, & CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 2002

|                                                                        | 2003               | 2002             |
|------------------------------------------------------------------------|--------------------|------------------|
| REVENUES:                                                              |                    |                  |
| Brunswick County Board of Education                                    | \$ 253,048         | \$ 149,705       |
| Columbus County Board of Education                                     | 69,678             | 32,760           |
| New Hanover County Board of Education                                  | 49,372             | 22,316           |
| Pender County Board of Education                                       | 2,400              | 3,300            |
| Bladen County Board of Education                                       | 6,348              | -                |
| All Other Sources                                                      | 16,472             | -                |
|                                                                        | <hr/>              | <hr/>            |
| TOTAL REVENUES                                                         | 397,318            | 208,081          |
| EXPENDITURES:                                                          |                    |                  |
| Current:                                                               |                    |                  |
| Instructional Programs:                                                |                    |                  |
| Regular                                                                | 61,651             | 41,514           |
| Special                                                                | 6,000              | 77               |
| Student Services                                                       | -                  | 1,913            |
| Other                                                                  | 28,707             | 5,507            |
| Total Instructional Programs                                           | <hr/>              | <hr/>            |
|                                                                        | 96,358             | 49,011           |
| Supporting Services:                                                   |                    |                  |
| Student Services                                                       | 3,669              | -                |
| General Administrative                                                 | 325,745            | 174,674          |
| School Administrative                                                  | -                  | -                |
| Other                                                                  | -                  | -                |
| Total Supporting Services                                              | <hr/>              | <hr/>            |
|                                                                        | 329,414            | 174,674          |
| Non-Programmed Charges:                                                | 1,129              | 540              |
| Capital Outlay                                                         | -                  | -                |
| Debt Service:                                                          |                    |                  |
| Principal                                                              | 15,134             | -                |
| Interest                                                               | 87                 | 335              |
| Total Debt Service                                                     | <hr/>              | <hr/>            |
|                                                                        | 15,221             | 335              |
|                                                                        | <hr/>              | <hr/>            |
| TOTAL EXPENDITURES                                                     | 442,122            | 224,560          |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES                           | (44,804)           | (16,479)         |
| OTHER FINANCING SOURCES (USES):                                        |                    |                  |
| Proceeds from Line of Credit                                           | -                  | 26,000           |
|                                                                        | <hr/>              | <hr/>            |
| REVENUES OVER (UNDER) EXPENDITURES &<br>OTHER FINANCING SOURCES (USES) | (44,804)           | 9,521            |
| FUND BALANCE -- Beginning of Year                                      | 17,583             | 8,062            |
|                                                                        | <hr/>              | <hr/>            |
| FUND BALANCE -- End of Year                                            | <u>\$ (27,221)</u> | <u>\$ 17,583</u> |

See Auditors' Report and Notes to the General Purpose Financial Statements.

EXHIBIT B-1

CHARTER DAY SCHOOL  
SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2003

WITH COMPARATIVE TOTALS FOR JUNE 30, 2002

|                                  | STATE<br>PUBLIC<br>SCHOOL<br>FUND | FEDERAL<br>GRANTS<br>FUND | <u>TOTALS</u> |      |
|----------------------------------|-----------------------------------|---------------------------|---------------|------|
|                                  |                                   |                           | 2003          | 2002 |
| ASSETS                           |                                   |                           |               |      |
| Cash                             | \$ -                              | \$ -                      | \$ -          | \$ - |
| LIABILITIES & FUND BALANCE       |                                   |                           |               |      |
| Liabilities                      |                                   |                           |               |      |
| None                             | \$ -                              | \$ -                      | \$ -          | \$ - |
| Fund Balance                     |                                   |                           |               |      |
| Unreserved                       | -                                 | -                         | -             | -    |
| Total Liabilities & Fund Balance | \$ -                              | \$ -                      | \$ -          | \$ - |

See Auditors' Report and Notes to the General Purpose Financial Statements.

