

FINANCIAL STATEMENTS
CHARTER DAY SCHOOL
LELAND, NORTH CAROLINA
JUNE 30, 2004

Merritt, Petway, Mills & Hockaday, PA CPA

1014 N. ARENDELL AVENUE

POST OFFICE BOX 1036

ZEBULON NC 27597

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LOCAL GOVERNMENT
COMMISSION

CHARTER DAY SCHOOL

7055 BACON'S WAY

LELAND NC 28451

Invoice #: 24019

Date: 10/22/2004

Date Due: 11/11/2004

Client ID: C210

Please return top portion with remittance.

Amount enclosed \$ _____

For Professional Services Rendered as Follows:

CHARTER DAY SCHOOL

Audit of financial statements for the fiscal year ended June 30, 2004.

New Charges:	\$7,920.00
Plus Prior Balance:	0.00
New Balance:	\$7,920.00

Thank you for your business!

Merritt, Petway, Mills & Hockaday, PA CPA

Approved as provided in Article 3,
Chapter 159 or Article 31, Chapter
115C of the General Statutes.

Janice T. Butler, Secretary
Local Government Commission

Marop P. Pope

OCT 28 2004

CHARTER DAY SCHOOL
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MPM&H

**MERRITT
PETWAY
MILLS &
HOCKADAY, PA**

Certified Public Accountants

Leslie W. Merritt, Jr.
C. Briggs Petway, Jr.
Roger G. Mills
Henry C. Hockaday

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Memberships:

North Carolina
Association of
Certified Public
Accountants

American Institute
of Certified Public
Accountants

International Board
of Standards and
Practices for
Certified Financial
Planners

September 27, 2004

To the Audit Committee
Charter Day School

We have audited the financial statements of Charter Day School for the year ended June 30, 2004, and have issued our report thereon dated September 27, 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 January 30, 2004, 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, 2004. We noted no transactions entered into by Charter Day School during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future

events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

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

Audit Adjustments

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

Disagreements with Management

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

Consultations with Other Independent Accountants

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

Issues Discussed Prior to Retention of Independent Auditors

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

Difficulties Encountered in Performing the Audit

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

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

Very truly yours,

A handwritten signature in black ink that reads "Merritt, Petway, Mills & Hockaday, PA". The signature is written in a cursive, flowing style.

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

1:03 PM
11/05/04
Accrual Basis

CDS Booster Club 2004-2005
Balance Sheet
As of November 5, 2004

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Checking	28,646.38
Reserve Account	20,055.18
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Profit & Loss
January 1 through November 5, 2004

	<u>Jan 1 - Nov 5, 04</u>
Income	
Interest Earned	55.18
Revenue	7,786.02
Total Income	<u>7,841.20</u>
Cost of Goods Sold	
COS15 Teacher Workshops	-493.12
Total COGS	<u>-493.12</u>
Gross Profit	8,334.32
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FINANCIAL SECTION
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JUNE 30, 2004



MERRITT
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Independent Auditors' Report

Board of Directors
Charter Day School
Leland, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Day School, North Carolina, as of and for the year ended June 30, 2004 which collectively comprise of the Charter Day School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Day School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

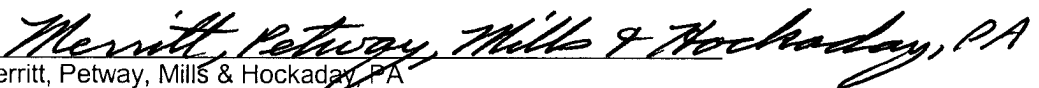
In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Day School, North Carolina as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 27, 2004 on our consideration of Charter Day School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

As described in Note I to the financial statements, the Charter Day School adopted Governmental Accounting Standards Board Statement Number 34 *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* during the year ended June 30, 2004.

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

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of the Charter Day School, North Carolina. The introductory information, combining and individual nonmajor fund financial statements and schedules, as well as the accompanying schedule of expenditures of federal and State awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the accompanying schedule of expenditures of federal and State awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.


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

September 27, 2004

Management's Discussion and Analysis
Charter Day School
June 30, 2004

As management of Charter Day School, we offer readers of Charter Day School's audited financial statements this narrative overview and analysis of the financial activities of Charter Day School for the fiscal year ended June 30, 2004. We encourage readers to read the information presented herein in conjunction with additional information that we have furnished in the School's financial statements, which follow this narrative.

