

FINANCIAL STATEMENTS
PAVE SOUTHEAST RALEIGH CHARTER SCHOOL
RALEIGH, NORTH CAROLINA
JUNE 30, 2017

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**PAVE SOUTHEAST RALEIGH CHARTER SCHOOL
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JUNE 30, 2017**

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Independent Auditors' Report

To the Board of Directors
PAVE Southeast Raleigh Charter School
Raleigh, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the PAVE Southeast Raleigh Charter School, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the PAVE Southeast Raleigh Charter School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the PAVE Southeast Raleigh Charter School as of June 30, 2017, and the respective changes in financial position for the year ended June 30, 2017 and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 8 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the PAVE Southeast Raleigh Charter School's basic financial statements. The individual non-major fund financial statements and budgetary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal and State Awards is presented for purposes of additional analysis as required by the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The individual non-major fund financial statements, budgetary schedules, as well as the accompanying Schedule of Expenditures of Federal and State Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, individual non-major fund financial statements, budgetary schedules, and the accompanying Schedule of Expenditures of Federal and State Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2017 on our consideration of PAVE Southeast Raleigh Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PAVE Southeast Raleigh Charter School's internal control over financial reporting and compliance.

Petway Mills & Pearson, PA

PETWAY MILLS & PEARSON, PA
Certified Public Accountants
Zebulon, North Carolina
October 18, 2017

Management's Discussion and Analysis
PAVE Southeast Raleigh Charter School
June 30, 2017

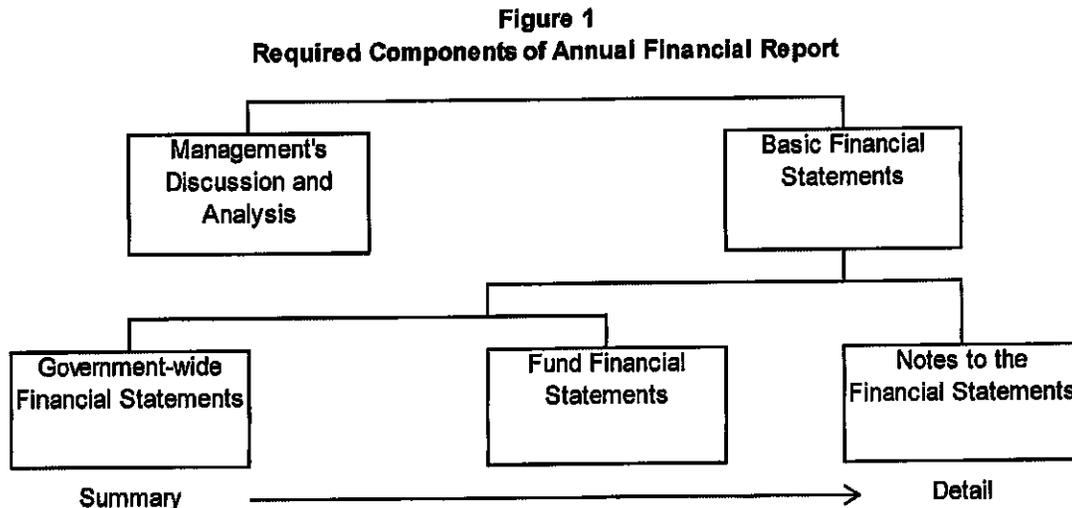
As management of PAVE Southeast Raleigh Charter School, we offer readers of PAVE Southeast Raleigh Charter School's audited financial statements this narrative overview and analysis of the financial activities of PAVE Southeast Raleigh Charter School for the fiscal year ended June 30, 2017. We encourage 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 PAVE Southeast Raleigh Charter School exceeded its liabilities and deferred inflows at the close of the fiscal year by \$350,531 (*net position*).
- As of the close of the current fiscal year, PAVE Southeast Raleigh Charter School's governmental funds reported combined ending fund balances of \$320,005.
- The State funded Average Daily Membership (ADM) was 226 for the current fiscal year compared to a prior year ADM of 115; an increase of 96.52%.
- PAVE Southeast Raleigh Charter School's long-term debt outstanding in association with the building lease agreement totals \$6,944,879.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to PAVE Southeast Raleigh Charter 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 PAVE Southeast Raleigh Charter School.



Management's Discussion and Analysis
PAVE Southeast Raleigh Charter School
June 30, 2017

Basic Financial Statements

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

The next statements (Exhibits 3 through 8) are **Fund Financial Statements**. These statements focus on the activities of the individual segments of the School's government and 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 can also be found in this section of the statements.

Government-wide Financial Statements

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

The two government-wide statements report the School's net position and how they have changed. Net position equals the difference between the School's total assets and total liabilities and deferred inflows of resources. Measuring net position 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 Food services carried out by PAVE Southeast Raleigh Charter 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. PAVE Southeast Raleigh Charter School, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related statutory requirements, such as the North Carolina General Statutes or the School's budget ordinance, where and when applicable. All of the funds of PAVE Southeast Raleigh Charter School can be divided into two categories: governmental funds and proprietary funds.

Management's Discussion and Analysis
PAVE Southeast Raleigh Charter School
June 30, 2017

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

Although not compelled or required to do so by federal, state, or local law, PAVE Southeast Raleigh Charter 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 faculty, management, and the Board of Directors of the School and specifies which activities will be pursued and which services the School will provide during the year. It also authorizes the School to obtain funds from identified sources to finance current period activities. The budgetary statement demonstrates how well the School has complied with the budget ordinance and whether or not the School has succeeded in providing the services as originally planned.

