

FINANCIAL STATEMENTS
CHARTER DAY SCHOOL
LELAND, NORTH CAROLINA
JUNE 30, 2007

CHARTER DAY SCHOOL
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JUNE 30, 2007

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FINANCIAL SECTION
CHARTER DAY SCHOOL
LELAND, NORTH CAROLINA
JUNE 30, 2007

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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, 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, 2007 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.

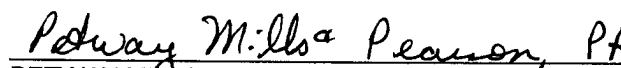
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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, each major fund, and the aggregate remaining fund information of the Charter Day School, North Carolina as of June 30, 2007, 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 12, 2007 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.

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.



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

September 12, 2007

Management's Discussion and Analysis

Charter Day School

June 30, 2007

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, 2007. 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.

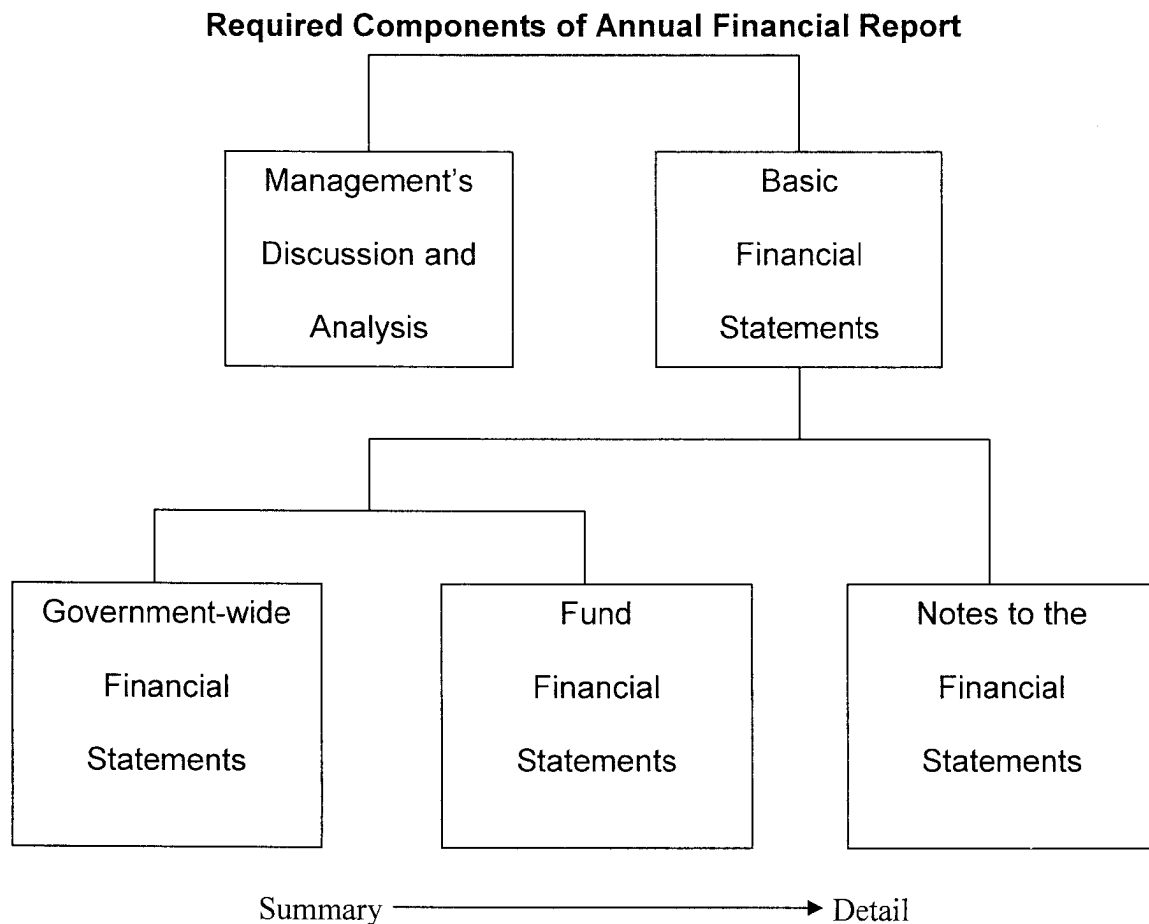
Financial Highlights

- The assets of Charter Day School exceeded its liabilities at the close of the fiscal year by \$650,632 (*net assets*).
- The School's total net assets increased by \$258,446, due to increases in the governmental activities net assets.
- As of the close of the current fiscal year, Charter Day School's governmental funds reported combined ending fund balances of 650,632, an increase of \$258,446 in comparison with the prior year.
- As of the close of the current fiscal year, Charter Day School reported fixed assets net of depreciation of \$153,316, an increase of \$79,676 in comparison with the prior year's \$73,640.
- Enrollment continues to increase at the School, rising by 97 students in 2006-2007, a 16% approximate increase. The 2005-2006 ADM was 607 and the 2006-2007 was 704.
- Grade Level Eight was added in the 2006-2007 school year.
- Charter Day School has no long-term debt.

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



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 governmental fund statements. These statements are more detailed than the government-wide financial statements. There are two parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the proprietary fund statements.

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

Management's Discussion and Analysis
Charter Day School
June 30, 2007

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. These include the School Activities services 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 uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related statutory requirements where and 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 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 reconciliation, which is an integral part of the fund financial statements.

Management's Discussion and Analysis
Charter Day School
June 30, 2007

Although not compelled or required to do so by federal, state, or local law, Charter Day School has elected to adopt an annual budget. Since the budget is not required by law, the budgetary comparison statements are not included in the basic financial statements, but are part of the supplemental statements and schedules following the notes. The budget incorporates input from the management and the Board of Directors of the School and specifies which activities will be pursued and which services the School will provide during the year. It also authorizes the School to obtain funds from identified sources to finance current period activities. The budgetary statement demonstrates how well the School has complied with the budget and whether or not the School has succeeded in providing the services at the costs as originally planned.

Proprietary Funds – Charter Day School does not have a proprietary fund.

Notes to the Financial Statements – The notes provide additional information essential to facilitating a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 20 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as one useful indicator of a school's financial condition. The assets of Charter Day School exceeded liabilities by \$650,632 as of June 30, 2007. As of June 30, 2006, the net assets of Charter Day School stood at \$392,186. The School's net assets increased by \$258,446 for the fiscal year ended June 30, 2007, compared to an increase of \$207,428 in 2006. The amount of \$153,316 reflects the School's investment in capital assets (e.g. electronic equipment, textbooks, and playground equipment). Charter Day School uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. The remaining balance of \$497,316 is unrestricted. In 2006, the amount of net assets invested in capital assets net of related debt was \$73,460. The remaining \$318,546 was unrestricted net assets for that year.