## EXHIBIT B-2

CHARTER DAY SCHOOL  
SPECIAL REVENUE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, &  
CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2002

|                                                                | STATE<br>PUBLIC<br>SCHOOL<br>FUND | FEDERAL<br>GRANTS<br>FUND | TOTALS       |            |
|----------------------------------------------------------------|-----------------------------------|---------------------------|--------------|------------|
|                                                                |                                   |                           | 2003         | 2002       |
| REVENUES:                                                      |                                   |                           |              |            |
| State of North Carolina:                                       |                                   |                           |              |            |
| State Public School Fund                                       | \$ 1,076,779                      | \$ -                      | \$ 1,076,779 | \$ 605,494 |
| US Government:                                                 |                                   |                           |              |            |
| Federal Grant Funds                                            | -                                 | 50,743                    | 50,743       | 172,750    |
| TOTAL REVENUES                                                 | 1,076,779                         | 50,743                    | 1,127,522    | 778,244    |
| EXPENDITURES:                                                  |                                   |                           |              |            |
| Current:                                                       |                                   |                           |              |            |
| Instructional Programs:                                        |                                   |                           |              |            |
| Regular                                                        | 699,548                           | -                         | 699,548      | 345,547    |
| Special                                                        | 5,111                             | 21,577                    | 26,688       | 21,445     |
| Student Services                                               | -                                 | -                         | -            | 6,908      |
| Other                                                          | 90,809                            | 7,916                     | 98,725       | 43,926     |
| Total Instructional Programs                                   | 795,468                           | 29,493                    | 824,961      | 417,826    |
| Supporting Services:                                           |                                   |                           |              |            |
| Student Services                                               | 7,924                             | -                         | 7,924        | -          |
| Instructional Staff Services                                   | -                                 | -                         | -            | -          |
| General Administrative                                         | 273,023                           | 21,250                    | 294,273      | 281,992    |
| School Administrative                                          | -                                 | -                         | -            | 32,876     |
| Other                                                          | -                                 | -                         | -            | 1,501      |
| Total Supporting Services                                      | 280,947                           | 21,250                    | 302,197      | 316,369    |
| Capital Outlay                                                 | -                                 | -                         | -            | -          |
| Debt Service:                                                  |                                   |                           |              |            |
| Principal                                                      | 87                                | -                         | 87           | 43,500     |
| Interest                                                       | 277                               | -                         | 277          | 549        |
| Total Debt Service                                             | 364                               | -                         | 364          | 44,049     |
| TOTAL EXPENDITURES                                             | 1,076,779                         | 50,743                    | 1,127,522    | 778,244    |
| REVENUES OVER (UNDER) EXPENDITURES                             | -                                 | -                         | -            | -          |
| OTHER FINANCING SOURCES (USES):                                | -                                 |                           |              |            |
| Operating Transfers In (Out)                                   | -                                 | -                         | -            | -          |
| REVENUES OVER EXPENDITURES &<br>OTHER FINANCING SOURCES (USES) | -                                 | -                         | -            | -          |
| FUND BALANCE – Beginning of Year                               | -                                 | -                         | -            | -          |
| FUND BALANCE – End of Year                                     | \$ -                              | \$ -                      | \$ -         | \$ -       |

See Auditors' Report and Notes to the General Purpose Financial Statements.

EXHIBIT B-3

CHARTER DAY SCHOOL  
STATE PUBLIC SCHOOL FUND  
STATEMENT OF REVENUES, EXPENDITURES, &  
CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2002

|                                                                | 2003         | 2002       |
|----------------------------------------------------------------|--------------|------------|
| REVENUES:                                                      |              |            |
| State of North Carolina:                                       |              |            |
| State Public School Fund                                       | \$ 1,076,779 | \$ 605,494 |
| EXPENDITURES:                                                  |              |            |
| Current:                                                       |              |            |
| Instructional Programs                                         | 795,468      | 365,684    |
| Supporting Services                                            | 280,947      | 223,289    |
| Non-Programmed Charges                                         | -            | -          |
| Total Current Expenditures                                     | 1,076,415    | 588,973    |
| Capital Outlay                                                 | -            | -          |
| Debt Service:                                                  |              |            |
| Principal                                                      | 87           | 16,521     |
| Interest                                                       | 277          | -          |
| Total Debt Service                                             | 364          | 16,521     |
| TOTAL EXPENDITURES                                             | 1,076,779    | 605,494    |
| REVENUES OVER (UNDER) EXPENDITURES                             | -            | -          |
| OTHER FINANCING SOURCES (USES):                                |              |            |
| Operating Transfers In (Out)                                   | -            | -          |
| REVENUES OVER EXPENDITURES &<br>OTHER FINANCING SOURCES (USES) | -            | -          |
| FUND BALANCE -- Beginning of Year                              | -            | -          |
| FUND BALANCE -- End of Year                                    | \$ -         | \$ -       |

See Auditors' Report and Notes to the General Purpose Financial Statements.