Financial Highlights

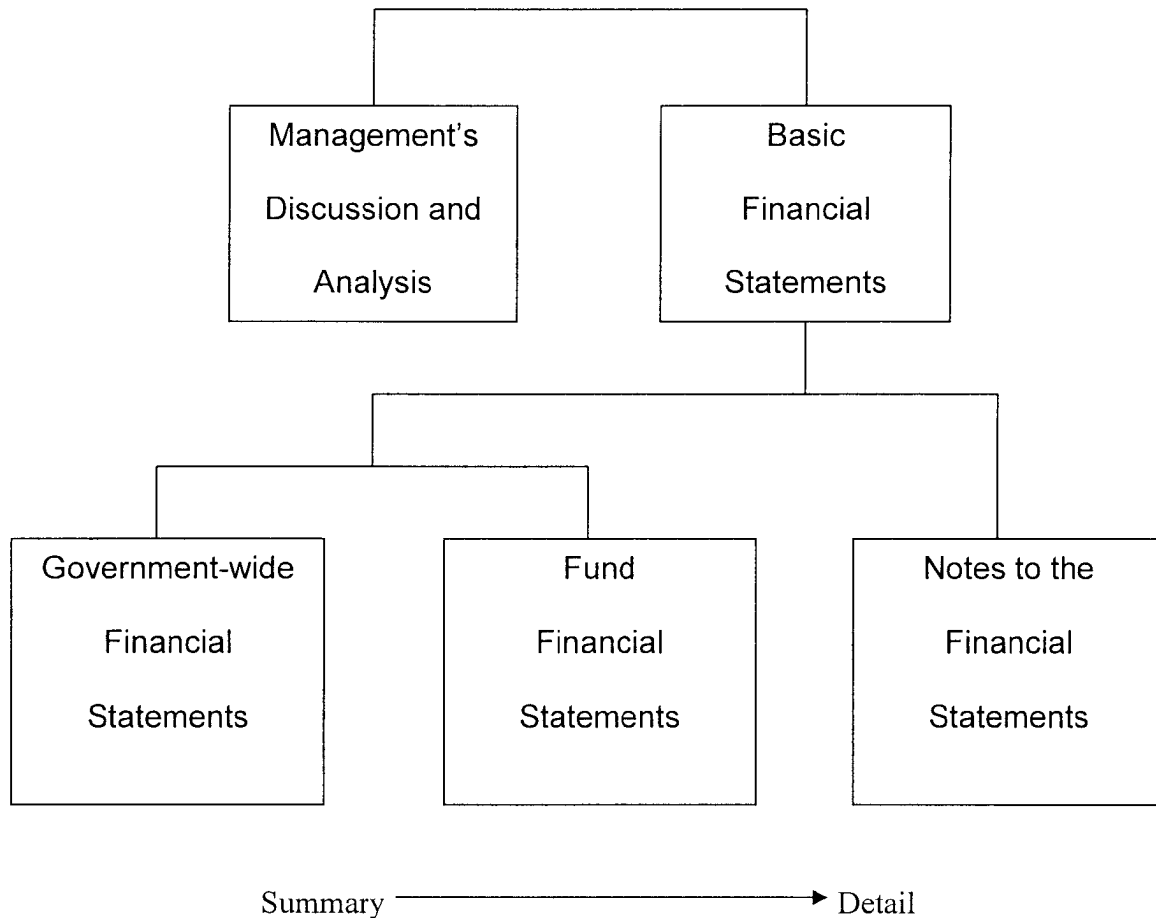
- The assets of Charter Day School exceeded its liabilities at the close of the fiscal year by \$56,032 (*i.e. "net assets"*).
- The total net assets increased by \$39,357.
- As of the close of the current fiscal year, Charter Day School's governmental funds reported combined ending fund balances of \$642, an increase of \$27,863 in comparison with the prior year.
- Enrollment continues to increase at the School, rising from 253 to 382 students, an increase of 129 students (51%) in 2003-2004 over 2002-2003.
- Grade Level Five was added in the 2003-2004 school year.
- Charter Day School retired \$50,000 in short-term notes payable.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Charter Day School's basic financial statements. The School's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two distinct financial perspectives of the School through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of Charter Day School.

Figure 1

Required Components of Annual Financial Report



Basic Financial Statements

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

The next statements (Exhibits 3 through 8) are **Fund Financial Statements**. These statements focus on the activities of the individual segments of the School's government. These statements are more detailed than the government-wide financial statements. There are two parts to the Fund Financial Statements: 1) the governmental fund statements; and 2) the proprietary fund statements.

Management Discussion and Analysis
Charter Day School
June 30, 2004

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

Government-wide Financial Statements

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

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

The government-wide statements are divided into two categories: 1) governmental activities and 2) business-type activities. The governmental activities include most of the School’s basic functions such as instructional services and business services. These functions are funded almost entirely through state, county and federal educational funds. The business-type activities are those services that the School charges its students and other customers to provide. These include the fund raising activities carried out by Charter Day School.

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

Fund Financial Statements

The fund financial statements provide a more detailed look at the School’s most significant activities. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Charter Day School, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related statutory requirements, such as the N.C.G.S. or the School’s budget ordinance, where/when applicable. All of the funds of Charter Day School can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for functions reported as governmental activities in the government-wide financial statements. Most of the School’s basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and monies remaining at year-end that will be available for spending in the next fiscal year. Governmental funds

Management Discussion and Analysis
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June 30, 2004

are reported using the *modified accrual accounting* method, which provides a short-term spending focus. The governmental fund financial statements assist the reader in determining whether there has been an increase or a decrease in the financial resources available to finance the School's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation, which is an integral part of the fund financial statements.

Although not compelled or required to do so by federal, state, or local law, Charter Day School elects to adopt annual budgets. Since the budget is not required by law, the budgetary comparison statements are not included in the basic financial statements but are part of the supplemental statements and schedules following the Notes. The budget incorporates input from the faculty, management, and the Board of Directors of the School and specifies which activities will be pursued and which services the School will provide during the year. It also authorizes the School to obtain funds from identified sources to finance current period activities.

Proprietary Funds – Charter Day School has one proprietary fund, which is an enterprise fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. Charter Day School uses enterprise funds to account for its School fund raising activities.

Notes to the Financial Statements – The notes provide additional information essential to facilitating a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 23 of this report.