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

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

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as one useful indicator of a school's financial condition. The assets of PAVE Southeast Raleigh Charter School exceeded its liabilities by \$350,531 at June 30, 2017. At June 30, 2016, the School had a net position of \$271,473. The School's net position increased by \$79,058 during the year ended June 30, 2017, compared to an increase of \$271,473 in 2016. The amount of \$253 reflects the School's net investment in capital assets: capital assets (buildings, computer network equipment, computers, furniture and fixtures, instructional equipment, and software net of depreciation—please see page 13 for more details) less outstanding debt incurred to acquire those assets. The School's net investment in capital assets at June 30, 2016, was \$105,264. PAVE Southeast Raleigh Charter School uses these capital assets to provide services to students; consequently, these assets, are purpose-restricted and not available for alternative spending should they be liquidated. This means, for example, that resources needed to repay the associated debt must come from other sources. The remaining net asset balance of \$350,278 is unrestricted.

**Management's Discussion and Analysis
PAVE Southeast Raleigh Charter School
June 30, 2017**

**Figure 2
PAVE Southeast Raleigh Charter School
Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 703,703	\$ 1,226,806	\$ 30,273	\$ 6,098	\$ 733,976	\$1,232,904
Due from other governments	-	-	-	-	-	-
Capital assets, net of depreciation	6,944,412	7,164,817	720	1,385	6,945,132	7,166,202
Total assets	7,698,115	8,391,623	30,993	7,483	7,729,108	8,399,106
Deferred outflows of Resources	-	-	-	-	-	-
Other liabilities	83,698	182,754	-	-	83,698	182,754
Long-term liabilities outstanding	6,944,879	6,944,879	-	-	6,944,879	6,944,879
Total liabilities	7,028,577	7,127,633	-	-	7,028,577	7,127,633
Deferred inflows of Resources	300,000	1,000,000	-	-	300,000	1,000,000
Net Position:						
Net investment in capital assets	(467)	103,879	720	1,385	253	105,264
Unrestricted	320,005	160,111	30,273	6,098	350,278	165,209
Total Net Position	\$ 319,538	\$ 263,990	\$ 30,993	\$ 7,483	\$ 350,531	\$ 271,473

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

- 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 federal grants to assist with meeting the educational needs of the student population.

**Management's Discussion and Analysis
PAVE Southeast Raleigh Charter School
June 30, 2017**

**Figure 3
PAVE Southeast Raleigh Charter School
Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Donations and Other Revenues	\$ 862,216	\$1,057,716	\$ -	\$ -	\$ 862,216	\$1,057,716
Operating Grants and Contributions	167,372	46,314	167,192	69,655	334,564	117,969
Capital Grants and Contributions	-	-	-	-	-	-
County, State, and Federal Funds	1,737,854	833,932	-	-	1,737,854	833,932
Total revenues	2,767,242	1,939,962	167,192	69,655	2,934,434	2,008,617
Instructional programs	1,635,670	1,148,882	-	-	1,635,670	1,148,882
Support services	679,176	493,545	-	-	679,176	493,545
School lunch service	-	-	208,445	86,252	208,445	86,252
Non-programmed charges	-	-	-	-	-	-
Interest on long-term debt	332,085	9,465	-	-	332,085	9,465
Total expenses	2,646,931	1,651,892	208,445	86,252	2,855,376	1,736,144
Increase (Decrease) in net position	120,311	288,070	(41,253)	(16,597)	79,058	271,473
before transfers						
Transfers	(64,763)	(24,080)	64,763	24,080	-	-
Change in net position	55,548	263,990	23,510	7,483	79,058	271,473
Net position, July 1	263,990	-	7,483	-	271,473	-
Net position, June 30	\$ 319,538	\$ 263,990	\$ 30,993	\$ 7,483	\$ 350,531	\$ 271,473

Governmental activities. Governmental activities increased the School's net position by \$120,311 before a transfer of \$64,763 was made to the business-type activities.

Business-type activities. Business-type activities decreased PAVE Southeast Raleigh Charter School's net position by (\$41,253), before a transfer of \$64,763 was received from the governmental activities.

The School elects to continue to operate the School Lunch Fund to meet the daily dietary demands of the student population. The school considers a nutritional program an essential part of a healthy learning environment. The School received \$167,192 of federal reimbursement funds in the School Lunch Fund.

Financial Analysis of the School's Funds

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

Governmental Funds. The focus of PAVE Southeast Raleigh Charter 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 PAVE Southeast Raleigh Charter School's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating governmental fund of PAVE Southeast Raleigh Charter School. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$313,678, while total fund balances reached \$320,005.

Proprietary Funds. The School's proprietary fund provides the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the School Lunch Fund

**Management's Discussion and Analysis
PAVE Southeast Raleigh Charter School
June 30, 2017**

amounted to \$30,273. Other factors concerning the finances of this fund have already been addressed in the discussion of the School's business-type activities.

Capital Asset and Debt Administration

Capital assets. PAVE Southeast Raleigh Charter School's investment in capital assets for its governmental and business-type activities as of June 30, 2017, totals \$6,945,132, (net of accumulated depreciation). Capital assets include buildings, computer network equipment, computers, furniture and fixtures, instructional equipment, and software.

