

**Gray Collegiate Academy, Inc.**

***Report on Financial Statements***

***For the year ended June 30, 2015***

# Gray Collegiate Academy

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## Independent Auditor's Report

Board of Directors  
Gray Collegiate Academy  
West Columbia, South Carolina

### Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Gray Collegiate Academy (the School), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the 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 the financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Gray Collegiate Academy as of June 30, 2015, and the respective changes in financial position 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 and budgetary comparison information on pages 3 through 8 and 25 through 27 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.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the School's basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information 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 financial statements or the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is 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 November 2, 2015 on our consideration of the 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 that 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*.



Charleston, South Carolina  
November 2, 2015

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## Gray Collegiate Academy

### *Management's Discussion and Analysis*

#### *June 30, 2015*

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As management of Gray Collegiate Academy (the School), we offer readers of the School's audited financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2015. 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:

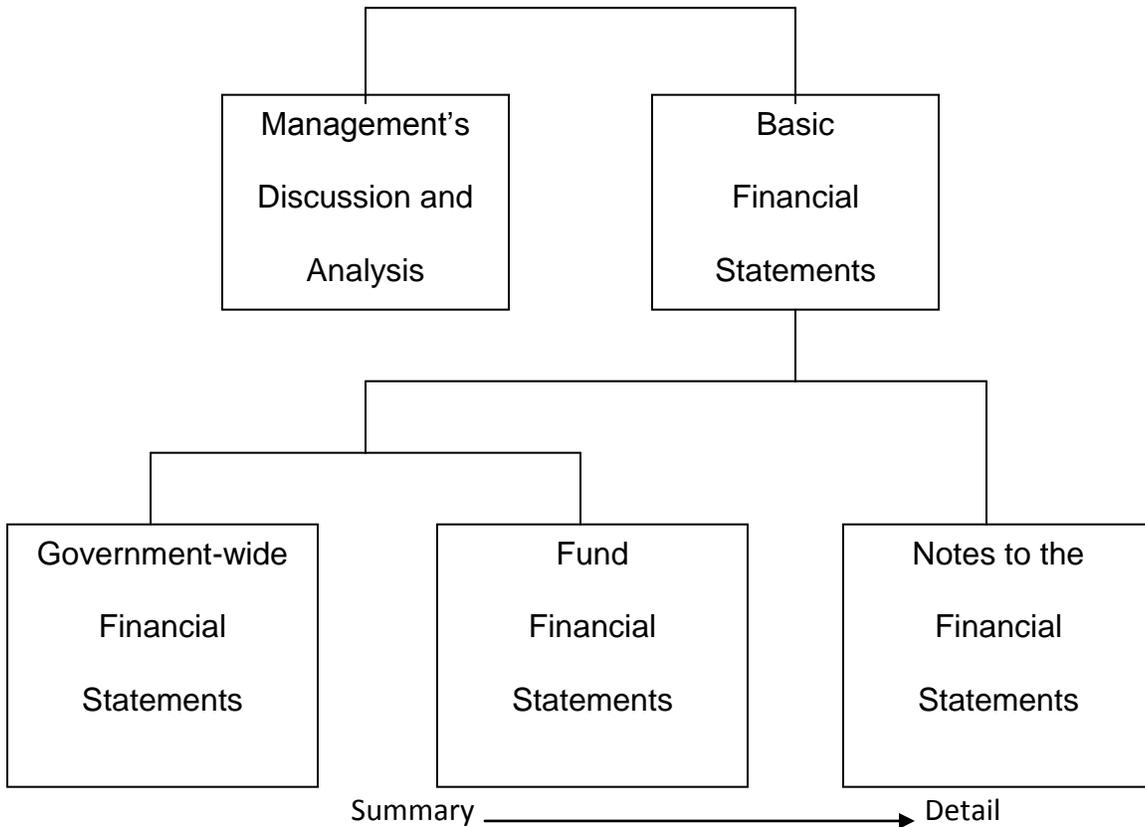
- The School's first year of operations was the 2014-2015 School year.
- The financial statements of the School include the operations of Gray Collegiate Academy, LP, which are included in the special revenue fund.
- The assets of the School exceeded its liabilities at the close of the fiscal year by \$187,049 (**net position**).
- As of the close of the current fiscal year, the School's governmental funds reported combined ending fund balances of \$362,108.
- The 2014-2015 45-day headcount was 362.
- The 2014-2015 135-day headcount was 370.
- The School had \$2,022,457 in long-term debt as of June 30, 2015.
- The School had \$6,831,841 in long-term capital lease as of June 30, 2015.
- The School received \$2,000,000 from the EB-5 Immigrant Investor Program (EB-5) to aid in the development of its new facility. This program allows foreign investors to apply for temporary residency if they make necessary the investment in an identified enterprise in the United States and create 10 permanent full-time jobs for qualified United States workers. The School expects to repay this amount to the investors, and thus a note payable is reflected on the School's government-wide financial statements. As the School advanced these funds to the developer of the School's facility, a corresponding note receivable is also reflected in the government-wide financial statements.

#### Overview of the Financial Statements:

This discussion and analysis is intended to serve as an introduction to the 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 the School.

**Figure 1**

**Required Components of Annual Financial Report**



*Basic Financial Statements:*

The first two statements 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 are **Fund Financial Statements**. These statements focus on the activities of the individual segments of the School's activities. These statements are more detailed than the government-wide financial statements.

Immediately following the fund financial statements are the **Notes to the Financial Statements** (the 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.

## Gray Collegiate Academy

### *Management's Discussion and Analysis*

*June 30, 2015*

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#### 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. Measuring net position is one way to gauge the School's financial condition.

The government-wide statements include all governmental 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 government-wide financial statements are enumerated on pages 9 and 10 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. The School uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related requirements, such as the School's budget, where and when applicable. All of the funds of the School are considered governmental 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 governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation, which is an integral part of the fund financial statements.

The School has elected to adopt an annual budget. 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 its budget and whether or not the School has succeeded in providing the services as originally planned.

**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 13 of this report.

**Gray Collegiate Academy**  
**Management's Discussion and Analysis**  
**June 30, 2015**

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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 the School exceeded its liabilities by \$187,049 as of June 30, 2015. (\$175,059) reflects the School's investment in capital assets (e.g. building, leasehold improvements, vehicles and equipment); less any related debt still outstanding that was issued to acquire those items. The School uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the School's investment in its capital assets is reported net of any outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. The remaining balance of \$362,108 is unrestricted.