Government-Wide Financial Analysis

The government-wide financial statements for the fiscal year ended June 30, 2004 are the beginning of a new era in financial reporting for Charter Day School and many other units of government across the United States. Prior to this year, Charter Day School was required to maintain governmental and proprietary fund groups using two separate and very distinct methods of accounting, neither of which rendered a consolidated statement that accurately reflected the operations and net assets of the entity. A totaling column appeared on the financial statements, but it was strictly a memorandum total. The required statements were in no way presented in such a way that would reflect the overall financial condition of Charter Day School. These statements were the equivalent of the fund financial statements that appear in this report with fiduciary funds, including long-term debt and general fixed assets.

The changes in the financial statement reporting model for Charter Day School and other governmental units are promulgated by the Governmental Accounting Standards Board (GASB Statement No. 34.) While other units of government were required to implement

Management Discussion and Analysis
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these changes for the fiscal year ended June 30, 2002 or 2003, Charter Day School was required to implement GASB Statement No. 34 as of June 30, 2004.

Because of the new reporting model, comparative data for all segments and/or sections of this report are not available. Where comparative numbers are available, they have been included. Future years' reports will have more comparative data that will facilitate relevant, comparative analysis.

Figure 2

Charter Day School's Net Assets

	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 60,260	\$ 40,781	\$ 101,041
Capital assets	7,290	7,319	14,609
Total assets	<u>67,550</u>	<u>48,100</u>	<u>115,650</u>
Other liabilities	59,618	-	59,618
Total liabilities	<u>59,618</u>	<u>-</u>	<u>59,618</u>
Invested in capital assets, net of related debt	7,290	7,319	14,609
Unrestricted	642	40,781	41,423
Total net assets	<u>\$ 7,932</u>	<u>\$ 48,100</u>	<u>\$ 56,032</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial condition. The assets of Charter Day School exceeded liabilities by \$56,032 as of June 30, 2004. The School's net assets increased by \$39,357 for the fiscal year ended June 30, 2004.

Several aspects of the School's financial operations positively influenced the total unrestricted governmental net assets:

- Total funding increased proportionately with a 51% increase in student enrollment.
- Although total funding and enrollment increased by 51%, administrative expenses increased at a much lesser rate.
- The School was able to obtain the required additional classroom facilities at the same below-market rates as established in 2000.

Figure 3

Charter Day School's Changes in Net Assets

	Governmental Activities	Business-Type Activities	Total
Fund raising	\$ -	\$ 67,112	\$ 67,112
Operating grants and contributions	133,968	-	133,968
County, State, and Federal funds	2,111,541	-	2,102,293
Total revenues	<u>2,245,509</u>	<u>67,112</u>	<u>2,303,373</u>
Instructional programs	1,318,874	-	1,318,874
Support services	905,121	-	905,121
Fund raising	-	48,328	48,328
Interest on short-term debt	941	-	941
Total expenses	<u>2,224,936</u>	<u>48,328</u>	<u>2,273,264</u>
Increase in net assets before transfers	20,573	18,784	39,357
Transfers	<u>-</u>	<u>-</u>	<u>-</u>
Increase in net assets	20,573	18,784	39,357
Net assets, July 1	(12,641)	29,316	16,675
Net assets, June 30	<u>\$ 7,932</u>	<u>\$ 48,100</u>	<u>\$ 56,032</u>

Governmental activities. Governmental activities increased the School's net assets by \$20,573.

Business-type activities. Business-type activities increased Charter Day School's net assets by \$18,784.

Financial Analysis of the School's Funds

As noted earlier, Charter Day School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

Management Discussion and Analysis
Charter Day School
June 30, 2004

requirements. Specifically, Unreserved Fund Balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of Charter Day School. At the end of the current fiscal year, Unreserved Fund Balance of the General Fund was \$642.

Proprietary Funds. The School's proprietary funds provide similar, but more detailed information as the government-wide statements. Unrestricted Net Assets of the School Fund Raising Fund at the end of the fiscal year amounted to \$48,100. The total growth in net assets for the School Fund Raising Fund over the prior year was \$18,748.

Capital Asset and Debt Administration

Capital assets. Charter Day School's investment in capital assets for its governmental and business-type activities as of June 30, 2004 totals \$14,609 (net of accumulated depreciation). Capital assets include electronic equipment and playground equipment.

There was no major capital asset transaction during the year.

Figure 4

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

	Governmental Activities	Business-Type Activities	Total
Electronic equipment	\$ 7,290	7,319	\$ 14,609
Total	<u>\$ 7,290</u>	<u>\$ 7,319</u>	<u>\$ 14,609</u>

Additional information about the School's capital assets can be found in Note III.A.2. of the Basic Financial Statements.

Long-term Debt. As of June 30, 2004, Charter Day School had no outstanding debt.

Economic Factors. The following key indicators reflect the acceptance and recognition of the School by the community and therefore presage the economic demands that are present by virtue of having to finance accelerating growth:

Management Discussion and Analysis
Charter Day School
June 30, 2004

- Over \$65,000 was raised from parents and friends in the community through four fund raisers put on by the children. After expenses, these funds purchased playground equipment, and a small activity building will be ordered.
- The 51% increase in enrollment over the prior year – from 253 to 382.
- The 86.5% of students at or above grade level meriting School of Distinction designation and meeting No Child Left Behind's Adequate Yearly Growth (AYP) goals.
- Over 570 student registrations were received by February, 2004, for 520 slots the next year, 2004-2005.

