

THE EXPLORIS SCHOOL

Financial Statements
Year Ended June 30, 2019

THE EXPLORIS SCHOOL
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As of June 30, 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Exploris 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 Exploris School as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise The Exploris 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 auditors' 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 Exploris School as of June 30, 2019, and the respective changes in financial position 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 3 through 10 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 Exploris School's basic financial statements. The 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 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 budgetary schedules and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relate 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, the budgetary schedules and the 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 14, 2019 on our consideration of The Exploris 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 solely 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 The Exploris School's internal control over financial reporting and compliance.

Thomas, Judy & Tucker, P.A.

October 14, 2019
Raleigh, North Carolina

Management's Discussion and Analysis
The Exploris School
June 30, 2019

As management of The Exploris School, we offer readers of The Exploris School's audited financial statements this narrative overview and analysis of the financial activities of The Exploris School for the fiscal year ended June 30, 2019. 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.

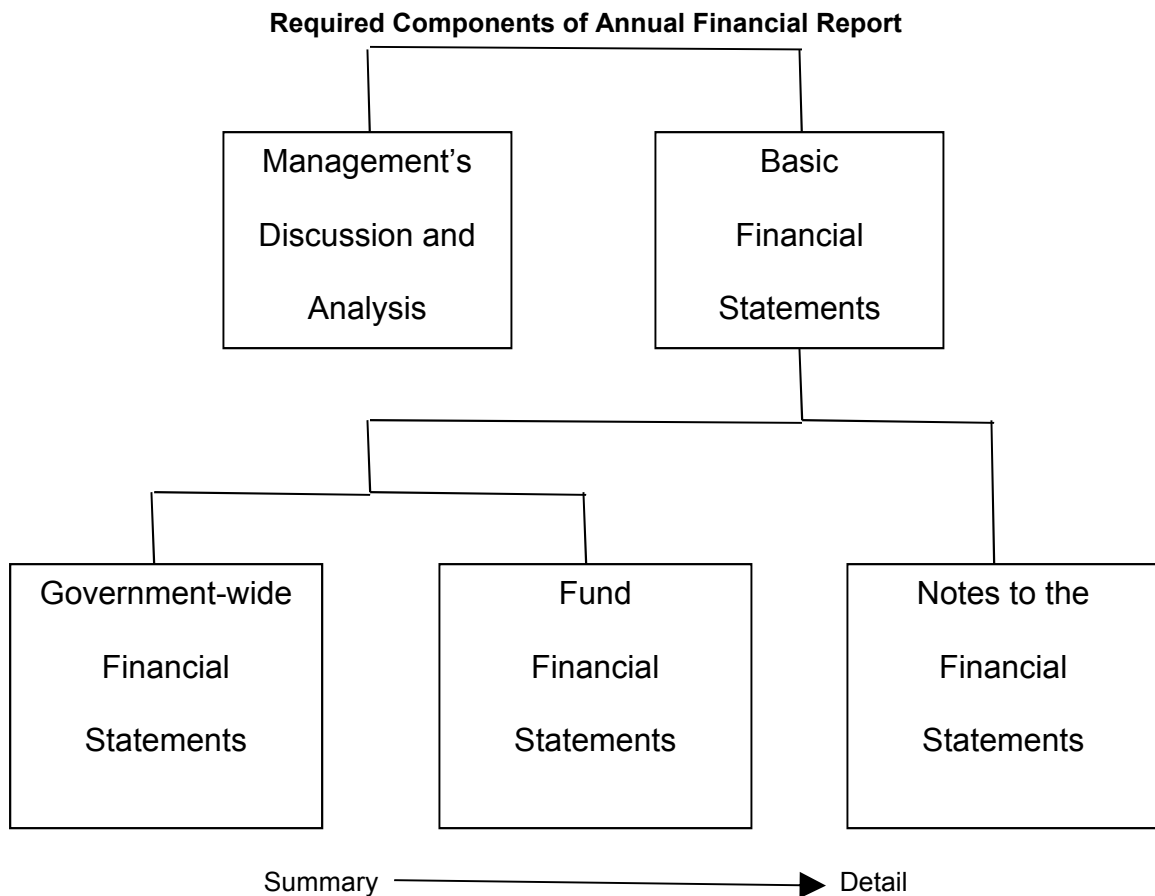
Financial Highlights

- The assets of The Exploris School exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$2,107,960 (*net position*).
- The School's total net assets increased by \$95,356.
- As of the close of the current fiscal year, The Exploris School's governmental funds reported combined ending fund balances of \$1,158,138.
- Enrollment has increased at the School. In 2016-2017 the State funded Average Daily Membership (ADM) was 419. In 2017-2018 it was 420, and in 2018-2019 it was 448.