**Figure 2**  
**Gray Collegiate Academy's Net Position**

	Governmental Activities
	2015
Current and other assets	\$ 445,732
Non-current assets	8,679,239
Total assets	9,124,971
Current liabilities	108,707
Long-term liabilities	8,829,215
Total liabilities	8,937,922
Net position	
Invested in capital assets	(175,059)
Unrestricted	362,108
Total net position	\$ 187,049

Aspects of the School's financial operations that 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 has a dual enrollment curriculum and operates the School on a split shift schedule. This allows for greater headcount with half the amount of instructional staff compared to traditional schools.

**Figure 3**  
**Gray Collegiate Academy's Net Position**

	Governmental Activities <u>2015</u>
Fees and other revenues	\$ 50,040
County, state, and federal funds	<u>3,421,208</u>
Total revenues	<u>3,471,248</u>
Instructional programs	1,159,077
Support services	1,678,980
Interest	<u>445,180</u>
Total expenses	<u>3,283,237</u>
Change in net position	188,011
Net position, July 1	<u>(962)</u>
Net position, June 30	<u>\$ 187,049</u>

**Governmental activities** - Governmental activities increased the School's net position by \$188,011

Financial Analysis of the School's Funds:

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

**Governmental Funds** - The focus of the 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 the School's financing requirements. Specifically, unassigned 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 the School. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$244,118.

# Gray Collegiate Academy

## Management's Discussion and Analysis

June 30, 2015

### Capital Asset and Debt Administration:

**Capital Assets** - The School's investment in capital assets for its governmental activities as of June 30, 2015, totals \$6,679,239 (net of accumulated depreciation). Capital assets include land, buildings, building improvements, vehicles and equipment. As this was the first year of operations, the School made significant capital asset transactions during the year.

**Figure 4**  
**Gray Collegiate Academy's Capital Assets**  
**(net of depreciation)**

	Balance July 1, 2014	Governmental Activities 2015	Balance June 30, 2015
Land	\$ -	\$ 750,000	\$ 750,000
Buildings	-	5,826,411	5,826,411
Leasehold improvements	-	21,148	21,148
Vehicles	-	39,737	39,737
Equipment	-	41,943	41,943
Total	<u>\$ -</u>	<u>\$ 6,679,239</u>	<u>\$ 6,679,239</u>

Additional information about the School's capital assets can be found in Note 5 of the Basic Financial Statements.

**Long-term Debt** - As of June 30, 2015, the School had incurred long-term debt in the amount of \$22,457 relating to the purchase of three school buses for student transportation.

During the year ended June 30, 2014, Gray Collegiate Charter Academy, Limited Partnership (the "Partnership") received advances totaling \$2,000,000 from four limited partners. The Partnership expects to repay these advances, and therefore, the School has elected to treat these advances to the Partnership as notes payable on the Statement of Net Position.

**Capital lease** - As of June 30, 2015, the School had incurred a capital lease in the amount of \$6,831,841 relating to the purchase of the School's land and building.

### Economic Factors:

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

- The School continues to see community support as evidenced by the volunteerism, local organizations donating classroom and office supplies, private donations, and support through fundraising.
- The School has a returning staff of professionals that are committed to the School.
- The School will continue to seek both federal and private grant funds to supplement its EFA funding.

### 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, Gray Collegiate Academy, 3833 Leaphart Road, West Columbia, South Carolina 29169, telephone number (803) 951-3321.

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**Gray Collegiate Academy****Statement of Net Position****As of June 30, 2015**

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	<u>Governmental activities</u>
<b>Assets</b>	
<b>Current assets</b>	
Cash	\$ 306,440
Prepaid items	61,715
Accounts receivable	1,808
Due from other governmental units	19,494
Security deposits	56,275
Total current assets	<u>445,732</u>
<b>Non-current assets</b>	
Note receivable	2,000,000
Capital assets, net of accumulated depreciation	6,679,239
Total non-current assets	<u>8,679,239</u>
<b>Liabilities</b>	
<b>Current liabilities</b>	
Accounts payable	63,848
Payroll liabilities	1,934
Due to pupil activities	14,014
Unearned revenue	3,828
Capital lease	7,266
Notes payable	17,817
Total current liabilities	<u>108,707</u>
<b>Long-term liabilities</b>	
Capital lease, net of current portion	6,824,575
Notes payable, net of current portion	2,004,640
Total long-term liabilities	<u>8,829,215</u>
<b>Net position</b>	
Net investment in capital assets	(175,059)
Unrestricted	362,108
Total net position	<u>\$ 187,049</u>

**See Notes to Financial Statements**

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**Gray Collegiate Academy****Statement of Activities****For the year ended June 30, 2015**

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	<u>Expenses</u>	<u>revenues</u> Operating Grants and Contributions	<u>Net (expense) revenue and changes in net position</u> Governmental activities
<u>Functions/Programs</u>			
Governmental activities			
Instruction	\$ 1,159,077	\$ 3,421,208	\$ 2,262,131
Support services	1,678,980	-	(1,678,980)
Interest	445,180	-	(445,180)
Total governmental activities	<u>3,283,237</u>	<u>3,421,208</u>	<u>137,971</u>
Total	<u>\$ 3,283,237</u>	<u>\$ 3,421,208</u>	<u>137,971</u>
General revenues:			
			50,040
Miscellaneous			<u>50,040</u>
Total general revenues			<u>50,040</u>
Change in net position			188,011
Net position, beginning of year			<u>(962)</u>
Net position, end of year			<u>\$ 187,049</u>

**Gray Collegiate Academy**  
**Balance Sheet - Governmental Funds**  
**As of June 30, 2015**

	Special Revenue Funds			Total
	General	Special Projects	Education Improvement Act	
<b>Assets</b>				
Cash	\$ 306,440	\$ -	\$ -	\$ 306,440
Prepaid items	61,715	-	-	61,715
Accounts receivable	1,808	-	-	1,808
Due from other governmental units	19,494	-	-	19,494
Due from other funds	-	-	3,828	3,828
Security deposits	56,275	-	-	56,275
Total assets	<u>\$ 445,732</u>	<u>\$ -</u>	<u>\$ 3,828</u>	<u>\$ 449,560</u>
<b>Liabilities and fund balances</b>				
Liabilities:				
Accounts payable	\$ 63,848	\$ -	\$ -	\$ 63,848
Payroll liabilities	1,934	-	-	1,934
Due to pupil activities	14,014	-	-	14,014
Due to other funds	3,828	-	-	3,828
Unearned revenue	-	-	3,828	3,828
Total liabilities	<u>83,624</u>	<u>-</u>	<u>3,828</u>	<u>87,452</u>
Fund balance:				
Nonspendable	117,990	-	-	117,990
Unassigned	244,118	-	-	244,118
Total fund balances	<u>362,108</u>	<u>-</u>	<u>-</u>	<u>362,108</u>
Total liabilities and fund balances	<u>\$ 445,732</u>	<u>\$ -</u>	<u>\$ 3,828</u>	<u>\$ 449,560</u>
Total governmental fund balances				\$ 362,108