The School purchased \$31,048 of computer network equipment, \$17,601 of furniture and equipment, and \$2,695 of instructional equipment during the fiscal year.

**Figure 4
PAVE Southeast Raleigh Charter School
Capital Assets (net of depreciation)**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Buildings	\$6,820,834	\$7,058,713	\$ -	\$ -	\$6,820,834	\$7,058,713
Computer network equipment	49,807	29,937	-	-	49,807	29,937
Computers	22,387	36,450	-	-	22,387	36,450
Furniture and fixtures	39,599	28,536	-	-	39,599	28,536
Instructional equipment	10,352	10,471	-	-	10,352	10,471
Software	1,453	2,711	720	1,385	2,173	4,096
Total	\$6,944,412	\$7,164,818	\$ 720	\$ 1,385	\$6,945,132	\$7,168,203

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, 2017, PAVE Southeast Raleigh Charter School had total outstanding debt of \$6,944,879; a decrease of \$116,059 during the year. The debt consists of the lease agreement for the building with PAVE 3420 Idlewood Village, LLC.

Management's Discussion and Analysis
PAVE Southeast Raleigh Charter School
June 30, 2017

Economic Factors

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

- The response to the School's expansion shows the School's stability and desirability in the community.
- The school currently serves Kindergarten through 2nd grade, and is expecting to grow to serve Kindergarten through 8th grade by 2022-23.
- ADM per pupil funding from North Carolina increased by \$83.09 or 1.73% compared with the previous year.

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 Director of Finance and HR, PAVE Schools, 238 Conover Street, Brooklyn, NY 11231, telephone (718) 858-7813.

PAVE Southeast Raleigh Charter School
Statement of Net Position
June 30, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 345,305	\$ -	\$ 345,305
Receivables (net)	352,071	30,273	382,344
Prepaid items	6,327	-	6,327
Capital assets:			
Other capital assets, net of depreciation	6,944,412	720	6,945,132
Total capital assets	6,944,412	720	6,945,132
Total assets	7,648,115	30,993	7,679,108
LIABILITIES			
Accounts payable and accrued expenses	26,883	-	26,883
Accrued salaries and wages payable	56,815	-	56,815
Long-term liabilities:			
Due within one year	111,567	-	111,567
Due in more than one year	6,833,312	-	6,833,312
Total liabilities	7,028,577	-	7,028,577
DEFERRED INFLOWS OF RESOURCES			
Unavailable grant revenue	300,000	-	300,000
NET POSITION			
Net investment in capital assets	(467)	720	253
Unrestricted	320,005	30,273	350,278
Total net position	\$ 319,538	\$ 30,993	\$ 350,531

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

PAVE Southeast Raleigh Charter School
Statement of Activities
For the year ended June 30, 2017

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
Instructional services	\$ 1,635,670	\$ -	\$ 167,372	\$ -	\$ (1,468,298)	\$ -	\$ (1,468,298)
System-wide support services	679,176	-	-	-	(679,176)	-	(679,176)
Interest on long-term debt	332,085	-	-	-	(332,085)	-	(332,085)
Total governmental activities	2,646,931	-	167,372	-	(2,479,559)	-	(2,479,559)
Business-type activities:							
School food service	208,445	-	167,192	-	(41,253)	-	(41,253)
Total business-type activities	208,445	-	167,192	-	(41,253)	-	(41,253)
Total primary government	\$ 2,855,376	\$ -	\$ 334,564	\$ -	(2,479,559)	(41,253)	(2,520,812)
General revenues:							
Unrestricted county appropriations					520,843	-	520,843
Unrestricted State appropriations					1,216,811	-	1,216,811
Unrestricted Federal appropriations					-	-	-
Donations - general					703,100	-	703,100
Investment earnings, unrestricted					18	-	18
Miscellaneous, unrestricted					159,098	-	159,098
Transfers					(64,763)	64,763	-
Total general revenues, special items, and transfers					2,535,107	64,763	2,599,870
Change in net position					55,548	23,510	79,058
Net position-beginning					263,990	7,483	271,473
Net position-ending					\$ 319,538	\$ 30,993	\$ 350,531

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

**PAVE Southeast Raleigh Charter School
Balance Sheet
Governmental Funds
June 30, 2017**

	Major Funds		Total Non-Major Funds	Total Governmental Funds
	General	State Public School	Federal Grants Fund	
ASSETS				
Cash and cash equivalents	\$ 345,305	\$ -	\$ -	\$ 345,305
Receivables (net)	352,071	-	-	352,071
Prepaid items	6,327	-	-	6,327
Total assets	\$ 703,703	\$ -	\$ -	\$ 703,703
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued expenses	\$ 26,883	\$ -	\$ -	\$ 26,883
Accrued salaries and wages payable	56,815	-	-	56,815
Total liabilities	83,698	-	-	83,698
DEFERRED INFLOWS OF RESOURCES				
Unavailable grant revenue	300,000	-	-	300,000
Fund balances:				
Nonspendable:				
Prepaid items	6,327	-	-	6,327
Unassigned:	313,678	-	-	313,678
Total fund balances	320,005	-	-	320,005
Total liabilities and fund balances	\$ 403,703	\$ -	\$ -	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	6,944,412
Net pension asset (liability)	-
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position.	-
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).	(6,944,879)
Pension related deferrals	-
Net position of governmental activities	\$ 319,538