Such factors evidence the demands on the School by the parents and community that will require additional financing in future years. As specified in the charter application, Charter Day School intends to continue expansion on the 50-acre site through middle school and high school on a grade-by-grade basis – subject to available financing.

The K-5 elementary school classrooms are all now completely built out by the landlord and are in full use.

During the 2003-2004 year, the Board directed the management company to recruit and hire a full-time Director of Development to assist in formalizing and conducting two fund-raising programs: a capital campaign and a curricula development program. First, a long-range capital campaign to seek additional support from community businesses, corporations with regional interests, and foundations which target activities of the type engaged in by the School will be launched. Second, support for the School's unique development of a science curriculum that satisfies the shortcomings identified in a number of national studies will be sought.

Continued careful management of the School's financial resources and building relationships with possible new major donors as undertaken in 2003-2004 will accelerate to meet the demands for growth.

Requests for Information

This report is designed to provide an overview of the School's finances for interested users. Questions concerning any of the information found in this report or requests for additional information should be directed to the attention of the Finance Officer, Charter Day School, 7055 Bacon's Way, Leland, NC 28451, telephone (910) 655-1214.

Charter Day School
Statement of Net Assets
June 30, 2004

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
ASSETS			
Cash and cash equivalents	\$ 53,914	\$ 40,781	\$ 94,695
Receivables (net)	6,346	-	6,346
Capital assets (Note 1):			
Land, improvements, and construction in progress	-	-	-
Other capital assets, net of depreciation	7,290	7,319	14,609
Total capital assets	7,290	7,319	14,609
Total assets	67,550	48,100	115,650
LIABILITIES			
Accounts payable - related parties	59,618	-	59,618
Accrued salaries and wages payable	-	-	-
Long-term liabilities:			
Due within one year	-	-	-
Due in more than one year	-	-	-
Total liabilities	59,618	-	59,618
NET ASSETS			
Invested in capital assets, net of related debt	7,290	7,319	14,609
Restricted for:			
Clubs and activities	-	-	-
Unrestricted (deficit)	642	40,781	41,423
Total net assets	\$ 7,932	\$ 48,100	\$ 56,032

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

Charter Day School
Statement of Activities
For the Year Ended June 30, 2004

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental Activities:							
Instructional programs	\$ 1,318,874	\$ -	\$ 92,206	\$ -	\$ (1,226,668)	\$ -	\$ (1,226,668)
Support services	905,121	-	41,762	-	(863,359)	-	(863,359)
Community services	-	-	-	-	-	-	-
Non-programmed charges	-	-	-	-	-	-	-
Interest on short-term debt	941	-	-	-	(941)	-	(941)
Total governmental activities	2,224,936	-	133,968	-	(2,090,968)	-	(2,090,968)
Business-type activities:							
School food service	-	-	-	-	-	-	-
Fund Raising	48,328	67,112	-	-	-	18,784	18,784
Total business-type activities	48,328	67,112	-	-	-	18,784	18,784
Total primary government	\$ 2,273,264	\$ 67,112	\$ 133,968	\$ -	(2,090,968)	18,784	2,109,752
General revenues:							
Unrestricted county appropriations					557,190	-	557,190
Unrestricted State appropriations					1,545,103	-	1,545,103
Unrestricted Federal appropriations					-	-	-
Donations - general					-	-	-
Investment earnings, unrestricted					-	-	-
Miscellaneous, unrestricted					9,248	-	9,248
Transfers					-	-	-
Total general revenues, special items, and transfers					2,111,541	-	2,111,541
Change in net assets					20,573	18,784	39,357
Net assets-beginning					(12,641)	29,316	16,675
Net assets-ending					\$ 7,932	\$ 48,100	\$ 56,032

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

**Charter Day School
Balance Sheet
Governmental Funds
June 30, 2004**

	Major Funds		Total Non-major Funds	Total Governmental Funds
	General	State Public School	Federal Grants	
ASSETS				
Cash and cash equivalents	\$ 53,914	\$ -	\$ -	\$ 53,914
Accounts Receivable - net	6,346	-	-	6,346
Total assets	<u>\$ 60,260</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60,260</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 59,618	\$ -	\$ -	\$ 59,618
Short term note payable	-	-	-	-
Total liabilities	<u>59,618</u>	<u>-</u>	<u>-</u>	<u>59,618</u>
Fund balances:				
Reserved for:				
Inventories	-	-	-	-
Prepaid items	-	-	-	-
Unreserved, General Fund	642	-	-	642
Unreserved, reported in:				
Special Revenue Fund	-	-	-	-
Capital Projects Fund	-	-	-	-
Total fund balances	<u>642</u>	<u>-</u>	<u>-</u>	<u>642</u>
Total liabilities and fund balances	<u>\$ 60,260</u>	<u>\$ -</u>	<u>\$ -</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	7,290
Liabilities for earned but deferred revenues in fund statements.	-
Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds (Note 5).	-
Net assets of governmental activities	<u>\$ 7,932</u>