Amounts reported in the Statement of Net Position for governmental activities are different because of the following:

Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. The cost of assets is \$7,011,999 and the accumulated depreciation is \$332,760. 6,679,239

Some liabilities are not due and payable in the current period and therefore are not reported in the funds:

Notes payable	(22,457)
Capital lease	(6,831,841)
Net position of governmental activities	<u>\$ 187,049</u>

## Gray Collegiate Academy

### Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds For the year ended June 30, 2015

	General Fund	Special Revenue Funds		Total
		Special Projects	Education Improvement Act	
<b>Revenues</b>				
Local	\$ 50,040	\$ -	\$ -	\$ 50,040
Intergovernmental	1,408,132	-	1,888,076	3,296,208
Federal	-	125,000	-	125,000
Total revenues	1,458,172	125,000	1,888,076	3,471,248
<b>Expenditures</b>				
Current				
Instruction	202,942	555,565	56,432	814,939
Support services	1,597,542	487,049	-	2,084,591
Capital outlay	6,937,946	125,000	-	7,062,946
Total expenditures	8,738,430	1,167,614	56,432	9,962,476
Excess (deficit) of revenues over (under) expenditures	(7,280,258)	(1,042,614)	1,831,644	(6,491,228)
<b>Other financing sources (uses)</b>				
Transfers (to) from other funds	789,030	1,042,614	(1,831,644)	-
Proceeds from notes payable	34,900	-	-	34,900
Payments on notes payable	(12,443)	-	-	(12,443)
Proceeds from capital lease	6,892,308	-	-	6,892,308
Payments on capital lease	(60,467)	-	-	(60,467)
Total other financing sources (uses)	7,643,328	1,042,614	(1,831,644)	6,854,298
Net change in fund balances	363,070	-	-	363,070
<b>Fund balances, beginning of year</b>	(962)	-	-	(962)
<b>Fund balances, end of year</b>	\$ 362,108	\$ -	\$ -	\$ 362,108
Total net change in fund balance - governmental funds				\$ 363,070
Amounts reported for governmental activities in the Statement of Activities are different because of the following:				
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those capital assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which net capital outlays (\$7,011,999) exceed depreciation expense (\$332,760) in the period.				6,679,239
Proceeds from the issuance of notes payable and capital leases are treated as other financing sources in the governmental funds but the proceeds increase long-term liabilities in the Statement of Activities. These proceeds have been reduced by principal payments made against the related obligation.				(6,854,298)
Change in net position of governmental activities				\$ 188,011

See Notes to Financial Statements

**Note 1. Summary of Significant Accounting Policies**

Gray Collegiate Academy (the School) is a nonprofit organization incorporated in the State of South Carolina and organized under the South Carolina Charter School Act. The School opened in August 2014. The School operates within the South Carolina Public Charter School District. The School serves approximately 365 students in grades 9 through grade 12 in Lexington County, South Carolina.

**A. Reporting entity**

The School's financial statements include all funds over which the Board is considered to be financially accountable. The School receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations and the primary accountability for fiscal matters.

As required by state law, the School is a component unit of the South Carolina Public Charter School District. The School has determined that there are no support entities that meet the requirements for inclusion as a discretely presented component unit.

**Blended Component Unit** - Gray Collegiate Academy, LP (the Partnership) was formed on March 7, 2014, for the purpose of securing capital to advance funding to the developer and owner of its new facility. In order to access the EB-5 Immigrant Investor Program (EB-5) funding, the Partnership is required to employ all teachers and staff associated with the School. The Partnership received \$2,000,000 in capital advanced from four partners during the fiscal year ended June 30, 2014. The Partnership immediately advanced these proceeds to American Charter Development, the developer and owner of its new facility. These advances allowed the developer to provide the School a lower lease payment (see Note 7). The Partnership is comprised of the School, Education Fund of America (EFA), a Special General Partner who secures the EB-5 investments, and four limited partners, who are the EB-5 investors. The Partnership meets the criteria of a blended component, because the School has majority control over the Partnership, due to being the general partner and owning greater than 50% of the Partnership interest. Therefore, the operations of the Partnership are blended with the operations of the School as required by accounting principles generally accepted in the United States of America. The Partnership activities are tracked as a separate fund within the special projects fund.

**B. Basis of presentation**

The statements of the School are presented as follows:

**Government-wide financial statements** - The Statement of Net Position, and the Statement of Activities, display information about the School as a whole, except fiduciary funds, if any. For the most part, the effect of interfund activity has been removed from these statements. The School's activities are governmental activities generally financed through intergovernmental revenues and other non-exchange transactions. Intergovernmental revenue included on the Statement of Revenue, Expenditures and Changes in Fund Balance - Governmental Funds includes all state sourced revenue and any federal revenue that flows to the School primarily through the South Carolina Public Charter School District.

**Note 1. Summary of Significant Accounting Policies, Continued**

**B. Basis of presentation, continued**

The government-wide statements are prepared using the economic resources measurement focus. This approach differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the School's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the School.

***Fund financial statements*** - Fund financial statements report detailed information about the School. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The School has no non-major funds. Fiduciary funds, if any, are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are: a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

**C. Measurement focus and basis of accounting**

*Fund accounting*

The accounts of the School are organized and operated on the basis of funds during the fiscal year, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a self-balancing set of accounts. The various funds are grouped into the categories governmental and if necessary fiduciary.

*Governmental funds*

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may, or must, be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is separated as fund balance. The following are the School's major governmental funds:

**Note 1. Summary of Significant Accounting Policies, Continued**

**C. Measurement focus and basis of accounting, continued**

**General fund** - to account for all financial transactions not properly accounted for in another fund. The School uses this fund to account for expenditures principally for administration, instruction, pupil services, operation and maintenance of plant and related fixed charges.