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

PAVE Southeast Raleigh Charter School
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2017

	Major Funds		Total Non-Major Funds	Total Governmental Funds
	General	State Public School	Federal Grants Fund	
REVENUES				
State of North Carolina	\$ -	\$ 1,216,811	\$ -	\$ 1,216,811
Local education agencies	520,843	-	-	520,843
U.S. Government	-	-	167,372	167,372
Contributions and donations	703,100	-	-	703,100
Other	159,116	-	-	159,116
Total revenues	<u>1,383,059</u>	<u>1,216,811</u>	<u>167,372</u>	<u>2,767,242</u>
EXPENDITURES				
Current:				
Instructional services	512,715	751,773	167,372	1,431,860
System-wide support services	188,517	422,721	-	611,238
Capital outlay:	9,026	42,317	-	51,343
Debt service:				
Principal	116,059	-	-	116,059
Interest and other charges	332,085	-	-	332,085
Total expenditures	<u>1,158,402</u>	<u>1,216,811</u>	<u>167,372</u>	<u>2,542,585</u>
Excess (deficiency) of revenues over expenditures	<u>224,657</u>	-	-	<u>224,657</u>
OTHER FINANCING SOURCES (USES)				
Transfers to other funds	(64,763)	-	-	(64,763)
Total other financing sources (uses)	<u>(64,763)</u>	-	-	<u>(64,763)</u>
Net change in fund balance	159,894	-	-	159,894
Fund balances-beginning	160,111	-	-	160,111
Fund balances-ending	<u>\$ 320,005</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 320,005</u>

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

**PAVE Southeast Raleigh Charter School
 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the
 Statement of Activities
 Governmental Funds
 For the year ended June 30, 2017**

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

Net changes in fund balances - total governmental funds	\$	159,894
---	----	---------

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.		(220,406)
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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 position. This amount is the net effect of these differences in the treatment of long-term debt and related items.		116,059
--	--	---------

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		1

Total changes in net position of governmental activities	<u>\$</u>	<u>55,548</u>
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The notes to the financial statements are an integral part of this statement.

**PAVE Southeast Raleigh Charter School
Statement of Net Position
Proprietary Fund
June 30, 2017**

	Enterprise Fund
	Major Fund
	School Food Service
ASSETS	
Current assets:	
Cash and cash equivalents	\$ -
Receivables (net)	30,273
Total current assets	30,273
Noncurrent assets:	
Capital assets:	
Other capital assets, net of depreciation	720
Total noncurrent assets	720
Total assets	\$ 30,993
LIABILITIES	
Current liabilities:	
Accounts payable and accrued expenses	\$ -
Accrued salaries and wages payable	-
Other payables	-
Total current liabilities	-
Long-term liabilities:	
Due within one year	-
Due in more than one year	-
Total long-term liabilities	-
Total liabilities	-
NET POSITION	
Net investment in capital assets	720
Unrestricted	30,273
Total net position	\$ 30,993

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

PAVE Southeast Raleigh Charter School
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
For the year ended June 30, 2017

	Enterprise Fund
	Major Fund
	School Food Service
OPERATING REVENUES	
Food sales	\$ -
Miscellaneous	-
Total operating revenues	-
OPERATING EXPENSES	
Food cost:	
Purchase of food	203,271
Donated commodities	-
Salaries and benefits	-
Indirect costs	-
Supplies and materials	40
Depreciation	665
Contracted services	3,474
Other	995
Total operating expenses	208,445
Operating income (loss)	(208,445)
NONOPERATING REVENUES (EXPENSES)	
Federal reimbursements	167,192
Total nonoperating revenue (expenses)	167,192
Income (loss) before contributions and transfers	(41,253)
Capital contributions	-
Transfers from other funds	64,763
Change in net position	23,510
Total net position - beginning	7,483
Total net position - ending	\$ 30,993

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

**PAVE Southeast Raleigh Charter School
Statement of Cash Flows
Proprietary Fund
For the year ended June 30, 2017**

	Enterprise Fund
	Major Fund
	School Food Service
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ (24,175)
Cash paid for goods and services	(207,780)
Cash paid to employees for services	-
Net cash provided (used) by operating activities	(231,955)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Federal reimbursements	167,192
Transfers from other funds	64,763
Net cash provided (used) by noncapital financing activities	231,955
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	-
Net cash provided (used) by capital and related financing activities	-
Net increase (decrease) in cash and cash equivalents	-
Balances-beginning of the year	-
Balances-end of the year	\$ -
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ (208,445)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	665
Changes in assets and liabilities	
Decrease (Increase) in receivables (net)	(24,175)
Total adjustments	(23,510)
Net cash (used) by operating activities	\$ (231,955)

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

**PAVE Southeast Raleigh Charter School
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2017**

I. Summary of Significant Accounting Policies

The accounting policies of the PAVE Southeast Raleigh Charter 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 PAVE Southeast Raleigh Charter School is a public school operated by a local non-profit corporation, PAVE Southeast Raleigh Charter School, serving approximately 241 students. The School operates under an approved charter received from the SBE and applied for under the provisions of General Statute (G.S.) 115C-238.29B. G.S. 115C-238.29F(f)(1) states that a charter school shall be subject to the audit requirements adopted by the SBE, which includes the audit requirements established by G.S. 115C-447 of the School Budget and Fiscal Control Act (SBFCA). G.S. 115C-447 also requires financial statements to be prepared in accordance with GAAP.