Overview of the Financial Statements

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

Figure 1



Basic Financial Statements

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

The next statements (Exhibits 3 through 8) are **Fund Financial Statements**. These statements focus on the activities of the individual segments of the School's 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 Before and After School Care program carried out by The Exploris 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. The Exploris 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 The Exploris School can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for functions reported as governmental activities in the government-wide financial statements. Most of the School's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and monies remaining at year-end that will be available for spending in the next fiscal year. Governmental funds are reported using the modified accrual accounting method, which provides a short-term spending focus. The governmental fund financial statements assist the reader in determining whether there has been an increase or a decrease in the financial resources available to finance the School's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is an integral part of the fund financial statements.

Management's Discussion and Analysis
The Exploris School
June 30, 2019

Although not compelled or required to do so by federal, state, or local law, The Exploris 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 – The Exploris School has two proprietary funds, which are enterprise funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Exploris School uses enterprise funds to account for its Before and After School Care 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 19 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as one useful indicator of a school's financial condition. The assets of The Exploris School exceeded liabilities by \$2,107,960 as of June 30, 2019. As of June 30, 2018, the net position of The Exploris School stood at \$2,012,604. The School's net position increased by \$95,356 for the fiscal year ended June 30, 2019, compared to an increase of \$545,095 in 2018. The amount of \$99,588 reflects the School's investment in capital assets (e.g. leasehold improvements, furniture, and electronic equipment), less any related debt still outstanding that was issued to acquire those items. The Exploris School uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although The Exploris School's investment in its capital assets is reported net of the 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. An additional portion of The Exploris School's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,008,372 is unrestricted. In 2018, the net investment in capital assets was \$203,716, with unrestricted net position standing at \$1,808,888.

Figure 2
The Exploris School's Net Position

| | Governmental Activities | | Business-Type Activities | | Total | |
|-------------------------------------|-------------------------|--------------|--------------------------|------------|--------------|--------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Current and other assets | \$ 1,688,287 | \$ 1,547,911 | \$ 337,051 | \$ 280,171 | \$ 2,025,338 | \$ 1,828,082 |
| Capital assets, net of depreciation | 99,588 | 203,716 | - | - | 99,588 | 203,716 |
| Total assets | 1,787,875 | 1,751,627 | 337,051 | 280,171 | 2,124,926 | 2,031,798 |
| Other liabilities | 11,966 | 19,104 | - | - | 11,966 | 19,104 |
| Total liabilities | 11,966 | 19,104 | - | - | 11,966 | 19,104 |
| Deferred inflows of resources | 5,000 | - | - | - | 5,000 | - |
| Net position: | | | | | | |
| Net investment in capital assets | 99,588 | 203,716 | - | - | 99,588 | 203,716 |
| Unrestricted | 1,671,321 | 1,528,717 | 337,051 | 280,171 | 2,008,372 | 1,808,888 |
| Total net position | \$ 1,770,909 | \$ 1,732,433 | \$ 337,051 | \$ 280,171 | \$ 2,107,960 | \$ 2,012,604 |

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

- The School adopted an annual budget. The School's performance was measured using this budget on a monthly basis, allowing changes to be made in spending as needed to remain within the confines of the budget.
- The School applied for and was awarded federal grants to assist with meeting the educational needs of the student population.