**Special revenue funds** - to account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative action. The School has two special revenue funds:

1. Special projects fund - a budgeted fund used to account for financial resources provided by federal, state and local projects and grants;
2. The Education Improvement Act (EIA) fund - a budgeted fund used to account for the revenue from the Education Improvement Act of 1984 and legally required to be accounted for as a specific revenue source.

**Basis of accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds, if any, also use the accrual basis of accounting. On the accrual basis of accounting, revenues are recognized when earned, and expenses are recognized when incurred. Under the modified accrual basis of accounting, revenues and expenditures are recognized when they become both measurable and available.

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year, or are expected to be collected, soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School, available means expected to be received within sixty days of fiscal year-end.

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements and donations. On the accrual basis, revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used, or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. On the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized. Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: interest, entitlements, grants, and student fees.

**Note 1. Summary of Significant Accounting Policies, Continued**

**C. Measurement focus and basis of accounting, continued**

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year, if any, is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as unearned revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

**D. Assets, liabilities and equity**

**Cash and cash equivalents** - The School may have cash presented on the financial statements which includes cash held in local financial institutions and certificates of deposit held in local financial institutions. The School had no cash equivalents at June 30, 2015.

**Prepaid items** - Payments made to vendors for services that will benefit periods beyond June 30, 2015, are recorded as prepaid expenses using the consumption method by recording an asset for the prepaid amount and reflecting the expenditure/expense in the year in which it was consumed. At June 30, 2015, prepaid items consisted of rent and insurance that totaled \$61,715.

**Receivables and payables** - During the course of operations, numerous transactions occur between the School and vendors and revenue sources or individual funds for goods provided or services rendered. On fund financial statements, these receivables and payables are classified as accounts receivable, accounts payable or "due from other funds" or "due to other funds" on the balance sheet. The transactions between funds are eliminated in the governmental activities columns of the Statement of Net Position.

**Note Receivable** - Amounts advanced to American Charter Development to assist in financing construction of a facility for the School are recorded as a note receivable. As of June 30, 2015, the balance on this note receivable was \$2,000,000.

**Capital assets** - Capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Position but are not reported in the fund financial statements.

Capital assets are stated at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The costs and accumulated depreciation of property sold or retired are removed from the accounts, and gain or losses, if any, are reflected in revenue or expenditures/expenses for the year. The School maintains a capitalization threshold of \$2,000. The School does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extends an asset's life are expensed.

**Note 1. Summary of Significant Accounting Policies, Continued**

**D. Assets, liabilities and equity, continued**

Capital assets are stated at cost or, if donated, at estimated fair value at the time of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives used in computing depreciation for financial reporting are as follows:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings	20 years
Leasehold improvements	10 years
Vehicles	6 years
Equipment	6 years

**Unearned revenue** - Unearned revenue arises when assets are recognized before revenue recognition criteria has been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as unearned revenue. On governmental fund financial statements, receivables that will not be collected within the available period are also reported as unearned revenue. The School had unearned revenue totaling \$3,828 at June 30, 2015.

**Accrued liabilities and long-term obligations** - All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements, regardless of whether they will be liquidated with current resources; however, claims and judgments that will be paid from governmental funds are reported as a liability in the fund financial statements, only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Debt and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

**Fund balances and net position** - There are five classifications of governmental fund balances: nonspendable, restricted, committed, assigned and unassigned. Where applicable, these classifications are presented on the face of the governmental funds balance sheet.

For the government wide financial statements the School applies restricted resources when an expenditure is incurred for the purposes for which both restricted and unrestricted net assets are available. For the governmental funds financial statements the School applies committed, then assigned, then unassigned resources when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

**Note 1. Summary of Significant Accounting Policies, Continued**

**D. Assets, liabilities and equity, continued**

Net position represents the difference between assets and liabilities. Net investment in capital assets, consists of capital assets reduced by accumulated depreciation and the outstanding balances of any borrowings used for the acquisition, construction or improvement of the unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**E. Use of estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the School's financial position and results of operations and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

**Note 2. Cash**

The School is authorized by South Carolina state law to invest in the following types of investments:

1. Obligations of the United States and agencies thereof;
2. General obligations of the State of South Carolina or any of its political units;
3. Banks and savings and loan associations to the extent they are guaranteed by the Federal Deposit Insurance Corporation (FDIC);
4. Deposits in certificates of deposit, where the certificates are collaterally secured by securities of the type described in (1) and (2) above, held by a third party as escrow agent or custodian, of a market value not less than the amount of the certificate of deposit so secured, including interest;
5. The State Treasurer's Local Government Investment Pool (monitored by the State Treasurer for investments invested in government guaranteed securities in accordance with South Carolina State laws);
6. Repurchase agreements.

At June 30, 2015, the carrying amount of the School's deposits was \$306,440 and the bank balance was \$492,925.

Custodial credit risk:

Custodial credit risk is the risk that the School's deposits will not be returned to it. The School has no formal policy regarding custodial credit risk. The total cash balances are insured by the FDIC up to \$250,000 per bank. At times during the year, the School had cash on deposit with banks that exceeded the balance insured by the FDIC.

Credit risk:

South Carolina statutes authorize investments in certificates of deposit, savings accounts, repurchase agreements, the State Treasurer's Local Government Investment Pool, obligations of the U.S. Government and government agencies unconditionally guaranteed by the U.S. Government. The School has no investment policy that would further restrict its choices.

**Gray Collegiate Academy**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

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**Note 2. Cash, Continued**

Interest rate risk:

The School does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of credit risk:

Concentration of credit risk is the risk of loss attributed to the magnitude of the School's investments in a single issuer. The School does not have a policy that limits the amount that may be invested in any one issuer.

**Note 3. Due from Other Governmental Units**

Intergovernmental receivables at June 30, 2015 consisted of intergovernmental grants and reimbursements. All governmental receivables are considered fully collectible.