B. Basis of Presentation

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

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

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

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

The School reports the following major governmental funds:

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

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

**PAVE Southeast Raleigh Charter School
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2017**

The School reports the following major enterprise fund:

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

C. Measurement Focus and Basis of Accounting

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

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

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

D. Budgetary Data

Annual budgets are adopted for all funds. 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, 2017. All appropriations lapse at year end.

E. Assets, Liabilities, Deferred Outflows and Inflows of Resources, and Fund Equity

1. Deposits and Investments

All deposits of the School are made in a local bank; whose accounts are FDIC insured.

2. Cash and Cash Equivalents

The School pools money from several funds to facilitate disbursement and investment and to maximize investment income. All cash and investments with original maturities of three months or less are considered cash and cash equivalents.

**PAVE Southeast Raleigh Charter School
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2017**

3. Inventories and Prepaid Items

The inventories of the School are valued at cost, and the School uses the first-in, first-out (FIFO) flow assumption in determining cost. Governmental fund inventories consist of supplies and are recorded as expenses when consumed. Proprietary fund inventories consist of food and supplies and are also recorded as expenses when consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. Capital Assets

The School's donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other capital assets are recorded at original cost. The total of these estimates is not considered large enough that any errors would be material when capital assets are considered as a whole.

It is the policy of the School to capitalize all capital assets costing more than \$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>
Buildings	30
Computer Network Equipment	5
Computers	3
Furniture & Fixtures	7
Instructional Equipment	5
Software	3

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The School has no items that meet this criterion. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The School had unavailable grant revenue during the year that meet the criterion for this category during the year. See Note III.B.4 for additional information.

6. Long-term Obligations

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

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

**PAVE Southeast Raleigh Charter School
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2017**

7. Compensated Absences

The School allows eleven month full-time employees to use up to four personal days and four sick leave days each academic year. Eleven month part-time employees receive both personal and sick leave days on a prorated basis. Twelve month full-time employees are allowed to use up to four personal days, four sick leave days, and eleven vacation days for each academic year. Twelve month part-time employees receive personal, sick leave, and vacation days on a prorated basis. All personal, sick leave, and vacation days expire at the end of the year for all employees. Therefore, the School has no obligation for compensated absences and no accrual has been made.

8. Net Position/Fund Balances

Net Position

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

Fund Balance

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

Nonspendable Fund Balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Inventories - portion of fund balance that is not an available resource because it represents the year-end balance of inventories which are not spendable resources.

Prepaid Items - portion of fund balance that is not an available resource because it represents the year-end balance of prepaid rent on the school facility which is not a spendable resource.

Restricted Fund Balance – This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

Committed Fund Balance – portion of fund balance that can only be used for specific purpose imposed by majority vote of School's governing body (highest level of decision-making authority). Any changes or removal of the specific purpose requires majority action by the governing bodies that approved the original action.

Assigned fund balance – portion of fund balance that PAVE Southeast Raleigh Charter School intends to use for specific purposes.

Subsequent year's expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation; however, the budget ordinance authorizes the Director to modify the appropriations by resource or appropriation within funds up to \$5,000.

Assigned for Clubs and Activities funds - revenue sources restricted for expenditures for the various clubs and organizations, athletic events, and various fund raising activities for which they were collected.

**PAVE Southeast Raleigh Charter School
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2017**

Unassigned fund balance – the portion of fund balance that has not been assigned to another fund or restricted, committed, or assigned to specific purposes within the General Fund.

PAVE Southeast Raleigh Charter School has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-board of education funds, board of education funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance, and lastly, unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the School.

9. The governmental fund balance sheet includes reconciliation between governmental funds' total fund balance and governmental activities' net position as reported in the government-wide statement of net position. The net adjustment of (\$467) consists of several elements as follows:

<u>DESCRIPTION</u>	<u>AMOUNT</u>
Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column).	\$ 7,252,517
Less accumulated depreciation	(308,105)
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not reported in the fund statements:	
Bonds, leases, and installment financing	(6,944,879)
Compensated absences	-
Accrued interest payable	-
Total adjustment	<u>\$ (467)</u>

F. Revenues, Expenditures, and Expenses

1. Funding

The PAVE Southeast Raleigh Charter 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 (Wake 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 School receives, 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 which is transferred by the appropriate local school administrative unit(s). [G.S. 115C-238.29H(b)]. For the fiscal year ended June 30, 2017, the PAVE Southeast Raleigh Charter School received funding from the Boards of Education for Johnston County, Hoke County, and Wake County.

Furthermore, PAVE Southeast Raleigh Charter 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.