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

Charter Day School
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2004

	Major Funds		Total Non-major Funds	Total Governmental Funds
	General	State Public School	Federal Grants	
REVENUES				
State of North Carolina	\$ -	\$ 1,573,190	\$ -	\$ 1,573,190
Local education agencies	557,190	-	-	557,190
U.S. Government	-	-	105,881	105,881
Contributions and donations	-	-	-	-
Other	9,248	-	-	9,248
Total revenues	566,438	1,573,190	105,881	2,245,509
EXPENDITURES				
Current:				
Instructional programs	190,457	1,055,393	65,734	1,311,584
Support services	347,779	517,194	40,147	905,120
Non-programmed charges	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest and other charges	339	603	-	942
Total expenditures	538,575	1,573,190	105,881	2,217,646
Excess (deficiency) of revenues over expenditures	27,863	-	-	27,863
OTHER FINANCING SOURCES (USES)				
Transfers to other funds	-	-	-	-
Capital lease obligations issued	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balance	27,863	-	-	27,863
Fund balances-beginning	(27,221)	-	-	(27,221)
Fund balances-ending	\$ 642	\$ -	\$ -	\$ 642

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

Charter Day School
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2004

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

Net changes in fund balances - total governmental funds	\$ 27,863
Change in fund balance due to change in reserve for inventory	-
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period	(7,290)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Amount of donated assets	-
Difference in accrued investment income and income reported in fund statements	-
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	-
Difference in accrued interest payable and interest expensed on fund statements	-
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Compensated absences	-
Loss on disposal of assets	-
Total changes in net assets of governmental activities	<u>\$ 20,573</u>

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

Charter Day School
Statement of Net Assets
Proprietary Fund
June 30, 2004

	Enterprise Fund
	Major Fund
	Fund Raising
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 40,781
Due from other governments	-
Receivables (net)	-
Inventories	-
Total current assets	<u>40,781</u>
Noncurrent assets:	
Capital assets:	
Playground equipment, net	7,319
Computer equipment, net	-
Total noncurrent assets	<u>7,319</u>
Total assets	<u>\$ 48,100</u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued expenses	\$ -
Due to other funds	-
Total current liabilities	<u>-</u>
Long-term liabilities:	
Due within one year	-
Due in more than one year	-
Total long-term liabilities	<u>-</u>
Total liabilities	<u>-</u>
NET ASSETS	
Invested in capital assets, net of related debt	7,319
Unrestricted	40,781
Total net assets	<u>\$ 48,100</u>

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

Charter Day School
 Statement of Revenues, Expenses, and Changes in Fund Net Assets
 Proprietary Fund
 For the Year Ended June 30, 2004

	Enterprise Fund
	Major Fund
	Fund Raising
OPERATING REVENUES	
Fund raising income	\$ 67,112
Total operating revenues	<u>67,112</u>
OPERATING EXPENSES	
Fund raising expenses	47,663
Depreciation Expense	665
Total operating expenses	<u>48,328</u>
Operating income (loss)	<u>18,784</u>
NONOPERATING REVENUES (EXPENSES)	
Federal reimbursements	-
Total nonoperating revenue	<u>-</u>
(expenses)	-
Income (loss) before contributions	<u>-</u>
and transfers	18,784
Capital contributions	-
Transfers from other funds	-
Change in net assets	<u>18,784</u>
Total net assets - beginning	29,316
Total net assets - ending	<u><u>\$ 48,100</u></u>

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

Charter Day School
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2004

	Enterprise Fund
	Major Fund
	Fund Raising
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 67,112
Cash paid for goods and services	(47,663)
Cash paid to employees for services	-
Net cash provided (used) by operating activities	19,449
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Federal reimbursements	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital contributions	-
Acquisition of capital assets	(7,984)
Net cash (used) by capital and related financing activities	(7,984)
Net increase (decrease) in cash and cash equivalents	11,465
Balances-beginning of the year	29,316
Balances-end of the year	<u>\$ 40,781</u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 18,784
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	665
Salaries paid by special revenue fund	-
Changes in assets and liabilities:	
(Increase) in due from other governments	-
Decrease in accounts receivable	-
(Increase) in inventory	-
Increase (decrease) in accounts payable and accrued liabilities	-
Increase in salaries and wages payable	-
Total adjustments	665
Net cash provided by operating activities	<u>\$ 19,449</u>

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

Charter Day School
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

The Charter Day School is a public school operated by a local non-profit corporation, serving approximately 382 students. The School operates under an approved charter received from the SBE, and applied for under the provisions of General Statute (G.S.) 115C-238.29B. G.S. 115C-238.29F(f)(1) states that a charter school shall be subject to the audit requirements adopted by the SBE, which includes the audit requirements established by G.S. 115C-447 of the School Budget and Fiscal Control Act (SBFCA). G.S. 115C-447 also requires financial statements to be prepared in accordance with GAAP.

B. Basis of Presentation

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

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

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

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

The School reports the following major governmental funds:

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

State Public School Fund. The State Public School Fund includes appropriations from the Department of Public Instruction for current operating needs of the public school system.

The School reports the following major enterprise fund:

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

D. Budgetary Data

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

The governing board has voluntarily established the policy, as a sound business practice, that expenditures may not exceed appropriations, for all of the School's funds, based on the adopted budget and subsequent amendments. During the year, several amendments to the original budget were necessary, the effects of which were not material. The budget presented in these financial statements represents the budget of the School at June 30, 2004. All appropriations lapse at year end.