Due from federal government	
Charter school grant	\$ 19,494
Total due from other governmental units	<u>\$ 19,494</u>

**Note 4. Transfers From and To Other Funds**

During the course of normal operations, the School has transactions between funds to provide services. These transactions are generally reflected as transfers. During the year the School transferred \$1,831,644 from the Education Improvement Act fund to the General Fund to align funding within the fund from which the majority of the School's expenditures are paid. During the year the School transferred \$1,042,614 from the general fund to the special projects fund to cover salary expenses and other expenditures paid by the Partnership. Total transfers during the year ended June 30, 2015 are reflected in the fund statements as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 1,831,644	\$ (1,042,614)
Special projects fund	1,042,614	-
Education improvement act fund	-	(1,831,644)
	<u>\$ 2,874,258</u>	<u>\$ (2,874,258)</u>

**Gray Collegiate Academy**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**Note 5. Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2015 was as follows:

	<u>Balance, July 1, 2014</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance, June 30, 2015</u>
<b>Governmental activities</b>				
Capital assets, not being depreciated				
Land	\$ -	\$ 750,000	\$ -	\$ 750,000
Total capital assets, not being depreciated	-	750,000	-	750,000
Capital assets, being depreciated				
Building	-	6,142,308	-	6,142,308
Leasehold improvements	-	23,282	-	23,282
Vehicles	-	46,902	-	46,902
Equipment	-	49,507	-	49,507
Total capital assets, being depreciated	-	6,261,999	-	6,261,999
Totals at historical cost	-	7,011,999	-	7,011,999
Less accumulated depreciation				
Building	-	(315,897)	-	(315,897)
Leasehold improvements	-	(2,134)	-	(2,134)
Vehicles	-	(7,165)	-	(7,165)
Equipment	-	(7,564)	-	(7,564)
Total accumulated depreciation	-	(332,760)	-	(332,760)
Total capital assets, being depreciated, net	-	5,929,239	-	5,929,239
<b>Governmental activities capital assets, net</b>	<b>\$ -</b>	<b>\$ 6,679,239</b>	<b>\$ -</b>	<b>\$ 6,679,239</b>

The carrying value of assets acquired under capital lease transactions at June 30, 2015 is \$6,576,411.

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 7,564
Support services	<u>325,196</u>
Total depreciation expense	<u>\$ 332,760</u>

**Note 6. Fund Balances and Net Position**

The fund balances/net position and other credits have been classified to reflect the limitations and restrictions placed on the respective funds as follows:

***Governmental fund financial statements***

Fund balances - Nonspendable - balances that by their nature are unable to be spent.

Fund balances - Restricted - balances that can only be spent for the specific purpose stipulated by constitution, external resources providers, or through enabling legislation.

Fund balances - Committed - balances that can only be used for the specific purpose determined by the School's Board of Directors. The Board of Directors must take a formal action during one of its meetings to establish, modify, or commit funds under the committed classification.

Fund balances - Assigned - balances meant to be used for a specific purpose but don't meet the criteria as restricted or committed. For the School, the board or any other governing authority above the board may assign fund balances by formal action such as local school board vote, ordinance or law.

Fund balances - Unassigned - balances that are spendable amounts not contained in other classifications.

***Government-wide financial statements***

Net investment in capital assets - represents the net cost less accumulated depreciation and outstanding debt attributable to the School's capital assets.

Restricted - represents net position restricted externally by creditors, grantors, contributors or laws and regulations of other governments, or restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted - represents the remainder of the School's net position in government-wide activities.

**Note 7. Leases**

On August 6, 2013 the School entered into a 20 year capital lease for their facility, with a buyout option that can be exercised between the second and fifth lease years. The lease qualifies as a capital lease for accounting purposes; therefore, the obligation has been recorded at the net present value of the future minimum lease payments totaling \$6,831,841 at June 30, 2015.

**Gray Collegiate Academy**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

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**Note 7. Leases, Continued**

The following is a schedule of the future minimum capital lease payments and the net present value of the minimum lease payments as of June 30, 2015:

Year ended <u>June 30</u>	
2016	\$ 672,000
2017	688,800
2018	706,020
2019	723,671
2020	741,762
2021-2025	3,996,420
2026-2030	4,521,582
Thereafter	<u>4,041,463</u>
Total minimum lease payments	16,091,718
Less: Amount representing interest	<u>9,259,877</u>
Present value of the minimum lease payments	<u>\$ 6,831,841</u>

On January 1, 2015 the School entered into an operating lease for land, adjacent to the School facility, for the construction of practice fields. Payments of \$3,099 per month are due commencing on July 1, 2015 until December 31, 2017. Thereafter the land can be purchased for \$420,000 with monthly payments of \$3,099 until December 31, 2036.

The following is a schedule of the future minimum operating lease payments related to the lease:

Year ended <u>June 30</u>	
2016	\$ 37,087
2017	37,087
2018	<u>18,543</u>
	<u>\$ 92,717</u>

**Note 8. Commitments and Contingencies**

Amounts received, or receivable, from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the School expects such amounts, if any, to be immaterial.

The School is by law, a public school. The operations of the School are subject to administrative directives, rules and regulations of its federal and state funding services. Such directions and funding levels are subject to change with little notice. If the School's funding levels are significantly impacted by reductions in federal and state funding, it may adversely affect the School's ability to operate.

**Gray Collegiate Academy**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**Note 8. Commitments and Contingencies, Continued**

The School entered into a management agreement with a charter school management group that provides curriculum and management services, as well as fiscal management, human resources and payroll services. The agreement commenced on July 1, 2014 and terminates on June 30, 2025. The School will pay the group an annual base fee plus 15% of all gross funding in excess of the amount noted in the agreement, excluding student activity fees and federal grants, up to a maximum additional fee. The fees increase each year based on student headcount and CPI index. For the year ended June 30, 2015 the School paid approximately \$461,000 for management fees, \$54,000 for fiscal services and \$36,000 for human resource and payroll services.

**Note 9. Note payable**

**Bus note payable** - On August 22, 2014, the School entered into a loan for the purchase of three buses for \$34,900. This note is payable in 23 monthly installments of \$1,569, including interest of 7%, and a final payment of \$1,521 due on September 6, 2016.

Scheduled maturities of long-term debt for the bus note are as follows:

Year ended June 30,	Principal	Interest
2016	\$ 17,817	\$ 1,006
2017	4,640	45
	<u>\$ 22,457</u>	<u>\$ 1,051</u>

As part of the EB-5 program, Gray Collegiate Academy, LP entered into an agreement with four limited partners on May 7, 2014. Each advanced \$500,000 to the Partnership, for a total of \$2,000,000. In return for these advances, under the EB-5 Program, the limited partners are entitled to temporary US Work Visas. The Partnership expects to repay these advances, and therefore, the School has elected to treat these advances to the Partnership as notes payable in the Statement of Net Position. The limited partners receive interest on their advances, paid quarterly, amounting to 1% per year. Under the partnership agreement, there is no specific due date of these obligations and there is no provision whereby the advance is payable upon request of the partner. Therefore, these notes have been treated as a long term obligations.