**PAVE Southeast Raleigh Charter School
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2017**

2. Reconciliation between government-wide and fund statements

The governmental fund statement of revenues, expenditures, and changes in fund balance is followed by reconciliation between the change in governmental funds' fund balance and the change in governmental activities' net position as reported on the government-wide statement of activities. The net difference of (\$104,348) 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.	\$ 51,343
Depreciation expense that is recorded on the statement of activities but not in the fund statements.	(271,750)
Principal payments on debt owed are recorded as a use of funds on the fund statements but again affect only the statement of net position in the government-wide statements.	116,059
Total	<u>\$ (104,348)</u>

II. Stewardship, Compliance, and Accountability

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

Noncompliance with North Carolina General Statutes

None

Contractual Violations

None

B. Deficit Fund Balance or Net Position of Individual Funds

None

III. Detail Notes on All Funds

A. Assets

1. Deposits

At June 30, 2017, the School had deposits with banks and savings and loans with a carrying amount of \$345,305. The bank balance with the financial institutions was \$391,790. Federal Deposit Insurance Corporation (FDIC) covers \$250,000 per bank. The School has a balance of \$139,788 that was not insured by the FDIC. The School does not have a deposit policy for custodial credit risk. The School does not hold petty cash.

**PAVE Southeast Raleigh Charter School
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2017**

2. Capital Assets

Capital asset activity for the year ended June 30, 2017:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets being depreciated				
Buildings	\$ 7,076,370	\$ -	\$ -	\$ 7,076,370
Computer network equipment	34,542	31,048	-	65,590
Computers	42,248	-	-	42,248
Furniture and fixtures	32,415	17,601	-	50,016
Instructional equipment	11,825	2,695	-	14,520
Software	3,773	-	-	3,773
Total capital assets being depreciated	<u>7,201,173</u>	<u>51,344</u>	<u>-</u>	<u>7,252,517</u>
Less accumulated depreciation				
Buildings	19,657	235,879	-	255,536
Computer network equipment	4,605	11,178	-	15,783
Computers	5,798	14,083	-	19,881
Furniture and fixtures	3,879	6,538	-	10,417
Instructional equipment	1,354	2,814	-	4,168
Software	1,062	1,258	-	2,320
Total accumulated depreciation	<u>36,355</u>	<u>\$ 271,750</u>	<u>\$ -</u>	<u>308,105</u>
Total capital assets being depreciated, net	<u>7,164,818</u>			<u>6,944,412</u>
Governmental activities capital assets, net	<u>\$ 7,164,818</u>			<u>\$ 6,944,412</u>

Depreciation expense is charged to governmental functions as follows:

Instructional services	\$ 203,813
System-wide support services	67,937
	<u>\$ 271,750</u>

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets being depreciated				
Software	\$ 1,995	\$ -	\$ -	\$ 1,995
Total capital assets being depreciated	<u>1,995</u>	<u>-</u>	<u>-</u>	<u>1,995</u>
Less accumulated depreciation				
Software	610	665	-	1,275
Total accumulated depreciation	<u>610</u>	<u>\$ 665</u>	<u>\$ -</u>	<u>1,275</u>
Total capital assets being depreciated, net	<u>1,385</u>			<u>720</u>
Business-type activities capital assets, net	<u>\$ 1,385</u>			<u>\$ 720</u>

Depreciation expense is charged to governmental functions as follows:

School food service	\$ 665
	<u>\$ 665</u>

**PAVE Southeast Raleigh Charter School
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2017**

B. Liabilities

1. Pension Plan Obligations

a. Retirement Plan

Plan Description - PAVE Southeast Raleigh Charter School offers a 401(k) retirement plan with ADP. Plan members could contribute up to \$18,000 of their annual salary and the School would match up to 2% of their annual salary. The School contributed \$8,271 to the plan during the year, with the employees contributing \$27,993.

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. Capital Leases (Related Party)

The School entered into a lease agreement with PAVE 3420 Idlewood Village, LLC (a related party) for a building. The present value of the base rent lease payments is greater than 90% of the asset's market value, and therefore this lease is classified as a capital lease. The obligations have been recorded at the fair market value at the date of inception of the lease.

At June 30, 2017, assets recorded under the capital leases were as follows:

Classes of Property	Cost	Accumulated Amortization	Net Book Value
Building	\$ 7,076,370	\$ 255,536	\$ 6,820,834
Total	<u>\$ 7,076,370</u>	<u>\$ 255,536</u>	<u>\$ 6,820,834</u>

**PAVE Southeast Raleigh Charter School
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2017**

The following is a schedule of the future minimum lease payments and the net present value of the minimum lease payments as of June 30, 2017:

Year Ending June 30	
2018	\$ 448,145
2019	448,145
2020	448,145
2021	448,145
2022	448,145
2023 - 2027	2,278,120
2028 - 2032	2,288,435
2033 - 2037	2,301,596
2038 - 2042	2,318,388
2043 - 2046	1,881,500
Total minimum lease payments	13,308,764
Less: amount representing interest	6,363,885
Present value of the minimum lease payments	\$ 6,944,879

b. Changes in General Long-Term Obligations

The following is a summary of changes in the School's long-term obligations for the fiscal year ended June 30, 2017:

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Governmental activities:					
Capitalized leases	\$ 7,060,938	\$ -	\$ 116,059	\$ 6,944,879	\$ 111,567
Total	\$ 7,060,938	\$ -	\$ 116,059	\$ 6,944,879	\$ 111,567

4. Deferred Inflows of Resources

The balance in deferred inflows of resources at year end is composed of the following:

Year Ending June 30	Unavailable Grant Revenue
2018	\$ 300,000
Total	\$ 300,000

Unavailable Grant Revenue consists of \$300,000 grant revenue from PAVE Schools, Inc. that was not received, from the original \$1,000,000 grant commitment, during the fiscal year ended June 30, 2017. PAVE Southeast Raleigh Charter School received \$700,000 from PAVE Schools, Inc. during the fiscal year ended June 30, 2017.