Management's Discussion and Analysis
Charter Day School
June 30, 2007

Figure 2
Charter Day School's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 501,861	\$ 353,740	\$ -	\$ -	\$ 501,861	\$ 353,740
Capital assets, net of depreciation	153,316	73,640	-	-	153,316	73,640
Total assets	655,177	427,380	-	-	655,177	427,380
Other liabilities	4,545	35,194	-	-	4,545	35,194
Total liabilities	4,545	35,194	-	-	4,545	35,194
Invested in capital assets, net of related debt	153,316	73,640	-	-	153,316	73,640
Unrestricted	497,316	318,546	-	-	497,316	318,546
Total net assets	\$ 650,632	\$ 392,186	\$ -	\$ -	\$ 650,632	\$ 392,186

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

- The School adopted an annual budget. The School's performance was measured using this budget on a monthly basis, allowing changes to be made in spending as needed to remain within the confines of the budget.
- The School applied for and was awarded several federal grants to assist with meeting the educational needs of the student population.
- Funding increased proportionately with the 16 percent increase in the student enrollment.
- The School continued to obtain additional classroom space at very competitive rental rates.

Management's Discussion and Analysis
Charter Day School
June 30, 2007

Figure 3
Charter Day School's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Other Revenues	\$ 32,681	\$ 21,551	\$ -	\$ -	\$ 32,681	\$ 21,551
Charges for Services	-	-	-	-	-	-
Operating Grants and Contributions	220,958	173,245	-	-	220,958	173,245
County, State, and Federal Funds	4,684,200	3,797,101	-	-	4,684,200	3,797,101
Total revenues	4,937,839	3,991,897	-	-	4,937,839	3,991,897
Instructional Programs	3,743,515	2,959,118	-	-	3,743,515	2,959,118
Support services	935,878	825,351	-	-	935,878	825,351
Fund raising	-	-	-	-	-	-
Interest on short-term debt	-	-	-	-	-	-
Total expenses	4,679,393	3,784,469	-	-	4,679,393	3,784,469
Increase (Decrease) in net assets before transfers	258,446	207,428	-	-	258,446	207,428
Transfers	-	6,178	-	(6,178)	-	-
Increase (Decrease) in net assets	258,446	213,606	-	(6,178)	258,446	207,428
Net assets, July 1	392,186	178,580	-	6,178	392,186	184,758
Net assets, June 30	\$ 650,632	\$ 392,186	\$ -	\$ -	\$ 650,632	\$ 392,186

Governmental activities. Governmental activities increased the School's net assets by \$258,446.

Business-type activities. Charter Day School does not have a proprietary fund.

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 requirements. Specifically, unreserved fund balance can be a useful measure of the School'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 \$497,316.

Proprietary Funds. Charter Day School does not operate any proprietary funds.

Management's Discussion and Analysis
Charter Day School
June 30, 2007

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, 2007, totals \$153,316 (net of accumulated depreciation). Capital assets include textbooks and playground equipment. The capital asset purchases during the year included \$96,671 of textbooks and \$24,521 of computers.

Figure 4
Charter Day School's Capital Assets
 (net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Textbooks	\$ 128,576	\$ 68,602	\$ -	\$ -	\$ 128,576	\$ 68,602
Playground equipment	3,897	5,038	-	-	3,897	5,038
Computers	20,843	-	-	-	20,843	-
Total	\$ 153,316	\$ 73,640	\$ -	\$ -	\$ 153,316	\$ 73,640

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, 2007, Charter Day School had no outstanding debt.

Economic Factors

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

- The low unemployment rate in Brunswick and New Hanover Counties has increased revenues in these counties and contributed to the increased funding to all public schools in the area, including charter schools. On the other hand, funding from high unemployment counties such as Columbus and Bladen has provided substantially lower revenues per pupil. Overall, however, the school operated with substantially lower amounts (nearly 30% less) than other public schools because it receives no capital funding and must pay rent out of its operating revenue.
- The extremely high growth rate of Brunswick County will continue to increase the number of students applying to the School for the foreseeable future.

As in past years, such factors evidence the demand 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 and replication in nearby counties to try and meet the local demands subject to constraints on the available

Management's Discussion and Analysis
Charter Day School
June 30, 2007

land and on available financing. It was partially for this reason that the fund balance was substantially increased this year.

Careful management of the School's financial resources and building relationships with possible new major donors will continue as in the past; however there is no guarantee that future financing will be available or that any major donors can be found to fund continued expansion.

Requests for Information

This report is designed to provide an overview of the School's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Board Chair, Charter Day School, 7055 Bacon's Way Leland, North Carolina 28451, telephone (910) 655-1214.

Charter Day School
Statement of Net Assets
June 30, 2007

	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
ASSETS			
Cash and cash equivalents	\$ 501,755	\$ -	\$ 501,755
Receivables - other	106	-	106
Capital assets:			
Land, improvements, and construction in progress	-	-	-
Other capital assets, net of depreciation	153,316	-	153,316
Total capital assets	153,316	-	153,316
Total assets	655,177	-	655,177
LIABILITIES			
Accounts payable - trade	4,545	-	4,545
Accrued salaries and wages payable	-	-	-
Long-term liabilities:			
Due within one year	-	-	-
Due in more than one year	-	-	-
Total liabilities	4,545	-	4,545
NET ASSETS			
Invested in capital assets, net of related debt	153,316	-	153,316
Restricted for:			
Clubs and activities	-	-	-
Unrestricted	497,316	-	497,316
Total net assets	\$ 650,632	\$ -	\$ 650,632

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, 2007

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:								
Instructional programs	\$ 3,743,515	\$ -	\$ 220,958	\$ -		\$ (3,522,557)	\$ -	\$ (3,522,557)
Support services	935,878	-	-	-		(935,878)	-	(935,878)
Community services	-	-	-	-		-	-	-
Non-programmed charges	-	-	-	-		-	-	-
Interest on short-term debt	-	-	-	-		-	-	-
Total governmental activities	4,679,393	-	220,958	-		(4,458,435)	-	(4,458,435)
Business-type activities:								
School food service	-	-	-	-		-	-	-
Fund Raising	-	-	-	-		-	-	-
Total business-type activities	-	-	-	-		-	-	-
Total primary government	\$ 4,679,393	\$ -	\$ 220,958	\$ -		(4,458,435)	-	(4,458,435)
General revenues:								
Unrestricted county appropriations						1,120,157	-	1,120,157
Unrestricted State appropriations						3,564,043	-	3,564,043
Unrestricted Federal appropriations						-	-	-
Donations - general						-	-	-
Investment earnings, unrestricted						14,874	-	14,874
Miscellaneous, unrestricted						17,807	-	17,807
Transfers						-	-	-
Total general revenues, special items, and transfers						4,716,881	-	4,716,881
Change in net assets						258,446	-	258,446
Net assets-beginning						392,186	-	392,186
Net assets-ending						\$ 650,632	\$ -	\$ 650,632