**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, 2015:

	Balance, July 1, 2014	Increases	Decreases	Balance, June 30, 2015	Current Portion
Governmental activities:					
Bus note payable	\$ -	\$ 34,900	\$ 12,443	\$ 22,457	\$ 17,817
Notes payable to Partnership Investors	<u>2,000,000</u>	<u>-</u>	<u>-</u>	<u>2,000,000</u>	<u>-</u>
Total	<u>\$ 2,000,000</u>	<u>\$ 34,900</u>	<u>\$ 12,443</u>	<u>\$ 2,022,457</u>	<u>\$ 17,817</u>

**Note 10. Risk Management**

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets and errors and omissions. The School pays premiums to a private insurance carrier for all forms of coverage. The insurance carrier promises to pay to, or on behalf of, the insured for covered economic losses sustained during the policy period in accordance with insurance policy and benefit program limits. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There has been no significant reduction in coverage and amounts of settlements have not exceeded coverage in the last year.

**Note 11. Employee Benefits**

***Retirement plan***

The School sponsors a retirement savings plan (the Plan) provided under Section 403(b) of the Internal Revenue Code, which covers substantially all employees who meet eligibility requirements. Employees are eligible to participate upon employment. Employee contributions vest immediately. Employer contributions to the Plan for the year ended June 30, 2015 were \$76,839.

**Note 12. Related Parties**

The partners of the charter school management group that the School is contracted with serve simultaneously as the School's Chief Executive Officer and Chief Financial Officer.

**Gray Collegiate Academy**  
**Budgetary Comparison Schedule - General Fund**  
**For the year ended June 30, 2015**

		Original and Final Budget	Actual	Variance from Final Budget
<b>Revenues</b>				
1000	Revenue from local sources			
1500	Earnings on investments			
1510	Interest on investments	\$ -	\$ 24	\$ 24
1700	Pupil activities			
1790	Other pupil activity income	78,750	3,589	(75,161)
1900	Other revenue from local sources			
1920	Contributions and donations from private sources	-	27,811	27,811
1990	Miscellaneous local revenue			
1993	Receipt of insurance proceeds	-	2,681	2,681
1999	Revenue from other local sources	-	15,935	15,935
	Total revenue from local sources	<u>78,750</u>	<u>50,040</u>	<u>(28,710)</u>
3000	Revenue from state sources			
3100	Restricted state funding			
3180	Fringe benefits employer contributions	-	339,342	339,342
3300	Education Finance Act (EFA)			
3310	Full-time programs			
3314	High school	3,014,384	9,999	(3,004,385)
3320	Part-time programs			
3321	Emotionally handicapped	-	4,285	4,285
3323	Learning disabilities	-	81,509	81,509
3327	Vocational	-	926,467	926,467
3330	Miscellaneous EFA programs			
3332	High achieving	-	6,617	6,617
3351	Academic assistance	-	22,687	22,687
3352	Pupils in poverty	-	17,226	17,226
	Total revenue from state sources	<u>3,014,384</u>	<u>1,408,132</u>	<u>(1,606,252)</u>
	Total revenue all sources	<u>3,093,134</u>	<u>1,458,172</u>	<u>(1,634,962)</u>
<b>Expenditures</b>				
100	Instruction			
110	General instruction			
114	High school programs			
100	Salaries	681,000	-	681,000
200	Employee benefits	270,343	-	270,343
300	Purchased services	-	70,923	(70,923)
400	Supplies and materials	168,750	114,219	54,531
500	Capital outlay	232,900	261,081	(28,181)
		<u>1,352,993</u>	<u>446,223</u>	<u>906,770</u>

*Intergovernmental revenue is presented by category in the schedule herein,  
in accordance with State Department of Education requirements.*

**Gray Collegiate Academy**  
**Budgetary Comparison Schedule - General Fund**  
**For the year ended June 30, 2015**

		Original and Final Budget	Actual	Variance from Final Budget
<b>Expenditures, Continued</b>				
100	Instruction, continued			
120	Exceptional programs			
127	Learning disabilities			
100	Salaries	70,000	-	70,000
200	Employee benefits	17,305	-	17,305
300	Purchased services	-	17,010	(17,010)
400	Supplies and materials	5,000	790	4,210
500	Capital outlay	23,300	-	23,300
		<u>115,605</u>	<u>17,800</u>	<u>97,805</u>
	Total instruction	<u>1,468,598</u>	<u>464,023</u>	<u>1,004,575</u>
200	Support services			
212	Guidance services			
100	Salaries	70,000	-	70,000
200	Employee benefits	25,233	-	25,233
		<u>95,233</u>	<u>-</u>	<u>95,233</u>
220	Instructional staff services			
224	Improvement of instruction and staff training			
300	Purchased services	6,500	4,943	1,557
		<u>6,500</u>	<u>4,943</u>	<u>1,557</u>
230	General administrative services			
231	Board of education			
300	Purchased services	13,500	12,839	661
318	Audit services	10,000	-	10,000
600	Other objects	7,900	12,883	(4,983)
		<u>31,400</u>	<u>25,722</u>	<u>5,678</u>
233	School administration			
100	Salaries	223,000	-	223,000
200	Employee benefits	38,920	-	38,920
300	Purchased services	455,856	552,166	(96,310)
400	Supplies and materials	6,500	34,030	(27,530)
500	Capital outlay	12,000	3,755	8,245
		<u>736,276</u>	<u>589,951</u>	<u>146,325</u>
250	Finance and operations services			
252	Fiscal services			
300	Purchased services	54,000	57,858	(3,858)
600	Other objects	4,000	2,022	1,978
		<u>58,000</u>	<u>59,880</u>	<u>(1,880)</u>
254	Operation and maintenance of plant			
100	Salaries	15,000	-	15,000
200	Employee benefits	6,346	-	6,346
300	Purchased services	416,100	590,030	(173,930)
321	Public utilities	11,000	21,970	(10,970)
400	Supplies and materials	20,000	13,286	6,714
470	Energy	24,000	47,678	(23,678)
500	Capital outlay	-	6,591,841	(6,591,841)
		<u>492,446</u>	<u>7,264,805</u>	<u>(6,772,359)</u>

**Intergovernmental revenue is presented by category in the schedule herein,  
in accordance with State Department of Education requirements.**