E. Assets, Liabilities, and Fund Equity

1. Deposits and Investments

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

2. Cash and Cash Equivalents

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

3. Capital Assets

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

It is the policy of the School to capitalize all capital assets costing more than \$1,000 with an estimated useful life of two or more years. In addition, other items which are purchased and used in large quantities such as student desks and office furniture are capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. All depreciable assets are depreciated using the straight-line method of depreciation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated over the following estimated useful lives:

	<u>Years</u>
Electronic equipment	3
Playground equipment	7

4. Long-term obligations

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

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

5. Compensated Absences

Employees earn 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 unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the School has no obligation for accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

6. Net Assets/Fund Balances

Net assets in the government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

In the governmental fund financial statements, reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

The governmental fund types classify fund balances as follows:

Reserved:

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

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

Unreserved:

Designated for subsequent year's expenditures - portion of total fund balance available for appropriation which has been designated for the adopted 2004-05 budget ordinance.

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

7. The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. The net adjustment of \$7,290 consists of several elements as follows:

<u>DESCRIPTION</u>	<u>AMOUNT</u>
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column).	\$21,870
Less accumulated depreciation	(14,580)
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not reported in the fund statements:	
Bonds, leases, and installment financing	-
Compensated absences	-
Accrued interest payable	-
Total adjustment	<u>\$7,290</u>

F. Revenues, Expenditures, and Expenses

1. Funding

The Charter Day School is funded by the State Board of Education, receiving (i) an amount equal to the average per pupil allocation for the average daily membership (ADM) from the local school administrative unit allotments in which the school is located (i.e. New Hanover County Board of Education) for each child attending the School except for the allocation for children with special needs and (ii) an additional amount for each child attending the School who is a child with special needs [G.S. 115C-238.29H(a)]. Additionally, the appropriate local school administrative unit(s) transfers to the School, for each student who resides in the local administrative unit and attends the charter school, an amount equal to the per pupil local current expense appropriation to the respective local school administrative unit for the fiscal year. [G.S. 115C-238.29H(b)]. For the fiscal year ended June 30, 2004, the Charter Day School received funding from the Boards of Education for Brunswick, Bladen, Columbus, New Hanover and Pender Counties.

Furthermore, Charter Day School has received donations of cash and/or equipment from private organizations. The cash has been used for the purchase of new equipment for the School's facilities.

2. Reconciliation between government-wide and fund statements

The governmental fund statement of revenues, expenditures, and changes in fund balance is followed by a reconciliation between the change in fund balance –governmental activities and the change in net assets – governmental funds as reported on the government-wide statement of activities. The net difference of \$(48,372) between the two amounts consists of the following elements:

<u>DESCRIPTION</u>	<u>AMOUNT</u>
Capital outlay expenditures recorded in the fund statements but capitalized as assets on the statement of activities.	\$ -
Depreciation expense that is recorded on the statement of activities but not in the fund statements.	(7,290)
New debt issued during the year is recorded as a source of funds on the fund statements but has no effect on the statement of activities, only the statement of net assets.	-
Principal payments on debt owed are recorded as a use of funds on the fund statements but again affect only the statement of net assets in the government-wide statements.	-
Expenses reported on the statement of activities that do not require the use of current resources to pay are not recorded as expenditures in the fund statements.	
Difference in interest expense between fund statements (modified accrual) and government-wide statements (full accrual).	-
Compensated absences are accrued in the government-wide statements but not in the fund statements, as they do not use current resources.	-
Total	<u>\$(7,290)</u>

G. 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.

B. Deficit Fund Balance or Net Assets of Individual Funds

None.

III. Detail Notes on All Funds

A. Assets

1. Deposits

At June 30, 2004, the School had deposits with banks and savings and loans with a carrying amount of \$94,695. The bank balance with the financial institutions was \$99,124, which was covered by federal depository insurance.

2. Capital Assets

Capital asset activity for the year ended June 30, 2004, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets being depreciated:				
Electronic equipment	\$ 21,870	\$ -	\$ -	\$ 21,870
Total capital assets being depreciated	21,870	-	-	21,870
Less accumulated depreciation for:				
Electronic equipment	7,290	7,290	-	14,580
Total accumulated depreciation	7,290	\$ 7,290	\$ -	14,580
Total capital assets being depreciated, net	14,580			7,290
Governmental activity capital assets, net	\$ 14,580			\$ 7,290

Depreciation expense was charged to governmental functions as follows:

Instructional programs	\$7,290
Supporting services	-0-
	<u>\$7,290</u>

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets being depreciated:				
Playground equipment	\$ -	\$ 7,984	\$ -	\$ 7,984
Total capital assets being depreciated	-	7,984	-	7,984
Less accumulated depreciation for:				
Playground equipment	-	665	-	665
Total accumulated depreciation	-	\$ 665	\$ -	665
Total capital assets being depreciated, net	-			7,319
Business-type activity capital assets, net	\$ -			\$ 7,319

B. Liabilities

1. Pension Plan Obligations

a. Retirement Plan

The School maintains a simple IRA retirement plan for the benefit of its employees. The School will match up to a maximum of 3% of the employee's gross salary. Employees may contribute an unlimited portion of their salary into the retirement plan, with tax deductible amounts up to the amounts allowable by the Internal Revenue Service. The Charter Day School made all required contributions. For the year ended June 30, 2004, the retirement cost to the School was \$6,322, with members contributing \$11,605.

2. Unearned Revenues

At June 30, 2004, there were no unearned revenues.

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, 2004.

5. Short-Term Note Payable

The School has a line of credit with Branch Banking and Trust Company for a maximum of \$50,000. The line of credit is valid for one year from inception, with interest payments due monthly. The School made several draws and repayments during the year. There was not a balance on the line of credit on June 30, 2004.