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

Charter Day School
Balance Sheet
Governmental Funds
June 30, 2007

	Major Funds		Total Non-major Funds	Total Governmental Funds
	General	State Public School	Federal Grants	
ASSETS				
Cash and cash equivalents	\$ 501,755	\$ -	\$ -	\$ 501,755
Accounts Receivable - other	106	-	-	106
Total assets	<u>\$ 501,861</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 501,861</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable - trade	\$ 4,545	\$ -	\$ -	\$ 4,545
Short term note payable	-	-	-	-
Total liabilities	<u>4,545</u>	<u>-</u>	<u>-</u>	<u>4,545</u>
Fund balances:				
Reserved for:				
Inventories	-	-	-	-
Prepaid items	-	-	-	-
Unreserved, General Fund	497,316	-	-	497,316
Unreserved, reported in:				
Special Revenue Fund	-	-	-	-
Capital Projects Fund	-	-	-	-
Total fund balances	<u>497,316</u>	<u>-</u>	<u>-</u>	<u>497,316</u>
Total liabilities and fund balances	<u>\$ 501,861</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.

153,316

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

\$ 650,632

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

Charter Day School
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007

	Major Funds		Total Non-major Funds	Total Governmental Funds
	General	State Public School	Federal Grants	
REVENUES				
State of North Carolina	\$ -	\$ 3,564,043	\$ -	\$ 3,564,043
Local education agencies	1,120,157	-	-	1,120,157
U.S. Government	51,041	-	169,917	220,958
Contributions and donations	-	-	-	-
Investment earnings	14,874	-	-	14,874
Other	17,807	-	-	17,807
Total revenues	1,203,879	3,564,043	169,917	4,937,839
EXPENDITURES				
Current:				
Instructional programs	343,163	3,230,435	169,917	3,743,515
Support services	560,754	333,608	-	894,362
Non-programmed charges	-	-	-	-
Capital outlay	121,192	-	-	121,192
Debt service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Total expenditures	1,025,109	3,564,043	169,917	4,759,069
Excess (deficiency) of revenues over expenditures	178,770	-	-	178,770
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	-	-	-	-
Proceeds from short-term note	-	-	-	-
Capital lease obligations issued	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balance	178,770	-	-	178,770
Fund balances-beginning	318,546	-	-	318,546
Fund balances-ending	\$ 497,316	\$ -	\$ -	\$ 497,316

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

Charter Day School
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007

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

Net changes in fund balances - total governmental funds	\$ 178,770
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	79,676
--	--------

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	-
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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.

Rounding	-
Compensated absences	-
Loss on disposal of assets	-

\$ 258,446

Total changes in net assets of governmental activities

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

Charter Day School, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007

I. Summary of Significant Accounting Policies

The accounting policies of 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 656 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 non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

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

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

The School reports the following major governmental funds:

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

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

The School reports the following non-major governmental fund:

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

C. Measurement Focus and Basis of Accounting

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

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

Under the terms of grant agreements, the School funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net 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 the supplemental data represents the budget of the School at June 30, 2007. 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>
Textbooks	5
Playground Equipment	7
Electronic	3
Computers	5

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

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 2007-08 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 \$153,317 consists of several elements as follows:

<u>DESCRIPTION</u>	<u>AMOUNT</u>
Capital assets used in governmental activities are not financial resources are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column).	\$ 244,568
Less accumulated depreciation	(91,252)
Total adjustment	\$ 153,316

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, 2007, the Charter Day School received funding from the Boards of Education for Bladen County, Brunswick County, Columbus County, New Hanover County, Pender County, and Whiteville City.

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 \$79,676 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.	\$ 121,192
Depreciation expense that is recorded on the statement of activities but not in the fund statements.	(41,516)
Total	<u>\$ 79,676</u>

II. Stewardship, Compliance, and Accountability

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

None.

Contractual Violations

None.

B. Deficit Fund Balance or Net Assets of Individual Funds

None.

III. Detail Notes on All Funds

A. Assets

1. Deposits

At June 30, 2007, the School had deposits with banks and savings and loans with a carrying amount of \$501,755. The bank balance with the financial institutions was \$598,677 of which \$100,000 was covered by federal depository insurance. The remaining \$498,677 was a credit risk at June 30, 2007. The School does not have a deposit policy for custodial credit risk.

2. Capital Assets

Capital asset activity for the year ended June 30, 2007, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets being depreciated:				
Electronic equipment	\$ 21,870	\$ -	\$ -	\$ 21,870
Textbooks	93,522	96,671	-	190,193
Playground Equipment	7,984	-	-	7,984
Computers	-	24,521	-	24,521
Total capital assets being depreciated	123,376	121,192	-	244,568
Less accumulated depreciation for:				
Electronic equipment	21,870	-	-	21,870
Textbooks	24,920	36,697	-	61,617
Playground Equipment	2,946	1,141	-	4,087
Computers	-	3,678	-	3,678
Total accumulated depreciation	49,736	\$ 41,516	\$ -	91,252
Total capital assets being depreciated, net	73,640			153,316
Governmental activity capital assets, net	\$ 73,640			\$ 153,316

Depreciation expense was charged to governmental functions as follows:

Instructional programs	\$ 40,375
Supporting services	1,141
	<u>\$ 41,516</u>

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, 2007, the retirement cost to the School was \$33,206, with employees contributing \$48,109.

2. Risk Management

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

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

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

3. Long-Term Obligations

a. Operating Leases

The School rents space for the School under a ten-year lease from the Roger Bacon Academy. The School paid a total of \$471,936 on this lease agreement for the year ended June 30, 2007. Future lease payments are included in the schedule below.

The School also has a lease agreement for the rental of computers, furniture and equipment from Coastal Habitat Conservancy, LLC. They paid a total of \$213,643 on this lease agreement during the year ended June 30, 2007.

Future minimum lease payments are included in the schedule below.