Management's Discussion and Analysis
The Exploris School
June 30, 2019

Figure 3

The Exploris School's Changes in Net Position

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|--------------------------------|--------------------|---------------------------------|-------------------|--------------------|--------------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Charges for services | \$ - | \$ - | \$ 98,997 | \$ 90,358 | \$ 98,997 | \$ 90,358 |
| Operating grants and contributions | 71,592 | 63,068 | - | - | 71,592 | 63,068 |
| County, State, and federal Funds | 3,912,155 | 3,417,810 | - | - | 3,912,155 | 3,417,810 |
| Donations and other revenues | 279,415 | 767,751 | - | - | 279,415 | 767,751 |
| Total revenues | <u>4,263,162</u> | <u>4,248,629</u> | <u>98,997</u> | <u>90,358</u> | <u>4,362,159</u> | <u>4,338,987</u> |
| Instructional programs | 3,496,791 | 3,138,418 | - | - | 3,496,791 | 3,138,418 |
| Support services | 727,895 | 634,962 | - | - | 727,895 | 634,962 |
| Child care | - | - | 42,117 | 20,512 | 42,117 | 20,512 |
| Interest on long-term debt | - | - | - | - | - | - |
| Total expenses | <u>4,224,686</u> | <u>3,773,380</u> | <u>42,117</u> | <u>20,512</u> | <u>4,266,803</u> | <u>3,793,892</u> |
| Increase (decrease) in net assets | <u>38,476</u> | <u>475,249</u> | <u>56,880</u> | <u>69,846</u> | <u>95,356</u> | <u>545,095</u> |
| Net assets, July 1 | <u>1,732,433</u> | <u>1,257,184</u> | <u>280,171</u> | <u>210,325</u> | <u>2,012,604</u> | <u>1,467,509</u> |
| Net assets, June 30 | <u>\$ 1,770,909</u> | <u>\$1,732,433</u> | <u>\$ 337,051</u> | <u>\$ 280,171</u> | <u>\$2,107,960</u> | <u>\$2,012,604</u> |

Governmental activities. Governmental activities increased the School's net position by \$38,476.

Business-type activities. Business-type activities increased The Exploris School's net position by \$56,880.

By adopting a budget for the enterprise funds that comprise the business-type activities, the Board is able to monitor the School's revenues and expenditures and adjust their estimates as needed during the year.

Management's Discussion and Analysis
The Exploris School
June 30, 2019

Financial Analysis of the School's Funds

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

Governmental Funds. The focus of The Exploris 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 Exploris 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 fund of The Exploris School. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$572,853, while total fund balance reached \$1,158,138. \$40,195 is nonspendable and \$545,090 is assigned within the general fund as of June 30, 2019.

Proprietary Funds. The School's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Before and After School Care Fund at the end of the fiscal year amounted to \$337,051.

Capital Asset and Debt Administration

Capital assets. The Exploris School's investment in capital assets for its governmental activities as of June 30, 2019, totals \$99,588 (net of accumulated depreciation). Capital assets include furniture, electronic equipment, and leasehold improvements.

Figure 4
The Exploris School's Capital Assets
(net of depreciation)

| | Governmental Activities | |
|-------------------------------|--------------------------------|-------------------|
| | 2019 | 2018 |
| Furniture | \$ 973 | \$ 1,389 |
| Electronic equipment | 21,006 | 2,125 |
| Leasehold improvements | 77,609 | 200,202 |
| Total | <u>\$ 99,588</u> | <u>\$ 203,716</u> |

Additional information about the School's capital assets can be found in Note 2.A.3 of the Basic Financial Statements.

Long-term Debt. As of June 30, 2019, The Exploris School did not have any outstanding debt.

Management's Discussion and Analysis
The Exploris School
June 30, 2019

Economic Factors

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

- The LEA in which the school resides has experienced tremendous growth, which should provide a steady stream of students into the School's limited available space.
- The State of North Carolina per pupil funding for the 2018-2019 school year, increased by \$163.69 which equated to a 3.23% increase from the prior year.
- The downtown area of Raleigh continues to be revitalized bringing many new families into the new homes and apartments that surround the School which will continue to provide a steady stream of new students that can potentially enroll at Exploris.

Requests for Information

This report is designed to provide an overview of the School's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Board Chair, The Exploris School, 401 Hillsborough Street, Raleigh, North Carolina 27603, telephone (919) 715-3690.