The School also borrowed \$5,000 from Roger Bacon Academy to meet its payroll obligations during the year. There was not a balance on this loan at June 30, 2004.

The following is the details of short-term loans during the year:

Creditor	6/30/2003 Balance	Additions	Total Payments	6/30/2004 Balance
Branch Bank & Trust	\$ 50,000	\$ -	\$ 50,000	\$ -
Roger Bacon Academy	-	5,000	5,000	-
Totals	<u>\$ 50,000</u>	<u>\$ 5,000</u>	<u>\$ 55,000</u>	<u>\$ -</u>

Interest paid to Branch Banking and Trust (approx 2%)	\$ 912
Interest paid to Roger Bacon Academy (1%)	<u>50</u>
Total interest paid during the year ended June 30, 2004	<u>\$ 962</u>

6. Long-Term Obligations

a. Capital Leases

The School was not party to a capital lease during the year ended June 30, 2004.

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 \$18,249 for the year ending June 30, 2004. 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 calculated on the schedule below are based on the rent amount as of July 1, 2004.

The School rents Computers, Furniture and Equipment from Coastal Habitat Conservancy, LLC under a two-year lease. The rent is payable in monthly installments of \$3,972 for the year ending June 30, 2004. The contract runs through July 1, 2005. Future minimum lease payments are included in the schedule below.

The School also entered into a two-year lease beginning on July 1, 2004 to rent additional computers, furniture and equipment from Coastal Habitat Conservancy, LLC. The rent is payable in monthly installments of \$2,350 beginning in the year ended June 30, 2005. Future minimum lease payments are included in the schedule below.

Year Ending June 30	
2005	\$ 374,448
2006	326,784
2007	298,584
2008	298,584
2009	298,584
2010-2011	598,584

Actual rent payments under all operating lease during the year ended June 30, 2004 were \$261,978.

C. Interfund Balances and Activity

There were no interfund balances at June 30, 2004.

V. Related Party Transactions

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

On July 18, 2001, Charter Day School entered into an agreement with Roger Bacon Academy for management and faculty services. Roger Bacon Academy provides supervision and administration services for the management, operation and maintenance of the School in accordance with the educational program as adopted by the Board of the School and included in its operational documents. Any documents or policies adopted by the Board of the School may be modified from time to time in the sole and absolute discretion of the Board.

Roger Bacon Academy is entitled to compensation for its services based on 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 year ended June 30, 2004, management and maintenance fees were paid to Roger Bacon Academy in the amount of \$630,110. Rent paid to Roger Bacon Academy for use of facility and equipment was \$218,984 and \$42,994, respectively, for the year ended June 30, 2004.

At June 30, 2004, the School owed Roger Bacon Academy \$59,618 in management fees and reimbursable expenditures. This amount has been accrued on the financial statements as a separate line item.

Mark Cramer, headmaster of Charter Day School, is an employee of the Roger Bacon Academy. Mr. Cramer is also on the board of trustees. The School made no direct payments to Mr. Cramer during the year ended June 30, 2004.

VI. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

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

VII. Significant Effects of Subsequent Events

None.

NON-MAJOR FUNDS

Federal Grants Fund -

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

**Charter Day School
Non-Major Governmental Funds
Combining Balance Sheet
as of June 30, 2004**

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

Charter Day School
Non-Major Governmental Funds
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
For the Fiscal Year Ended June 30, 2004

	Special Revenue Funds
	Totals 2004
Revenues:	
U.S. Government:	
Idea VI-B Capacity	\$ 9,170
Charter School Competitive Grant	40,147
Title I - Basic Funding	20,889
Title VI - Formula Grant	1,345
Idea VI-B Handicapped	26,378
Improving Teacher Quality	7,952
Total	<u>105,881</u>
Donations	-
Other	-
Total	<u>-</u>
Total revenues	<u>105,881</u>
Expenditures:	
Current:	
Instructional programs:	
Regular programs	3,708
Special programs	54,688
Other	7,338
Total	<u>65,734</u>
Support services:	
Pupil services	-
Instructional staff services	-
General administrative	40,147
School administrative	-
Club and activity expenditures	-
Total	<u>40,147</u>
Non-programmed charges:	
Other	-
Total	<u>-</u>
Total expenditures	<u>105,881</u>
Revenues over expenditures	<u>-</u>
Fund balances:	
Beginning of year, July 1	-
End of year, June 30	<u><u>\$ -</u></u>

Charter Day School
All Fund Types
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2004

	2004		
	Final Budget	Actual	Favorable (Unfavorable) Variance
Revenues:			
State of North Carolina	\$ 1,573,190	\$ 1,573,190	\$ -
Board(s) of Education:			
Bladen County	9,102	9,102	-
Brunswick County	371,637	371,637	-
Columbus County	106,131	106,131	-
New Hanover County	63,303	68,220	4,917
Pender County	2,100	2,100	-
U.S. Government	106,058	105,881	(177)
Fines and forfeitures	6,955	8,384	1,429
Fund raising	60,024	67,112	7,088
Others	-	863	863
Total	<u>2,298,500</u>	<u>2,312,620</u>	<u>14,120</u>
Expenditures:			
Current:			
Instructional programs:			
Regular programs	-	1,030,699	-
Special programs	-	135,185	-
Other	-	145,700	-
Total instructional programs	<u>1,336,641</u>	<u>1,311,584</u>	<u>25,057</u>
Support services:			
Pupil services	-	15,564	-
Instructional staff services	-	888,056	-
Administrative services	-	1,500	-
Total support services	<u>924,385</u>	<u>905,120</u>	<u>19,265</u>
Non-programmed charges:			
Other	-	-	-
Total non-programmed charges	<u>-</u>	<u>-</u>	<u>-</u>
Fund raising Expenses:			
Fund raising Expenses	-	47,663	-
Depreciation expense	-	665	-
Total food service	<u>54,574</u>	<u>48,328</u>	<u>6,246</u>