Year Ending June 30

2008	\$	685,579
2009		685,579
2010		685,579
2011		685,579

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 most of the 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 16% 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 Service. During the fiscal year ended June 30, 2007, management and maintenance fees were paid to Roger Bacon Academy in the amount of \$1,338,366. Rent paid to Roger Bacon Academy for the use of facility and equipment was \$471,936 for the year ended June 30, 2007.

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, 2007.

V. 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.

NON-MAJOR FUNDS

Federal Grants Fund -

This fund is used to account for the Federal monies 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, 2007**

Statement 1

Special
Revenue Funds

Federal
Grants Fund

Assets

Cash and cash equivalents	\$ -
Due from other governments	-
Total assets	<u>\$ -</u>

Liabilities and Fund Balances

Liabilities:

Accrued salaries and wages payable	\$ -
Deferred revenue	-
Total liabilities	<u>-</u>

Fund balances-unreserved

Total liabilities and fund equity	<u>-</u>
	<u>\$ -</u>

Statement 2

Charter Day School
Non-major Governmental Funds
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
For the Fiscal Year Ended June 30, 2007

	Special Revenue Funds
	Totals
	2007
Revenues:	
U.S. Government:	
Idea VI-B Capacity	\$ 1,000
Title I - Basic Funding	65,644
Idea VI-B Handicapped	89,589
Rural Education Achievement Program	13,684
Total	<u>169,917</u>
Donations	-
Other	-
Total	<u>-</u>
Total revenues	<u>169,917</u>
Expenditures:	
Current:	
Instructional programs:	
Regular programs	-
Special programs	145,151
Other	24,766
Total	<u>169,917</u>
Support services:	
Pupil services	-
Instructional staff services	-
General administrative	-
School administrative	-
Club and activity expenditures	-
Total	<u>-</u>
Non-programmed charges:	
Other	-
Total	<u>-</u>
Total expenditures	<u>169,917</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, 2007

	2007		
	Final Budget	Actual	Favorable (Unfavorable) Variance
Revenues:			
State of North Carolina	\$ 3,564,043	\$ 3,564,043	\$ -
Board(s) of Education:			
Bladen County	31,647	31,647	-
Brunswick County	808,574	808,574	-
Columbus County	113,519	113,489	(30)
New Hanover County	157,732	157,732	-
Pender County	7,446	7,446	-
Whiteville City	1,269	1,269	-
U.S. Government	169,917	169,917	-
Investment earnings	15,854	14,874	(980)
Others	68,848	68,848	-
Total	<u>4,938,849</u>	<u>4,937,839</u>	<u>(1,010)</u>
Expenditures:			
Current:			
Instructional programs:			
Regular programs	-	3,006,407	-
Special programs	-	335,247	-
Other	-	401,861	-
Total instructional programs	<u>3,831,005</u>	<u>3,743,515</u>	<u>87,490</u>
Support services:			
Pupil services	-	41,142	-
Instructional staff services	-	-	-
Administrative services	-	853,220	-
Total support services	<u>898,620</u>	<u>894,362</u>	<u>4,258</u>
Non-programmed charges:			
Other	-	-	-
Total non-programmed charges	<u>-</u>	<u>-</u>	<u>-</u>
School activities expenses:			
School activities expense	-	-	-
Depreciation expense	-	-	-
Total school activities	<u>-</u>	<u>-</u>	<u>-</u>

Statement 3

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, 2007

	2007		
	Final Budget	Actual	Favorable (Unfavorable) Variance
Child care expenditures			
Salaries and benefits	-	-	-
Materials and supplies	-	-	-
Contracted services	-	-	-
Total child care	-	-	-
Capital outlay	121,192	121,192	-
Debt service:			
Principal	-	-	-
Interest and other charges	-	-	-
Total debt service	-	-	-
Total expenditures	4,850,817	4,759,069	91,748
Other financing sources (uses):			
Transfers out	-	-	-
Transfers in	-	-	-
Proceeds from short-term note	-	-	-
Federal reimbursements	-	-	-
Capital lease obligations issued	-	-	-
Total other financing sources and (uses)	-	-	-
Capital contributions	-	-	-
Excess of revenue over expenditures	\$ 88,032	\$ 178,770	\$ 90,738

COMPLIANCE SECTION
CHARTER DAY SCHOOL
LELAND, NORTH CAROLINA
JUNE 30, 2007

PM&P

**PETWAY
MILLS &
PEARSON, PA**

CERTIFIED PUBLIC ACCOUNTANTS

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American Institute
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Medical Group
Management
Association

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

Board of Directors
Charter Day School
Leland, North Carolina

We have audited the accompanying financial statements of the governmental 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, 2007, which collectively comprises the Charter Day School's basic financial statements and have issued our report thereon dated September 12, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Charter Day School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Charter Day School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Charter Day School's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Charter Day School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the Charter Day School's financial statements that is more than inconsequential will not be prevented or detected by the Charter Day School's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Charter Day School's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. We noted certain matters that we reported to management of Charter Day School in a separate letter dated September 12, 2007.

This report is intended solely for the information and use of the Board of Directors, 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.


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

September 12, 2007

PM&P

**PETWAY
MILLS &
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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 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, 2007. 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 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, 2007.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Charter Day School's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a State program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a State program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a State program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a State program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the School's internal control that might be significant deficiencies or material weaknesses as defined below. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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


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

September 12, 2007

CHARTER DAY SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

SECTION I. -- SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified.

Internal control over financial reporting:

Material weakness(es) identified?	<u> </u> yes	<u> X </u> no
Significant deficiency (ies) identified that are not considered to be material weaknesses?	<u> </u> yes	<u> X </u> none reported

Noncompliance material to financial statements noted	<u> </u> yes	<u> X </u> no
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State Awards

Internal control over major state programs:

Material weakness(es) identified?	<u> </u> yes	<u> X </u> no
Significant deficiency (ies) identified that are not considered to be material weaknesses?	<u> </u> yes	<u> X </u> 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	<u> </u> yes	<u> X </u> no
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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, 2007

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, 2007

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, 2007

There were no reported findings or questioned costs as a result of the audit for the fiscal year ended June 30, 2006.

CHARTER DAY SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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		\$ 1,000
Title 1 Basic Funding	84.010		65,644
Idea VI-B Handicapped Grant	84.027		89,589
Rural Education Achievement Prog	84.358		<u>64,725</u>
TOTAL FEDERAL CASH ASSISTANCE			220,958
NC STATE GRANTS:			
CASH ASSISTANCE			
<u>NC Department of Public Instruction</u>			
State Public School Funds (PRC 36 -- Charter School Funds)		XXXX	<u>3,564,043</u>
TOTAL FEDERAL AND STATE AWARDS			<u>\$ 3,785,001</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. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the State Single Audit Implementation Act. Therefore some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

Charter Day School



October 12, 2007

To: CDS Trustees

From: Baker Mitchell *BMM*

Subject: Annual Audit

Enclosed for your careful review is the Petway, Mills, & Pearson audit for the fiscal year ending June 30, 2007.