5. Interfund Balances and Activity

The General Fund transferred \$64,763 to the School Food Service Fund to help cover the cost of food services.

**PAVE Southeast Raleigh Charter School
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2017**

6. Fund Balance

PAVE Southeast Raleigh Charter School has a revenue spending policy that provides policy for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: federal funds, State funds, local non-School funds, PAVE Southeast Raleigh Charter School funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance, and lastly, unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the School.

The following schedule provides management and citizens with information on the portion of General Fund balance that is available for appropriation:

Total fund balance	\$ 320,005
Less:	-
Prepaid Items	56,327
Appropriated Fund Balance in 2018 budget	-
Remaining Fund Balance	\$ 263,678

IV. Commitments

The School has entered into a contract for the provision of waste services until June 30, 2018. Obligations under this agreement are \$1,616 per year. The School paid \$6,283 under the terms of this agreement during the year ended June 30, 2017.

The School has entered into a contract for the provision of elevator services until June 10, 2018. Obligations under this agreement are \$1,575 per year. The School paid \$722 under the terms of this agreement during the year ended June 30, 2017.

The School has entered into a contract for the provision of financial services until June 30, 2019. Obligations under this agreement are based on enrollment. The School paid \$62,978 under the terms of this agreement during the year ended June 30, 2017.

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.

VI. Significant Effects of Subsequent Events

The School has evaluated subsequent events from the date of the balance sheet through the date the report is available to be issued which is the date of the independent auditors' report. The School has not evaluated subsequent events after that date. There were no subsequent events during this period that requires disclosure.

**PAVE Southeast Raleigh Charter School
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2017**

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REQUIRED SUPPLEMENTARY INFORMATION

NON-MAJOR FUNDS

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

PAVE Southeast Raleigh Charter School
 Non-Major Governmental Fund
 Balance Sheet
 June 30, 2017

	Special Revenue Fund	Federal Grants Fund
ASSETS		
Current assets:		
Cash and cash equivalents	\$	-
Receivables (net)		-
Total current assets		-
Noncurrent assets:		
Capital assets:		
Other capital assets, net of depreciation		-
Total noncurrent assets		-
Total assets	\$	-
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	\$	-
Due to other governments		-
Due to other funds		-
Accrued salaries and wages payable		-
Other payables		-
Total current liabilities		-
Long-term liabilities:		
Due within one year		-
Due in more than one year		-
Total long-term liabilities		-
Total liabilities		-
NET POSITION		
Net investment in capital assets		-
Unrestricted		-
Total net position	\$	-

PAVE Southeast Raleigh Charter School
Non-major Governmental Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the year ended June 30, 2017

	Special Revenue Fund
	Federal Grants Fund
Revenues:	
U.S. Government:	
Title I Basic	\$ 116,359
IDEA VI-B Handicapped	34,901
Supporting Effective Instruction	14,312
IDEA VI-B Special Needs Targeted Assistance	1,800
Total revenues	<u>167,372</u>
Expenditures:	
Current:	
Instructional services:	
Regular services	14,312
Special services	36,701
Alternative Programs and services	116,359
Total instructional services	<u>167,372</u>
Total expenditures	<u>167,372</u>
Revenues over expenditures	<u>-</u>
Fund balances:	
Beginning of year, July 1	<u>-</u>
End of year, June 30	<u>\$ -</u>

PAVE Southeast Raleigh Charter School
All Fund Types Except Federal Grants Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual, Government-wide Budget
For the year ended June 30, 2017

	2017		Favorable (Unfavorable) Variance
	Final Budget	Actual	
Revenues:			
State of North Carolina Board(s) of Education:			
Hoke County	470	470	-
Johnston County	8,759	8,759	-
Wake County	511,614	511,614	-
U.S. Government	167,250	167,192	(58)
Fines and forfeitures	-	-	-
Lunch	-	-	-
Contributions and donations	703,000	703,000	-
Other	159,803	159,216	(587)
Total revenues	2,767,707	2,767,062	(645)
Expenditures:			
Salaries and bonuses	908,559	865,829	42,730
Benefits	245,455	231,593	13,862
Books and supplies	115,239	77,461	37,778
Technology	20,098	16,597	3,501
Non-Cap Equipment and Leases	19,700	17,934	1,766
Contracted Student Services	110,000	102,328	7,672
Staff Development	43,500	12,426	31,074
Administrative Services	144,600	108,879	35,721
Insurance	35,865	35,814	51
Rents and Debt Service	448,145	448,145	-
Facilities	133,550	125,029	8,521
Utilities	117,600	100,878	16,722
Nutrition and Food	213,478	212,240	1,238
Transportation and Travel	179,000	177,161	1,839
Capital Purchases	53,000	51,344	1,656
Total expenditures	2,787,789	2,583,658	204,131
Other financing sources (uses):			
Appropriated Fund Balance	20,082	-	(20,082)
Total other financing sources and (uses)	20,082	-	(20,082)
Excess of revenues over expenditures	\$ -	\$ 183,404	\$ 183,404

**PAVE Southeast Raleigh Charter School
Federal Grants Fund
Statement of Revenues, Expenditures, and
Changes In Fund Balances - Budget and Actual
For the year ended June 30, 2017**