**Gray Collegiate Academy**  
**Budgetary Comparison Schedule - General Fund**  
**For the year ended June 30, 2015**

	Original and Final Budget	Actual	Variance from Final Budget
<b>Expenditures, Continued</b>			
200 Support services, continued			
255 Student transportation (state mandated)			
300 Purchased services	10,000	-	10,000
600 Other objects	181	1,565	(1,384)
	<u>10,181</u>	<u>1,565</u>	<u>8,616</u>
256 Food services			
300 Purchased services	-	7,589	(7,589)
	<u>-</u>	<u>7,589</u>	<u>(7,589)</u>
260 Central support services			
263 Information services			
300 Purchased services	5,000	36,059	(31,059)
	<u>5,000</u>	<u>36,059</u>	<u>(31,059)</u>
264 Staff services			
300 Purchased services	36,000	36,000	-
	<u>36,000</u>	<u>36,000</u>	<u>-</u>
266 Technology and data processing services			
100 Salaries	35,000	-	35,000
300 Purchased services	6,000	4,275	1,725
400 Supplies and materials	3,500	800	2,700
500 Capital outlay	9,000	-	9,000
	<u>53,500</u>	<u>5,075</u>	<u>48,425</u>
270 Support services - pupil activity			
271 Pupil service activities			
100 Salaries	81,000	-	81,000
300 Purchased services	50,000	87,668	(37,668)
400 Supplies and materials	144,000	73,881	70,119
500 Capital outlay	-	81,269	(81,269)
	<u>275,000</u>	<u>242,818</u>	<u>32,182</u>
Total support services	<u>1,799,536</u>	<u>8,274,407</u>	<u>(6,474,871)</u>
Total expenditures	<u>3,268,134</u>	<u>8,738,430</u>	<u>(5,470,296)</u>
<b>Other financing sources (uses)</b>			
421-710 Transfer to special revenue fund	-	(1,042,614)	(1,042,614)
5230 Transfer from education improvement act fund	-	1,831,644	1,831,644
5400 Proceeds from notes payable	-	34,900	34,900
500-610 Payments on note payable	-	(12,443)	(12,443)
5500 Proceeds from capital lease	-	6,892,308	6,892,308
500-610 Payments on capital lease	-	(60,467)	(60,467)
Total other financing sources (uses)	<u>-</u>	<u>7,643,328</u>	<u>7,643,328</u>
Excess of revenues over expenditures and other financing sources (uses)	<u>\$ (175,000)</u>	363,070	<u>\$ 538,070</u>
<b>Fund balance, beginning of year</b>		(962)	
<b>Fund balance, end of year</b>		<u>\$ 362,108</u>	

*Intergovernmental revenue is presented by category in the schedule herein,  
in accordance with State Department of Education requirements.*

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**Gray Collegiate Academy****Special Revenue Fund****Schedule of Revenues, Expenditures and Changes in Fund Balance****For the year ended June 30, 2015**

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		Other Special Revenue Programs (200)
		<hr/>
<b>Revenues</b>		
4000	Revenues from federal sources	
4300	Elementary & Secondary Education Act of 1965 (ESEA)	
4320	Charter school (planning and implementation) grant	\$ 125,000
	Total revenue from federal sources	<hr/> 125,000
	Total revenue all sources	<hr/> 125,000
<b>Expenditures</b>		
100	Instruction	
110	General instruction	
114	High school programs	
100	Salaries	284,559
200	Employee benefits	176,200
500	Capital outlay	125,000
		<hr/> 585,759
120	Exceptional programs	
127	Learning disabilities	
100	Salaries	66,488
200	Employee benefits	28,318
		<hr/> 94,806
	Total instruction	<hr/> 680,565
200	Support services	
210	Pupil services	
212	Guidance services	
100	Salaries	33,450
200	Employee benefits	16,725
		<hr/> 50,175
230	General and administrative services	
233	School administration	
100	Salaries	247,922
200	Employee benefits	85,837
		<hr/> 333,759

*Intergovernmental revenue is presented by category in the schedule herein,  
in accordance with State Department of Education requirements.*

**Gray Collegiate Academy***Special Revenue Fund**Schedule of Revenues, Expenditures and Changes in Fund Balance**For the year ended June 30, 2015*

	Other Special Revenue Programs (200)
<b>Expenditures, continued</b>	
200 Support services, continued	
250 Finance and operations services	
254 Operation and maintenance of plant	
100 Salaries	2,500
200 Employee benefits	881
	<u>3,381</u>
260 Central support services	
266 Technology and data processing services	
100 Salaries	33,175
200 Employee benefits	17,004
	<u>50,179</u>
270 Support services - pupil activity	
271 Pupil service activities	
100 Salaries	36,670
200 Employee benefits	12,885
	<u>49,555</u>
	<u>487,049</u>
Total support services	487,049
Total expenditures	<u>1,167,614</u>
<b>Other financing sources (uses)</b>	
5210 Transfer from general fund	1,042,614
Total other financing sources (uses)	<u>1,042,614</u>
Excess (deficit) of revenues over (under) expenditures and other financing sources (uses)	-
<b>Fund balance, beginning of year</b>	-
<b>Fund balance, end of year</b>	<u>\$ -</u>

*Intergovernmental revenue is presented by category in the schedule herein,  
in accordance with State Department of Education requirements.*

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**Gray Collegiate Academy****Education Improvement Act****Schedule of Revenues, Expenditures and Changes in Fund Balance****For the year ended June 30, 2015**

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	<u>Actual</u>
<b>Revenues</b>	
3000 Revenue from state sources	
3500 Education Improvement Act (EIA)	
3532 National board certification (NBC) salary supplement	\$ 7,340
3550 Teacher salary increase	39,294
3555 School employer contributions	6,798
3577 Teacher supplies	3,000
3583 Charter school funding	1,831,644
	<hr/>
Total revenue from state sources	1,888,076
	<hr/>
Total revenue	1,888,076
<b>Expenditures</b>	
100 Instruction	
110 General instruction	
114 High school programs	
100 Salaries	46,112
200 Employee benefits	7,320
400 Supplies and materials	3,000
	<hr/>
Total instruction	56,432
	<hr/>
Total expenditures	56,432
	<hr/>
Excess of revenues over expenditures	1,831,644
<b>Other financing uses</b>	
420 Transfer to general fund	(1,831,644)
<b>Fund balance, beginning of year</b>	
	<hr/>
	-
<b>Fund balance, end of year</b>	
	<hr/>
	\$ -
	<hr/> <hr/>

*Intergovernmental revenue is presented by category in the schedule herein,  
in accordance with State Department of Education requirements.*

**Gray Collegiate Academy**  
*Special Projects Fund*  
*Summary Schedule for Designated State Restricted Grants*  
*For the year ended June 30, 2015*