Some highlights include:

Revenues increased 19% to \$4.94 million.

Expenses increased 19% to \$4.67

Increase in net assets of \$258,446 to a total of \$650,632, with \$497,316 in cash.

Percent of support services (overhead) to total revenue: 18.95%

Substantial progress towards the Board's goal of an emergency cash surplus of 2 months' operating expenses for hurricanes or bird flu or other disasters was made; and barring any decisions to utilize this surplus for other purposes, we could achieve this goal within two years.

Thank you for helping make this another financially successful year.

Several challenges lie ahead in that the state has vastly changed the chart of accounts and introduced new requirements for documenting internal controls. Our work towards getting accrual statements has gone for naught because the new required accounting software mandated by the state for Acadia cannot do accrual accounting! The board's decision to bring on a senior financial person should ensure that we can be in compliance with all the new mandates.

Please read the audit carefully as we will try to have the auditors at the next board meeting for their personal review, and they will be able to address any questions you may have.



State of North Carolina

Department of State Treasurer

TREASURER

*State and Local Government Finance Division
and the Local Government Commission*

DEPUTY TREASURER

Memorandum #1077

August 1, 2007

TO: Local Government Board of Directors and Management

FROM: Sharon Edmundson, Director
Fiscal Management Section

SUBJECT: Statement on Auditing Standards No. 112, *Communicating Internal Control Related Matters Identified in an Audit*, from the Local Governments' Perspective.

Summary

Beginning with the 2006-2007 fiscal year, auditors, including those that audit local governments, are required to follow a new standard for reporting their findings that relate to the internal control structure of the entity being audited. In order to conduct their audits in accordance with generally accepted auditing standards, all auditors must implement this standard. SAS 112 will change the way the auditor reports any findings that he or she may have regarding the internal control structure in a unit of government. As a result, units of government in North Carolina may have more findings cited in their audits than in previous years, despite the fact that those units have not changed their methods of operations. The way those findings are reported also has changed. In previous reports, auditors noted findings as being "reportable conditions" while more serious issues were noted as "material weaknesses". SAS 112 expands the scope of what is reported as well as changes the terminology. Findings of control deficiencies will now be called either "significant deficiencies" or "material weaknesses". The definitions for all of these terms can be found in Appendix A of this memorandum.

One of the most common concerns that a unit of government may have, particularly a unit with limited finance staff, relates to findings as a result of the unit's auditor preparing the financial statements. SAS 112 does not require an auditor to make a finding simply because the auditor prepares the financial statements for the unit of government. However, it is the belief of the LGC staff that many units of government that do not prepare their own financial statements will have a significant deficiency or material weakness reported. This will most likely be a result of the unit of government's limited staff and expertise in preparing financial statements in accordance with generally accepted accounting principles.

Finally, the implementation of SAS 112 may cause both the auditor and the unit staff to spend additional time on the audit, particularly this first year. Fees may be increased due to this implementation.

The following is a more detailed, technical discussion of the changes brought about by SAS 112.

Discussion

Last year, the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA) issued the Statement on Auditing Standards (SAS) No. 112 *Communicating Internal Control Related Matters Identified in an Audit*. This statement establishes standards and provides guidance on the auditor's responsibilities for identifying, evaluating, and communicating matters related to an entity's internal control over financial reporting identified in the audit of the financial statements. The new standard replaces SAS No. 60, *Communication of Internal Control Related Matters Noted in an Audit*. SAS No. 112 is effective for audits of financial statements for periods ended on or after December 15, 2006, which is for fiscal year ended June 30, 2007 for most local governments and public authorities in North Carolina.

Under this new Statement, auditors are required, as part of each audit, to report in writing all control deficiencies identified during the audit that are considered significant deficiencies or material weaknesses (see Appendix A for definitions) to management and those in charge of governance. Please note that the term 'reportable condition', which was used in prior years' audits, will no longer be used. It has been replaced with 'significant deficiency,' which covers a wider range of findings than 'reportable condition' covered. The scope of what is deemed to be a 'material weakness' also has been expanded. In addition, any significant deficiencies and material weaknesses that were communicated to management and the governing board in previous audits that have yet to be eliminated must continue to be communicated in writing to those charged with governance. Based on this increased scope, the LGC is expecting an increase in findings on internal controls and an increase in the written communications from auditors to North Carolina governments (e.g., letters may be issued to governments this year that did not receive management letters in the previous years).

The auditor will evaluate control deficiencies identified during the course of the audit. The auditor's awareness of control deficiencies will vary with each audit and will be influenced by the nature, timing, and extent of audit procedures performed, as well as other factors. The significance of a control deficiency will depend on whether there is potential for a misstatement in financial reporting, not on whether a misstatement actually occurred. In addition, the auditor will consider both qualitative and quantitative factors. If the auditor determines that a control deficiency is not significant or material, it may still be communicated to the unit in writing.

We believe that SAS No. 112 will improve the quality of communications between the auditor, the governing board, and management. Most experts in this field agree that the new standard will result in more control deficiencies being reported as significant deficiencies or material weaknesses. In turn, the auditors may need to gather more information to make the SAS No. 112 determinations. Based on this and other factors, the LGC believes that SAS No. 112 may increase the audit engagement fees because of these new requirements.

The LGC staff expects that auditors of smaller units of governments may issue a SAS No. 112 report that includes deficiencies in the areas of lack of segregation of duties and, perhaps, the lack of expertise in financial accounting and reporting. Our office is aware that the existence of these deficiencies and others may already be known to management, may have existed for some time, and may represent a conscious decision by management or the board to accept that degree of risk due to the cost of mitigating the deficiency or other considerations. Management and the board should

understand that the auditor is presenting these findings concerning internal controls and is communicating them in writing as required by SAS No. 112. Management has a responsibility to respond to the findings but should understand that they are not a mandate to eliminate them at any cost. }

The LGC is encouraging independent auditors and the finance staff to educate the governing board and management of their governments to eliminate surprises at future board meetings if significant deficiencies or material weaknesses are presented as part of their annual audit. Units of government should understand that the auditor must be independent of their client's internal control. The auditor cannot be part of the client's internal control process over financial reporting by providing a compensating control (e.g., the government relies on the auditor to catch misstatements versus having in-house controls). Becoming part of the client's internal control impairs the auditor's independence. Therefore units of government, especially smaller governments, should evaluate the cost/benefit implications of improving their internal control, including training their personnel to be more knowledgeable. Appendix B lists several common control deficiencies to consider in the cost/benefit evaluation.