	2017		Favorable (Unfavorable) Variance
	Final Budget	Actual	
Revenues:			
Title I Basic	\$ 116,359	\$ 116,359	\$ -
IDEA VI-B Handicapped	34,901	34,901	-
Supporting Effective Instruction	14,312	14,312	-
IDEA VI-B Special Needs Targeted Assistance	1,800	1,800	-
Total revenues	167,372	167,372	-
Expenditures:			
Salaries and benefits	151,260	151,260	-
Workshop expenses	14,312	14,312	-
Supplies and materials	1,800	1,800	-
Total expenditures	167,372	167,372	-
Excess of revenues over expenditures	\$ -	\$ -	\$ -

COMPLIANCE SECTION
PAVE SOUTHEAST RALEIGH CHARTER SCHOOL
RALEIGH, NORTH CAROLINA
JUNE 30, 2017

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

Independent Auditors' Report

To the Board of Directors
PAVE Southeast Raleigh Charter School
Raleigh, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of PAVE Southeast Raleigh Charter School, as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise PAVE Southeast Raleigh Charter School's basic financial statements, and have issued our report thereon dated October 18, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered PAVE Southeast Raleigh Charter School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PAVE Southeast Raleigh Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Petway Mills & Pearson, PA

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

October 18, 2017

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

Independent Auditors' Report

To the Board of Directors
PAVE Southeast Raleigh Charter School
Raleigh, North Carolina

Report on Compliance for Each Major State Program

We have audited PAVE Southeast Raleigh Charter School's compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on PAVE Southeast Raleigh Charter School's major State program as of and for the year ended June 30, 2017. PAVE Southeast Raleigh Charter School's major State program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for PAVE Southeast Raleigh Charter School's major State program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in and applicable sections of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about PAVE Southeast Raleigh Charter 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 on compliance for the major State program. However, our audit does not provide a legal determination of PAVE Southeast Raleigh Charter School's compliance.

Opinion on Each Major State Program

In our opinion, PAVE Southeast Raleigh Charter School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major State program as of and for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of PAVE Southeast Raleigh Charter School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered PAVE Southeast Raleigh Charter School's internal control over compliance with the types of requirements that could have a direct and material effect on a major State program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major State program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

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

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

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

Petway Mills & Pearson, PA

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

October 18, 2017

**PAVE Southeast Raleigh Charter School
Schedule of Findings and Questioned Costs
For the year ended June 30, 2017**

SECTION II. – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III. – STATE AWARD FINDINGS AND QUESTIONED COSTS

None reported.

**PAVE Southeast Raleigh Charter School
Corrective Action Plan
For the year ended June 30, 2017**

SECTION II. – FINANCIAL STATEMENT FINDINGS

None required.

SECTION III. – STATE AWARD FINDINGS AND QUESTIONED COSTS

None required.

**PAVE Southeast Raleigh Charter School
Summary Schedule of Prior Years' Audit Findings
For the year ended June 30, 2017**

There were no prior year findings.

**PAVE Southeast Raleigh Charter School
Schedule of Expenditures of Federal and State Awards
For the year ended June 30, 2017**

<u>Grantor/Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>State/Pass- Through Grantor's Number</u>	<u>Expenditures</u>
FEDERAL GRANTS:			
CASH ASSISTANCE:			
<u>US Department of Education</u>			
Passed Through the NC Department of Public Instruction:			
Special Education Cluster			
IDEA VI-B Handicapped	84.027	PRC 060	\$ 34,901
IDEA VI-B Special Needs Targeted Assistance	84.027	PRC 118	1,800
Total Special Education Cluster			<u>36,701</u>
Title I, Part A Cluster			
Title I, Grants to Local Education Agencies	84.010	PRC 050	116,359
Total Title I, Part A Cluster			<u>116,359</u>
Supporting Effective Instruction, Title II Part A	84.367	PRC 103	14,312
Total US Department of Education			<u>167,372</u>
<u>US Department of Agriculture</u>			
Passed Through the NC Department of Public Instruction:			
Child Nutrition Cluster			
National School Lunch Program	10.555	PRC 035	167,192
Total Child Nutrition Cluster			<u>167,192</u>
TOTAL FEDERAL CASH ASSISTANCE			<u>334,564</u>
NC STATE GRANTS:			
CASH ASSISTANCE:			
<u>NC Department of Public Instruction</u>			
State Public School Funds			
Charter School Funds		PRC 036	1,216,811
TOTAL STATE CASH ASSISTANCE			<u>1,216,811</u>
TOTAL FEDERAL AND STATE AWARDS			<u>\$ 1,551,375</u>

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

Basis of Presentation

The accompanying schedule of expenditures of federal and State awards (SEFSA) includes the federal and State grant activity of the PAVE Southeast Raleigh Charter School under the programs of the federal government and the State of North Carolina for the year ended June 30, 2017. The information in this SEFSA is presented in accordance with the requirements of Title 2 US Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of the PAVE Southeast Raleigh Charter School, it is not intended Federal Awards (Uniform Guidance) and the State Single Audit to and does not present the financial position, changes in net assets or cash flows of the PAVE Southeast Raleigh Charter School.

Indirect Costs

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

Summary of Accounting Policies

Expenditures reported in the schedule of expenditures of federal awards are reported on the modified accrual basis of accounting.