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<u>Subfund</u>	<u>Revenue</u>	<u>Programs</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Transfers In/ (Out)</u>	<u>Unearned Revenue</u>
None						

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**Gray Collegiate Academy****Education Improvement Act****Summary Schedule by Program****For the year ended June 30, 2015**

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	<u>Revenues</u>	<u>Expenditures</u>	<u>Transfers In/Out</u>	<u>Unearned Revenue</u>
3500 Education Improvement Act (EIA)				
3532 National board certification (NBC) salary supplement	\$ 7,340	\$ 7,340	\$ -	\$ 3,828
3550 Teacher salary increase	39,294	39,294	-	-
3555 School employer contributions	6,798	6,798	-	-
3577 Teacher supplies	3,000	3,000	-	-
3583 Charter school funding	1,831,644	-	(1,831,644)	-
Total	<u>\$ 1,888,076</u>	<u>\$ 56,432</u>	<u>\$ (1,831,644)</u>	<u>\$ 3,828</u>

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**Gray Collegiate Academy***Detailed Schedule of Due to State Department of Education / Federal Government**As of June 30, 2015*

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<u>Program</u>	<u>Grant or project number</u>	<u>Revenue code</u>	<u>Description</u>	<u>Amount due</u>	<u>Status of Amount due</u>
None					



**Independent Auditor's 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  
Gray Collegiate Academy  
West Columbia, South Carolina

We have audited, in accordance with the 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, the financial statements of the governmental activities and each major fund of Gray Collegiate Academy as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School's financial statements.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 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 first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2015-001 and 2015-002 to be material weaknesses.

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.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are disclosed in the accompanying schedule of findings and responses as items 2015-003 and 2015-004.

**The School's Response to Findings**

The School's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The School's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

**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.



Charleston, South Carolina  
November 2, 2015

**A. Summary of Auditor's Results**

1. The auditor's report expresses an unmodified opinion on the financial statements.
2. Two material weaknesses relating to the audit of the financial statements were disclosed during the audit.
3. No significant deficiencies relating to the audit of the financial statements were disclosed during the audit.
4. Two instances of noncompliance relating to the financial statements were disclosed during the audit.

**B. Findings - Financial Statement Audit**

**2015-001 - Recording of Limited Partnership Activity**

**Material Weakness**

**Condition and criteria:** Internal controls over financial reporting should be in place to provide reasonable assurance that all Limited Partnership activity is properly recorded.

**Effect:** Because management did not consider the Limited Partnership a blended component unit of the School, proceeds from EB-5 funding partners and the advance to the developer were not recorded properly.

**Cause:** Management failed to record EB-5 funding proceeds and related remittance to the School's developer/owner which were accounted for by the Limited Partnership.

**Auditor's recommendation:** Management should consider the Limited Partnership as a blended component unit of the School and ensure that all transactions of the Limited Partnership are recorded timely and accurately.

**Auditee's response:** Activities of the Special General Partner were very limited with respect to maintenance of accounting records. The Special General Partner recorded the initial deposit of capital from the four limited partners on June 18, 2014. On June 19, 2014, these funds were transferred to the owner/developer of the school property. These transactions occurred during the School's 2014 fiscal year.

The School failed to record the capital contribution activity because management had not considered whether the Partnership met the criteria of a "Blended Component Unit" which required this activity to be blended into the operations of the School.

In the future this will be considered and accounted for appropriately

**B. Findings - Financial Statement Audit, Continued**

**2015-002 - Operating Versus Capital Lease Analysis**

**Material Weakness**

**Condition and criteria:** Internal controls over financial reporting should be in place to perform an operating versus capital lease analysis and determine the appropriate classifications for recording and disclosure.

**Effect:** Because management did not complete an operating versus capital lease analysis management did not appropriately record a capital lease.

**Cause:** Management did not complete an operating versus capital lease analysis to determine the appropriate classification for its building lease.

**Auditor's recommendation:** Management should complete an operating versus capital lease analysis on any new leases and determine their proper classification.

**Auditee's response:** The capital lease that management did not record related to the lease on land, building and personal property that the School entered into with the developer/owner. This transaction was very complex and the capital versus operating lease analysis was very technical in nature from an accounting perspective.

Management agrees with the Auditor's recommendation and will perform this analysis in the future. Management also believes that there will not be leasing transactions in the future with similar levels of complexity, which will allow for this analysis to be completed and recorded in the accounting records.

**C. Findings - Compliance**

**2015-003 - Custodial Credit Risk**

**Condition and criteria:** The School is permitted by the State of South Carolina to have its deposits held at financial institutions to the extent that they do not exceed the FDIC limit of \$250,000.

**Effect:** The School is required to maintain sufficient collateral for all of its deposits through arrangements with its financial institutions. By not maintaining sufficient collateral, the School is at risk of losing excess deposits.

**Cause:** At various times throughout the year, the amount on deposit exceeded the federally insured limits of \$250,000.

**Auditor's recommendations:** The School should make arrangements to satisfactorily collateralize its deposits or monitor bank activity on a daily basis to ensure that deposits do not exceed \$250,000 at any point during the year.

**Auditee's response:** The School's management agrees with the Auditor's recommendation and opened another bank account in June 2015 to deposit funds in excess of the \$250,000 insured limit. As of June 30, 2015, the School had bank balances of \$492,925. Of this total, \$250,000 was maintained in a savings account at Wells Fargo Bank and \$242,925 was maintained in deposit accounts at First Community Bank. In addition, in the future, management will monitor the bank activity to ensure that deposits do not exceed \$250,000 at any point during the year.

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## Gray Collegiate Academy

### *Schedule of Findings and Responses*

*June 30, 2015*

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#### C. Findings – Compliance, Continued

##### 2015-004 - Teacher Certification

**Condition and criteria:** The School is required by the State Department of Education to have at least 75% of its teachers to be certified.

**Effect:** The School is required to have at least 75% of its teachers certified by the State Department of Education. By not maintaining at least 75% of the School's teachers certified, the School is not in compliance with State guidelines.

**Cause:** For the 2014-2015 School year approximately 73% of the School's teachers were certified.

**Auditor's recommendations:** The School should make arrangements to satisfactorily employ at least 75% of its instructional staff with certified teachers.

**Auditee's response:** The School's management believes this issue has been remediated in the current year. As the 2014-2015 School year was the first year of operations, the School had significant employee turnover, and as such could not maintain the requirements. Going forward the School intends to employ at least 75% of its teaching staff with certified teachers.