The LGC also urges the auditors and their governmental clients to work together so that the audit can be submitted timely. At this time, the LGC does not plan to extend deadlines as a result of SAS No. 112.

Common Concerns of SAS No. 112

This section provides discussion of common concerns as part of frequently asked questions to the AICPA in reference to SAS No. 112.

Auditor prepared financial statements: For smaller units of governments or public authorities, auditors are questioning whether their preparation of draft financial statements should be considered a material weakness or at the very least a significant deficiency. The LGC's understanding is that the auditor can be contracted to assist management with the preparation and drafting of financial statements and related notes to the financial statement and not have either a significant deficiency or material weakness if, in the professional judgment of the auditor, the unit of government has adequate controls in place to take responsibility for the financial statements (i.e., controls exist to adequately prevent, detect and correct misstatements in the financial statements). It also is our understanding that if the auditor prepares the financial statements for the unit as a matter of convenience only, there is no finding if the unit has the ability to prepare the statements but simply chooses not to do so.

In order for the auditor to assist in the preparation of the draft financial statements and notes, and maintain his/her independence, the unit of government must take responsibility for the statements and notes. The fact that the auditor is contracted to draft the financial statements may be an indication of a potential control deficiency. The auditor cannot be a control and remain independent. Therefore the unit of government must have someone that possesses the necessary accounting expertise to prevent, detect, and correct a potential misstatement in the financial statements or notes drafted by the auditor (i.e., to take responsibility for the internal controls related to the preparation of the financial statements). This may be someone employed within the unit of government, or

outsourced, that the auditor concludes, in their professional judgment, is capable of preventing, detecting, and correcting a potential misstatement in the financial statements or notes.

Small governments in North Carolina most likely have competent finance staff able to perform the day to day functions of the financial department but may not have staff with the technical ability to prevent, detect, and correct a potential misstatement in the financial statements and notes drafted by the auditor. Therefore, the auditor will carefully evaluate his/her independence and consider the need to report a significant deficiency or material weakness for inadequate design of internal control over the preparation of the financial statements being audited. The LGC has urged auditors to explain this to the government officials so they can understand the role of the auditor and the responsibility of management and their governing board. The LGC staff is aware that the governing boards of local governments may be willing to accept this deficiency, based on their cost/benefit analysis of eliminating this control deficiency. Our office plans to continue, as always, to evaluate the overall fiscal condition of the local government, not just the findings that may be presented by the independent auditor.

An action the unit's board and management may wish to consider to mitigate the control deficiency or material weakness discussed above is to outsource particular accounting-related tasks, including preparation of regular interim financial statements and a draft of the year end statements. Our office maintains a list on our website of accounting firms willing to perform various non-audit services, or the unit may pursue this service from other resources. The benefits of this type of arrangement are many: the unit obtains these services without hiring additional employees, the unit receives timely financial information on a regular basis, which enables the Board and management to make more informed decisions, and often the year-end audit costs are reduced because the bookkeeping is current at year-end or shortly thereafter. Sometimes the audit fee drops enough to cover the cost of contracting out the bookkeeping. A copy of the list of firms is located on our website at <http://www.nctreasurer.com>. On the Home Page, under State and Local Government, select "Auditing and Reporting Resources." Then, select the link labeled "Accounting Firms Supplying Non-Audit Services" and, once opened, select the firm to retrieve additional information.

Converting cash financial statements to accrual basis statements, making audit adjustments, and other non audit services provided by the auditor: The same controls that apply to the drafting of the financial statements may apply to other non-audit services provided by the auditor for the client. The auditor will determine if the government has adequate controls to prevent and detect financial misstatements.

Suggested guidelines to determine whether a client has sufficient accounting competence and knowledge to detect or prevent a misstatement or mistake: Guidance from the AICPA's frequently asked questions concerning SAS No. 112 states that the auditor is not required to test the competency of their client. However, the competency may be questioned if the auditor is unsure as to whether or not adequate controls are in place to prevent and detect financial statement misstatements. The client may request the auditor to perform certain services for the client's convenience rather than due to lack of competency. If the auditor feels that the unit of government could not perform the service themselves and/or does not have the suitable skills, knowledge, and experience to review the work in such a manner that the unit's control would prevent or detect a material misstatement, a control deficiency has been identified.

Memorandum No. 1077
August 1, 2007
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Designating a person on staff to review financial reports, adjustments, etc.: The AICPA's discussion states that assigning this responsibility to a staff member is not, by itself, an adequate internal control. The internal control lies within the process or procedure that is carried out by an individual or third party to prevent, detect, and correct a potential misstatement.

Will the SAS No. 112 Report replace the Management Letter? First, audits performed under *Governmental Auditing Standards* would not require a separate SAS No. 112 report since the Yellow Book report would disclose any significant deficiencies and/or material weaknesses that are reported. Units receiving Yellow Book audits could be presented additional findings (control deficiencies that don't rise to the level of significant or material weaknesses) in a management letter. Second, audits not performed under *Governmental Auditing Standards* would receive a SAS No. 112 letter if significant deficiencies and/or material weaknesses exist as identified by the independent auditor. Further, the auditor may list items that are considered control deficiencies, but not significant deficiencies or material weaknesses, in the SAS 112 report or in a separate report.

For further information, please refer to Memorandum No. 1070 for additional details regarding SAS No. 112 or please speak with your auditor with specific questions. If there are questions or comments regarding this memorandum, please contact Amy Szalaj at (919) 807-2385 or Amy.Szalaj@nctreasurer.com.

Appendix B
List of common controls evaluated for deficiencies

Based on the lists provided in SAS No. 112, these deficiencies may be commonly noted.