EXHIBIT B-4

CHARTER DAY SCHOOL  
FEDERAL GRANTS FUND  
STATEMENT OF REVENUES, EXPENDITURES, &  
CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2002

|                                                                | 2003      | 2002      |
|----------------------------------------------------------------|-----------|-----------|
| REVENUES:                                                      |           |           |
| US Government:                                                 |           |           |
| Title 1 Funds                                                  | \$ 21,871 | \$ 14,341 |
| Federal Competitive Grant                                      | 21,250    | -         |
| Title VI Formula Grant                                         | 1,242     | 1,087     |
| Class Size Reduction                                           | -         | 3,517     |
| Continuing Federal Aid                                         | 2,380     | 153,805   |
| Improving Teacher Quality                                      | 4,000     | -         |
| TOTAL REVENUES                                                 | 50,743    | 172,750   |
| EXPENDITURES:                                                  |           |           |
| Current:                                                       |           |           |
| Instructional Programs                                         | 29,493    | 52,142    |
| Supporting Services                                            | 21,250    | 93,080    |
| Non-Programmed Charges                                         | -         | -         |
| Total Current Expenditures                                     | 50,743    | 145,222   |
| Capital Outlay                                                 | -         | -         |
| Debt Service:                                                  |           |           |
| Principal                                                      | -         | 26,979    |
| Interest                                                       | -         | 549       |
| Total Debt Service                                             | -         | 27,528    |
| TOTAL EXPENDITURES                                             | 50,743    | 172,750   |
| REVENUES OVER (UNDER) EXPENDITURES                             | -         | -         |
| OTHER FINANCING SOURCES (USES):                                |           |           |
| Operating Transfers In (Out)                                   | -         | -         |
| REVENUES OVER EXPENDITURES &<br>OTHER FINANCING SOURCES (USES) | -         | -         |
| FUND BALANCE -- Beginning of Year                              | -         | -         |
| FUND BALANCE -- End of Year                                    | \$ -      | \$ -      |

See Auditors' Report and Notes to the General Purpose Financial Statements.

EXHIBIT C-1

CHARTER DAY SCHOOL  
ENTERPRISE FUNDS  
BALANCE SHEET  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
WITH COMPARATIVE TOTALS FOR JUNE 30, 2002

---

|                            | 2003             | 2002        |
|----------------------------|------------------|-------------|
| ASSETS                     |                  |             |
| Cash                       | <u>\$ 29,316</u> | <u>\$ -</u> |
| LIABILITIES & FUND EQUITY  |                  |             |
| LIABILITIES:               |                  |             |
| Cash Overdraft             | \$ -             | \$ -        |
| EQUITY:                    |                  |             |
| Retained Earnings          | <u>29,316</u>    | <u>-</u>    |
| TOTAL LIABILITIES & EQUITY | <u>\$ 29,316</u> | <u>\$ -</u> |

See Auditors' Report and Notes to the General Purpose Financial Statements.

EXHIBIT C-2

CHARTER DAY SCHOOL  
ENTERPRISE FUNDS  
STATEMENT OF REVENUES, EXPENSES, &  
CHANGES IN RETAINED EARNINGS  
BUDGET & ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
WITH COMPARATIVE TOTALS FOR FISCAL YEAR ENDED JUNE 30, 2002