THE EXPLORIS SCHOOL
Statement of Net Position
June 30, 2019

Exhibit 1

| | Primary Government | | |
|---|----------------------------|-----------------------------|------------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| Cash and cash equivalents | \$ 1,023,523 | \$ 337,051 | \$ 1,360,574 |
| Receivables | 111,386 | - | 111,386 |
| Pledges receivable | 513,183 | - | 513,183 |
| Security deposit | 15,658 | - | 15,658 |
| Prepaid items | 24,537 | - | 24,537 |
| Capital assets (Note 1): | | | |
| Other capital assets, net of depreciation | 99,588 | - | 99,588 |
| Total assets | 1,787,875 | 337,051 | 2,124,926 |
| LIABILITIES | | | |
| Accounts payable | 11,966 | - | 11,966 |
| Total liabilities | 11,966 | - | 11,966 |
| DEFERRED INFLOWS OF RESOURCES | 5,000 | - | 5,000 |
| NET POSITION | | | |
| Net investment in capital assets | 99,588 | - | 99,588 |
| Unrestricted | 1,671,321 | 337,051 | 2,008,372 |
| Total net position | \$ 1,770,909 | \$ 337,051 | \$ 2,107,960 |

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

THE EXPLORIS SCHOOL
Statement of Activities
For the Year Ended June 30, 2019

Exhibit 2

| Functions/Programs | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | |
|--------------------------------------|------------------|-------------------------|--|--|-----------------------------|----------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Primary Government | | |
| | | | | Governmental Activities | Business-type Activities | Total |
| Primary government: | | | | | | |
| Governmental activities: | | | | | | |
| Instructional services | \$ 3,496,791 | \$ - | \$ 71,592 | \$ (3,425,199) | \$ - | \$ (3,425,199) |
| System-wide support services | 727,895 | - | - | (727,895) | - | (727,895) |
| Total governmental activities | 4,224,686 | - | 71,592 | (4,153,094) | - | (4,153,094) |
| Business-type activities: | | | | | | |
| Child care | 42,117 | 98,997 | - | - | 56,880 | 56,880 |
| Total business-type activities | 42,117 | 98,997 | - | - | 56,880 | 56,880 |
| Total primary government | \$ 4,266,803 | \$ 98,997 | \$ 71,592 | (4,153,094) | 56,880 | (4,096,214) |
| General revenues: | | | | | | |
| Unrestricted county appropriations | | | | 1,225,725 | - | 1,225,725 |
| Unrestricted State appropriations | | | | 2,686,430 | - | 2,686,430 |
| Contributions and donations | | | | 104,794 | - | 104,794 |
| Grants | | | | 25,000 | - | 25,000 |
| Field trips | | | | 140,017 | - | 140,017 |
| Miscellaneous, unrestricted | | | | 9,604 | - | 9,604 |
| Total general revenues and transfers | | | | 4,191,570 | - | 4,191,570 |
| Change in net position | | | | 38,476 | 56,880 | 95,356 |
| Net position-beginning | | | | 1,732,433 | 280,171 | 2,012,604 |
| Net position-ending | | | | \$ 1,770,909 | \$ 337,051 | \$ 2,107,960 |

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

THE EXPLORIS SCHOOL
Balance Sheet
Governmental Funds
June 30, 2019

Exhibit 3

| | Major Funds | | Non-major Fund | Total Governmental Funds |
|---|---------------------|---------------------|---------------------|--------------------------|
| | General | State Public School | Federal Grants Fund | |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 1,023,523 | \$ - | \$ - | \$ 1,023,523 |
| Receivables | 111,386 | - | - | 111,386 |
| Security deposit | 15,658 | - | - | 15,658 |
| Prepaid items | 24,537 | - | - | 24,537 |
| Total assets | <u>\$ 1,175,104</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,175,104</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 11,966 | \$ - | \$ - | \$ 11,966 |
| Total liabilities | <u>11,966</u> | <u>-</u> | <u>-</u> | <u>11,966</u> |
| DEFERRED INFLOWS OF RESOURCES | <u>5,000</u> | <u>-</u> | <u>-</u> | <u>5,000</u> |
| Fund balances: | | | | |
| Nonspendable: | | | | |
| Security deposit | 15,658 | - | - | 15,658 |
| Prepaid items | 24,537 | - | - | 24,537 |
| Assigned: | | | | |
| Capital expenditures | 545,090 | - | - | 545,090 |
| Unassigned | <u>572,853</u> | <u>-</u> | <u>-</u> | <u>572,853</u> |
| Total fund balances | <u>1,158,138</u> | <u>-</u> | <u>-</u> | <u>1,158,138</u> |
| Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 1,175,104</u> | <u>\$ -</u> | <u>\$ -</u> | |
| 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. | | | | 99,588 |
| Pledges receivable are not current financial resources and therefore are not reported in the funds. | | | | <u>513,183</u> |
| Net position of governmental activities | | | | <u>\$ 1,770,909</u> |