- Ineffective oversight of the entity's financial reporting and internal control by those charged with governance.
- Restatement of previously issued financial statements to reflect the correction of a material misstatement, which includes misstatements due to error or fraud.
- Controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals in the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements.
- Inadequate design of internal control over a significant account or process.
- Inadequate design of monitoring controls used to assess the design and operating effectiveness of the entity's internal control over time.
- Inadequate documentation of the components of internal control.
- Failure in the operation of effectively designed controls over a significant account or process.
- Insufficient control consciousness within the organization, for example, the "tone at the top" and the control environment.
- Failure by management or those charged with governance to assess the effect of a significant deficiency previously communicated to them and either correct it or conclude that it will not be corrected.
- Absent or inadequate segregation of duties within a significant account or process.
- Controls over the selection and application of accounting principles that are in conformity with generally accepted accounting principles. Having sufficient expertise in selecting and applying accounting principles is an aspect of such controls.
- Employees or management who lack the qualifications and training to fulfill their assigned functions. For example, in an entity that prepares financial statements in accordance with generally accepted accounting principles, the person responsible for the accounting and reporting function lacks the skills and knowledge to apply generally accepted accounting principles in recording the entity's financial transactions or preparing its financial statements.
- Failure of the information and communication component of internal control to provide complete and accurate output because of deficiencies in timeliness, completeness, or accuracy; for example, the failure to obtain timely and accurate consolidating information from remote locations this needed to prepare the financial statements.
- Failure of controls designed to safeguard assets from loss, damage, or misappropriation.
- Failure to perform reconciliations of significant accounts. For example, accounts receivable subsidiary ledgers are not reconciled to the general ledger account in a timely or accurate manner.

**Management's Discussion and Analysis
Charter Day School
June 30, 2007**

**Management's Discussion and Analysis
Charter Day School
June 30, 2007**

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, 2007. 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.

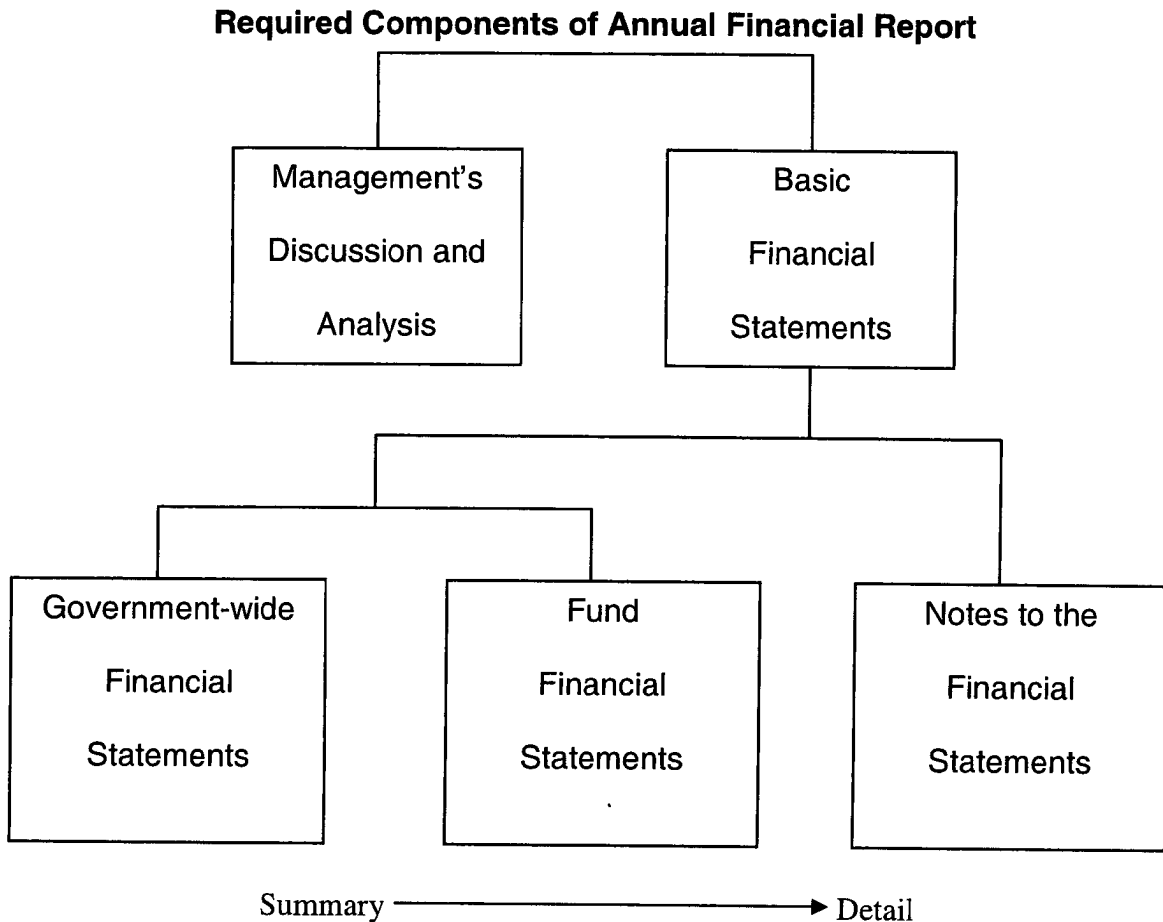
Financial Highlights

- The assets of Charter Day School exceeded its liabilities at the close of the fiscal year by \$650,632(*net assets*).
- The school's total net assets increased by \$258,446, due to increases in the governmental activities net assets.
- As of the close of the current fiscal year, Charter Day School's governmental funds reported combined ending fund balances of 650,632, an increase of \$258,446 in comparison with the prior year.
- As of the close of the current fiscal year, Charter Day School reported fixed assets net of depreciation of 153,316, an increase of \$79,676 in comparison with the prior year's \$73,640.
- Enrollment continues to increase at the School, rising by 97 students in 2006-2007, a 16% approximate increase. The 2005-2006 ADM was 607 and the 2006-2007 was 704.
- Grade Level Eight was added in the 2006-2007 school year.
- Charter Day School has no long-term debt.

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



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 governmental fund statements. These statements are more detailed than the government-wide financial statements. There are two parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the proprietary fund statements.

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

**Management's Discussion and Analysis
Charter Day School
June 30, 2007**

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. These include the School Activities services 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 uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related statutory requirements where and 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 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 reconciliation, which is an integral part of the fund financial statements.

Management's Discussion and Analysis
Charter Day School
June 30, 2007

Although not compelled or required to do so by federal, state, or local law, Charter Day School has elected to adopt an annual budget. Since the budget is not required by law, the budgetary comparison statements are not included in the basic financial statements, but are part of the supplemental statements and schedules following the notes. The budget incorporates input from the management and the Board of Directors of the School and specifies which activities will be pursued and which services the School will provide during the year. It also authorizes the School to obtain funds from identified sources to finance current period activities. The budgetary statement demonstrates how well the School has complied with the budget and whether or not the School has succeeded in providing the services at the costs as originally planned.

Proprietary Funds – Charter Day School does not have a proprietary fund.