|                                                                 | 2003                 |                      |                                        | 2002   |
|-----------------------------------------------------------------|----------------------|----------------------|----------------------------------------|--------|
|                                                                 | CASH BASIS<br>BUDGET | CASH BASIS<br>ACTUAL | VARIANCE<br>FAVORABLE<br>(UNFAVORABLE) | ACTUAL |
| OPERATING REVENUES:                                             |                      |                      |                                        |        |
| Fund Raising Revenues                                           | \$ 18,701            | \$ 40,493            | \$ 21,792                              | \$ -   |
| TOTAL OPERATING REVENUES                                        | 18,701               | 40,493               | 21,792                                 | -      |
| OPERATING EXPENSES:                                             |                      |                      |                                        |        |
| Supplies and Materials                                          | 11,177               | 11,177               | -                                      | -      |
| TOTAL OPERATING EXPENSES                                        | 11,177               | 11,177               | -                                      | -      |
| OPERATING INCOME (LOSS)                                         | 7,524                | 29,316               | 21,792                                 | -      |
| NONOPERATING REVENUE                                            |                      |                      |                                        |        |
| Federal Reimbursements                                          | -                    | -                    | -                                      | -      |
| TOTAL NONOPERATING REVENUE                                      | -                    | -                    | -                                      | -      |
| NET INCOME (LOSS)                                               | \$ 7,524             | \$ 29,316            | \$ 21,792                              | \$ -   |
| RECONCILIATION FROM BUDGETARY BASIS TO<br>FULL ACCRUAL BASIS:   |                      |                      |                                        |        |
| REVENUES & OTHER FINANCING SOURCES<br>OVER (UNDER) EXPENDITURES |                      | \$ 29,316            |                                        | \$ -   |
| Reconciling Items:                                              |                      |                      |                                        |        |
| Effect of Deferred Revenue                                      |                      | -                    |                                        | -      |
| NET INCOME (LOSS)                                               |                      | \$ 29,316            |                                        | \$ -   |

See Auditors' Report and Notes to the General Purpose Financial Statements.

EXHIBIT C-3

CHARTER DAY SCHOOL  
ENTERPRISE FUNDS  
STATEMENT OF REVENUES, EXPENSES, &  
CHANGES IN RETAINED EARNINGS  
CONVERSION FROM ACCRUAL BASIS FOR REPORTING  
TO CASH BASIS FOR BUDGET ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

|                                                                                                                      | CONVERSION                   |                                                 |                                      |
|----------------------------------------------------------------------------------------------------------------------|------------------------------|-------------------------------------------------|--------------------------------------|
|                                                                                                                      | MODIFIED<br>ACCRUAL<br>BASIS | FROM MODIFIED<br>ACCRUAL BASIS<br>TO CASH BASIS | CASH BASIS<br>FOR BUDGET<br>ANALYSIS |
| OPERATING REVENUES:                                                                                                  |                              |                                                 |                                      |
| Fund Raising Revenues                                                                                                | \$ 40,493                    | \$ -                                            | \$ 40,493                            |
| TOTAL OPERATING REVENUES                                                                                             | 40,493                       | -                                               | 40,493                               |
| OPERATING EXPENSES:                                                                                                  |                              |                                                 |                                      |
| Supplies and Materials                                                                                               | 11,177                       | -                                               | 11,177                               |
| TOTAL OPERATING EXPENSES                                                                                             | 11,177                       | -                                               | 11,177                               |
| OPERATING INCOME (LOSS)                                                                                              | 29,316                       | -                                               | 29,316                               |
| NONOPERATING REVENUES                                                                                                |                              |                                                 |                                      |
| Federal Reimbursements                                                                                               | -                            | -                                               | -                                    |
| TOTAL NONOPERATING REVENUE                                                                                           | -                            | -                                               | -                                    |
| NET INCOME (LOSS)                                                                                                    | 29,316                       | -                                               | 29,316                               |
| <b>Reconciliation of Cash Basis Presentation<br/>to Modified Accrual Basis Used by the<br/>School for Reporting:</b> |                              |                                                 |                                      |
| Effect of Accounts Payable and<br>Other Accrued Liabilities                                                          | -                            | -                                               | -                                    |
| RETAINED EARNINGS -- Beginning of Year                                                                               | -                            | -                                               | -                                    |
| RETAINED EARNINGS -- End of Year                                                                                     | \$ 29,316                    | \$ -                                            | \$ 29,316                            |

See Auditors' Report and Notes to the General Purpose Financial Statements.