(continued)

(continued)

Charter Day School
All Fund Types
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2004

	2004		
	Final Budget	Actual	Favorable (Unfavorable) Variance
Child care expenditures			
Salaries and benefits	-	-	-
Materials and supplies	-	-	-
Contracted services	-	-	-
Total child care	-	-	-
Capital outlay	-	-	-
Debt service:			
Principal	-	-	-
Interest and other charges	963	941	22
Total debt service	963	941	22
Total expenditures	2,316,563	2,265,973	50,590
Other financing sources (uses):			
Transfers out	-	-	-
Transfers in	-	-	-
Federal reimbursements	-	-	-
Capital lease obligations issued	-	-	-
Total other financing sources and (uses)	-	-	-
Capital contributions	-	-	-
Excess of revenue over expenditures	\$ (18,063)	\$ 46,647	\$ 64,710

COMPLIANCE SECTION
CHARTER DAY SCHOOL
LELAND, NORTH CAROLINA
JUNE 30, 2004



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PETWAY
MILLS &
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Certified Public Accountants

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

Board of Directors
Charter Day School
Leland, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregated remaining fund information of Charter Day School, North Carolina, as of and for the year ended June 30, 2004, which collectively comprises the Charter Day School's basic financial statements, and have issued our report thereon dated September 27, 2004. 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.

As discussed in Note I to the financial statements, the School adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments (as amended by Statement No. 37) during the year ended June 30, 2004.

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.

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 27, 2004

MPM&H

MERRITT
PETWAY
MILLS &
HOCKADAY, PA

Certified Public Accountants

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

Board of Directors
Charter Day School
Leland, North Carolina

COMPLIANCE

We have audited the compliance of the Charter Day School, North Carolina, with the types of compliance requirements described in the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that are applicable to each of its major State programs for the year ended June 30, 2004. 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, 2004.

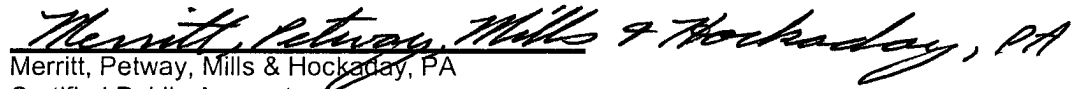
INTERNAL CONTROL OVER COMPLIANCE

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.

As discussed in Note I to the financial statements, the School adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments (as amended by Statement No. 37) during the year ended June 30, 2004.

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
Certified Public Accountants

September 27, 2004

CHARTER DAY SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004

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, 2004

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, 2004

SECTION II. -- FINANCIAL STATEMENT FINDINGS

None required.

SECTION III. -- STATE AWARD FINDINGS AND QUESTIONED COSTS

None required.

CHARTER DAY SCHOOL
SUMMARY SCHEDULE OF PRIOR YEARS' AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004

All findings from prior years have been corrected.

CHARTER DAY SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

GRANTOR/PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	STATE/ PASS-THROUGH GRANTOR'S NUMBER	EXPENDITURES
FEDERAL GRANTS:			
CASH ASSISTANCE:			
<u>US Department of Education</u>			
Idea VI-B Capacity Grant	84.027		\$ 9,170
Charter School Competitive Grant	84.282		40,147
Title 1 Basic Funding	84.010		20,889
Title VI-Formula Grant	84.298		1,345
Idea VI-B Handicapped Grant	84.027		26,378
Improving Teacher Quality	84.336		<u>7,952</u>
TOTAL FEDERAL CASH ASSISTANCE			<u>105,881</u>
NC STATE GRANTS:			
CASH ASSISTANCE			
<u>NC Department of Public Instruction</u>			
State Public School Funds (PRC 36 -- Charter School Funds)		XXXX	<u>1,573,190</u>
TOTAL FEDERAL AND STATE AWARDS			<u><u>\$ 1,679,071</u></u>

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

Basis of Presentation

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of Charter Day School and is presented on the modified accrual basis of accounting. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

LETTER OF RECOMMENDATIONS TO MANAGEMENT

CHARTER DAY SCHOOL

LELAND, NORTH CAROLINA

JUNE 30, 2004



MERRITT
PETWAY
MILLS &
HOCKADAY, PA

Certified Public Accountants

Leslie W. Merritt, Jr.
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Memberships:

North Carolina
Association of
Certified Public
Accountants

American Institute
of Certified Public
Accountants

International Board
of Standards and
Practices for
Certified Financial
Planners

September 27, 2004

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, 2004. While we issued an unqualified ("clean") opinion on the School's financial records, we noted matters that require attention by the School's management.

Internal Control Issues

1. We recommend the School perform an assessment of fraud risk factors. This assessment should include ways that fraud could be committed at the School. After discussion of these possibilities, the board should develop a plan of compensating controls to reduce or prevent fraud from occurring at the School.

Please feel free to contact us to discuss the recommendation 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