Notes to the Financial Statements – The notes provide additional information essential to facilitating a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 20 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as one useful indicator of a school's financial condition. The assets of Charter Day School exceeded liabilities by \$650,632 as of June 30, 2007. As of June 30, 2006, the net assets of Charter Day School stood at \$392,186. The School's net assets increased by \$258,446 for the fiscal year ended June 30, 2007, compared to an increase of \$207,428 in 2006. The amount of \$153,316 reflects the School's investment in capital assets (e.g. electronic equipment, textbooks, and playground equipment). Charter Day School uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. The remaining balance of \$497,316 is unrestricted. In 2006, the amount of net assets invested in capital assets net of related debt was \$73,460. The remaining \$318,546 was unrestricted net assets for that year.

Management's Discussion and Analysis
Charter Day School
June 30, 2007

Figure 2
Charter Day School's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 501,861	\$ 353,740		\$ -	\$ 501,861	\$ 353,740
Capital assets, net of depreciation	153,316	73,640		-	153,316	73,640
Total assets	655,177	427,380	-	-	655,177	427,380
Other liabilities	4,545	35,194	-	-	4,545	35,194
Total liabilities	4,545	35,194	-	-	4,545	35,194
Invested in capital assets, net of related debt	153,316	73,640		-	153,316	73,640
Unrestricted	497,316	318,546		-	497,316	318,546
Total net assets	\$ 650,632	\$ 392,186	\$ -	\$ -	\$ 650,632	\$ 392,186

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

- The School adopted an annual budget. The School's performance was measured using this budget on a monthly basis, allowing changes to be made in spending as needed to remain within the confines of the budget.
- The School applied for and was awarded several federal grants to assist with meeting the educational needs of the student population.
- Funding increased proportionately with the 16 percent increase in the student enrollment.
- The school continued to obtain additional classroom space at very competitive rental rates.

Management's Discussion and Analysis
Charter Day School
June 30, 2007

Figure 3
Charter Day School's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Other Revenues	\$ 32,681	\$ 21,551	\$ -	\$ -	\$ 32,681	\$ 21,551
Charges for Services	-	-	-	-	-	-
Operating Grants and Contributions	220,958	173,245	-	-	220,958	173,245
County, State, and Federal Funds	4,684,200	3,797,101	-	-	4,684,200	3,797,101
Total revenues	4,937,839	3,991,897	-	-	4,937,839	3,991,897
Instructional Programs	2,728,177	2,959,118	-	-	2,728,177	2,959,118
Support services	1,951,216	825,351	-	-	1,951,216	825,351
Fund raising	-	-	-	-	-	-
Interest on short-term debt	-	-	-	-	-	-
Total expenses	4,679,393	3,784,469	-	-	4,679,393	3,784,469
Increase (Decrease) in net assets before transfers	258,446	207,428	-	-	258,446	207,428
Transfers	-	6,178	-	(6,178)	-	-
Increase (Decrease) in net assets	258,446	213,606	-	(6,178)	258,446	207,428
Net assets, July 1	392,186	178,580	-	6,178	392,186	184,758
Net assets, June 30	\$ 650,632	\$ 392,186	\$ -	\$ -	\$ 650,632	\$ 392,186

Governmental activities. Governmental activities increased the School's net assets by \$258,446.

Business-type activities. Charter Day School does not have a proprietary fund.

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 requirements. Specifically, unreserved fund balance can be a useful measure of the School'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 \$497,316.

Proprietary Funds. Charter Day School does not operate any proprietary funds.

Management's Discussion and Analysis
Charter Day School
June 30, 2007

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, 2007, totals \$153,316 (net of accumulated depreciation). Capital assets include textbooks and playground equipment. The capital asset purchases during the year included \$96,671 of textbooks and \$24,521 of computers.

Figure 4
Charter Day School's Capital Assets
 (net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Textbooks	128,576	68,602	-	-	128,576	68,602
Playground equipment	3,897	5,038	-	-	3,897	5,038
Computers	20,843					
Total	\$ 153,316	\$ 73,640	\$ -	\$ -	\$ 132,473	\$ 73,640

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, 2007, Charter Day School had no outstanding debt.

Economic Factors

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

- The low unemployment rate in Brunswick and New Hanover Counties has increased revenues in these counties and contributed to the increased funding to all public schools in the area, including charter schools. On the other hand, funding from high unemployment counties such as Columbus and Bladen has provided substantially lower revenues per pupil. Overall, however, the school operated with substantially lower amounts (nearly 30% less) than other public schools because it receives no capital funding and must pay rent out of its operating revenue.
- The extremely high growth rate of Brunswick County will continue to increase the number of students applying to the School for the foreseeable future.

As in past years, such factors evidence the demand 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 and replication in nearby counties to try and meet the local demands subject to constraints on the available

Management's Discussion and Analysis
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land and on available financing. It was partially for this reason that the fund balance was substantially increased this year.

Careful management of the School's financial resources and building relationships with possible new major donors will continue as in the past; however there is no guarantee that future financing will be available or that any major donors can be found to fund continued expansion.

Requests for Information

This report is designed to provide an overview of the School's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Board Chair, Charter Day School, 7055 Bacon's Way Leland, North Carolina 28451, telephone (910) 655-1214.

PM&P

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Memberships:

North Carolina
Association of
Certified Public
Accountants

American Institute
of Certified Public
Accountants

Medical Group
Management
Association

To the Board of Directors
Charter Day School
Leland, North Carolina

In planning and performing our audit of the financial statements of Charter Day School (the School) as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the School's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control. We believe that the following deficiency constitutes a material weakness.

- Recently issued professional standards that became effective for audits of entities with periods ending after December 15, 2006, require the School to document the components of its internal controls. Such documentation should address the School's control environment, its risk assessment process, the control activities planned and underwritten by management, the information-and-communications activities, and management's monitoring activities to evaluate the overall effectiveness of the internal controls. The lack of properly documented internal controls could adversely affect the School's ability to initiate, authorize, record, process or report reliable financial and programmatic data. The School and its contracted management agent should invest the necessary time and personnel and financial resources to produce a single comprehensive but clearly written document or manual that addresses the internal controls in place at the School itself and the internal controls in place at its contracted management agent's facility. A careful reading of the resulting manual should enable any competent employee with a financial function at the School or the School's contracted management agent to comply with internal control requirements and perform his or her financial function effectively.

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

Petway Mills & Pearson, PA

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

September 12, 2007

PM&P

**PETWAY
MILLS &
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American Institute
of Certified Public
Accountants

Medical Group
Management
Association

September 12, 2007

To the Audit Committee
Charter Day School

We have audited the financial statements of Charter Day School for the year ended June 30, 2007, and have issued our report thereon dated September 12, 2007. 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 2, 2007, 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, 2007. 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.

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