EXHIBIT D

CHARTER DAY SCHOOL  
SCHEDULE OF INTERFUND TRANSFERS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

| TRANSFERS FROM           | TRANSFERS TO                      |                 |                           |                         |
|--------------------------|-----------------------------------|-----------------|---------------------------|-------------------------|
|                          | STATE<br>PUBLIC<br>SCHOOL<br>FUND | GENERAL<br>FUND | FEDERAL<br>GRANTS<br>FUND | FUND<br>RAISING<br>FUND |
| STATE PUBLIC SCHOOL FUND | \$ -                              | \$ -            | \$ -                      | \$ -                    |
| GENERAL FUND             | -                                 | -               | -                         | -                       |
| FEDERAL GRANTS FUND      | -                                 | -               | -                         | -                       |
| FOOD SERVICE FUND        | -                                 | -               | -                         | -                       |
| TOTAL                    | \$ -                              | \$ -            | \$ -                      | \$ -                    |

See Auditors' Report and Notes to the General Purpose Financial Statements.

SINGLE AUDIT SECTION  
CHARTER DAY SCHOOL  
LELAND, NORTH CAROLINA  
JUNE 30, 2003

**MPM&H**

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

**MERRITT**  
**PETWAY**  
**MILLS &**  
**HOCKADAY, PA**

*Certified Public Accountants*

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North Carolina  
Association of  
Certified Public  
Accountants

American Institute  
of Certified Public  
Accountants

International Board  
of Standards and  
Practices for  
Certified Financial  
Planners

Board of Directors  
Charter Day School  
Leland, North Carolina

We have audited the general purpose financial statements of Charter Day School, North Carolina, as of and for the year ended June 30, 2003, and have issued our report thereon dated September 9, 2003. 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.

COMPLIANCE

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Charter Day School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. 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. We noted other matters involving the internal control over financial reporting that we have reported to management of Charter Day School in a separate letter dated September 9, 2003.

This report is intended solely for the information and use of the audit committee, management, others within the organization, members of Charter Day School, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Merritt, Petway, Mills & Hockaday, PA*  
Merritt, Petway, Mills & Hockaday, PA  
Certified Public Accountants

September 9, 2003



**MERRITT**  
**PETWAY**  
**MILLS &**  
**HOCKADAY, PA**

*Certified Public Accountants*

Leslie W. Merritt, Jr.  
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International Board  
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Practices for  
Certified Financial  
Planners

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

Board of Directors  
Charter Day School  
Leland, North Carolina

COMPLIANCE

We have audited the compliance of the Charter Day School, North Carolina, with the types of compliance requirements described in the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that are applicable to each of its major State Programs for the year ended June 30, 2003. The Charter Day School's major State programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of Charter Day School's management. Our responsibility is to express an opinion on Charter Day School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and applicable sections of OMB Circular A-133, as described in the Audit Manual for Governmental Auditors in North Carolina, and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about the Charter Day School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Charter Day School's compliance with those requirements.

In our opinion, Charter Day School complied, in all material respects, with the requirements referred to above that are applicable to each of its major State programs for the year ended June 30, 2003.

INTERNAL CONTROL OVER COMPLIANCE

The management of the Charter Day School is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered Charter Day School's internal control over compliance with requirements that could have a direct and material effect on a major State program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with applicable sections of OMB Circular A-133 and the State Single Audit Implementation Act.

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

This report is intended solely for the information and use of the audit committee, management, others within the organization, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

  
Merritt, Petway, Mills & Hockaday, PA  
Certified Public Accountants

September 9, 2003

CHARTER DAY SCHOOL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2003

SECTION I. -- SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified.

Internal control over financial reporting:

Material weakness(es) identified?                             yes                        X   no

Reportable condition(s) identified  
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

Reportable condition(s) identified  
that are not considered to be  
material weaknesses?                             yes                        X   none reported

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

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

Identification of major state programs:

Program Name

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

CHARTER DAY SCHOOL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2003

SECTION II. -- FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III. -- STATE AWARD FINDINGS AND QUESTIONED COSTS

None reported.

CHARTER DAY SCHOOL  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED JUNE 30, 2003

SECTION II. -- FINANCIAL STATEMENT FINDINGS

None required.

SECTION III. -- STATE AWARD FINDINGS AND QUESTIONED COSTS

None required.

CHARTER DAY SCHOOL  
SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2003

**Finding 02-1**

Status: The School received their Internal Revenue Service tax-exempt 501(c)(3) determination letter on March 8, 2002. Even though this letter was received after the required time, the School has received the letter and is in compliance with State statutes. This finding is no longer an issue at June 30, 2003.

**Finding 02-2**

The School is careful to ensure that no prior or future year's expenditures are paid with State Public School funds. Our testing indicates expenditures recorded on the books at June 30, 2003 were for current year expenditures. This finding is no longer an issue at June 30, 2003.

**Finding 01-1**

Status: The School has attached addendums to their leases to include the statement which holds the state harmless. This finding is no longer an issue at June 30, 2003.

CHARTER DAY SCHOOL  
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

| GRANTOR/PASS-THROUGH GRANTOR<br>PROGRAM TITLE | FEDERAL<br>CFDA<br>NUMBER | STATE/<br>PASS-THROUGH<br>GRANTOR'S<br>NUMBER | EXPENDITURES     |
|-----------------------------------------------|---------------------------|-----------------------------------------------|------------------|
| FEDERAL GRANTS:                               |                           |                                               |                  |
| CASH ASSISTANCE:                              |                           |                                               |                  |
| <u>US Department of Education</u>             |                           |                                               |                  |
| Title I - Basic Grant                         | 84.010A                   |                                               | \$ 21,871        |
| Federal Competitive Grant                     | 84.282A                   |                                               | 21,250           |
| Title VI Formual Grant                        | 84.298A                   |                                               | 1,242            |
| Continuing Federal Aid                        | 84.282A                   |                                               | 2,380            |
| Improving Teacher Quality                     | 84.367A                   |                                               | <u>4,000</u>     |
| TOTAL FEDERAL CASH ASSISTANCE                 |                           |                                               | <u>\$ 50,743</u> |

NC STATE GRANTS:  
CASH ASSISTANCE

NC Department of Public Instruction

|                                                               |      |                     |
|---------------------------------------------------------------|------|---------------------|
| State Public School Funds<br>(PRC 36 -- Charter School Funds) | XXXX | <u>\$ 1,076,779</u> |
|---------------------------------------------------------------|------|---------------------|

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

Basis of Presentation

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

COMMUNICATIONS WITH MANAGEMENT

CHARTER DAY SCHOOL

LELAND, NORTH CAROLINA

JUNE 30, 2003



**MERRITT  
PETWAY  
MILLS &  
HOCKADAY, PA**

*Certified Public Accountants*

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North Carolina  
Association of  
Certified Public  
Accountants

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International Board  
of Standards and  
Practices for  
Certified Financial  
Planners

September 9, 2003

Board of Directors  
Charter Day School  
Leland, North Carolina

We have now completed the work for the audit of the financial records for Charter Day School (the School) for the fiscal year ended June 30, 2003. While we issued an unqualified ("clean") opinion on the School's financial records, we did note various transactions and situations that require attention by the School's management.

Internal Control Issues

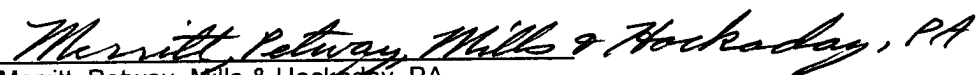
1. The State Board of Education proposed and passed a new law related to insurance and charter schools during the 2002-2003 school year. The new law requires that the NC State Board be named as an additional insured on the School's insurance policies related to professional and general liability. Please ensure that your School has named the State Board of Education on your policies as required.
2. We encourage the School to pay all invoices before June 30, 2004 if possible. The School's fund balance dropped from a positive \$17,583 to a negative \$27,221. The majority of the drop in fund balance can be related to accounts payable and the line of credit due at June 30, 2003. The School had a positive balance of \$29,316 in the enterprise funds, which can be transferred to the general fund to cover the entire deficit. With the School's enrollment growing and the School expanding, we would like to see your fund balance regain its positive balance and grow stronger each year.

Please feel free to contact us to discuss the recommendations we've made in this letter.

We commend you for choosing to work with a fiscal management agent who specializes in School finances, but we also encourage you to maintain your oversight role. You have a responsibility to review the work of the consultant, even though it may look perfect, and to anticipate future changes and challenges facing your School. We encourage you to obtain financial statements and reports each month and review them carefully. Relying solely on the consultant's representations will not adequately position Charter Day School to address coming fiscal and educational demands.

We appreciate the opportunity to work with you on this audit process, and look forward to continuing the working relationship.

Sincerely,

  
Merritt, Petway, Mills & Hockaday, PA  
Certified Public Accountants