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

THE EXPLORIS SCHOOL
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2019

Exhibit 4

| | Major Funds | | Non-major Fund | Total Governmental Funds |
|---|--------------|---------------------|---------------------|--------------------------|
| | General | State Public School | Federal Grants Fund | |
| REVENUES | | | | |
| State of North Carolina | \$ - | \$ 2,686,430 | \$ - | \$ 2,686,430 |
| Boards of Education | 1,225,725 | - | - | 1,225,725 |
| U.S. Government | - | - | 71,592 | 71,592 |
| Contributions and donations | 81,964 | - | - | 81,964 |
| Grants | 25,000 | - | - | 25,000 |
| Field Trips | 140,017 | - | - | 140,017 |
| Other | 9,604 | - | - | 9,604 |
| Total revenues | 1,482,310 | 2,686,430 | 71,592 | 4,240,332 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Instructional services | 670,289 | 2,616,002 | 71,592 | 3,357,883 |
| Support services | 619,498 | 70,428 | - | 689,926 |
| Capital outlay: | 47,749 | - | - | 47,749 |
| Total expenditures | 1,337,536 | 2,686,430 | 71,592 | 4,095,558 |
| Excess (deficiency) of revenues over expenditures | 144,774 | - | - | 144,774 |
| Net change in fund balance | 144,774 | - | - | 144,774 |
| Fund balances-beginning | 1,013,364 | - | - | 1,013,364 |
| Fund balances-ending | \$ 1,158,138 | \$ - | \$ - | \$ 1,158,138 |

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

THE EXPLORIS SCHOOL
Reconciliation of the Statement of
Revenues, Expenditures, and Changes in Fund Balance of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2019

Exhibit 5

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

| | |
|---|------------------|
| Net changes in fund balances - total governmental funds | \$ 144,774 |
| 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 depreciation expense exceeded capital outlays in the current period. | (104,128) |
| Current year pledge receivable adjustments are reported in the statement of activities and do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. | <u>(2,170)</u> |
| Total changes in net position of governmental activities | <u>\$ 38,476</u> |

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

THE EXPLORIS SCHOOL
Statement of Net Position
Proprietary Funds
June 30, 2019

Exhibit 6

| | <u>Enterprise Fund</u> <u>Major Fund</u> <u>After</u> <u>School Care</u> |
|---------------------------|---|
| ASSETS | |
| Current assets: | |
| Cash and cash equivalents | \$ 337,051 |
| Total assets | \$ 337,051 |
| NET POSITION | |
| Unrestricted | \$ 337,051 |
| Total net position | \$ 337,051 |

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

THE EXPLORIS SCHOOL
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2019

Exhibit 7

| | Enterprise Fund Major Fund After School Care |
|--------------------------------|---|
| OPERATING REVENUES | |
| Child care fees | \$ 98,997 |
| Total operating revenues | 98,997 |
| OPERATING EXPENSES | |
| Salaries and benefits | 42,117 |
| Total operating expenses | 42,117 |
| Operating income | 56,880 |
| Total net position - beginning | 280,171 |
| Total net position - ending | \$ 337,051 |

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

THE EXPLORIS SCHOOL
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2019

Exhibit 8

| | Enterprise Fund Major Fund After School Care |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash received from customers | \$ 98,997 |
| Cash paid to employees for services | (42,117) |
| | <u>56,880</u> |
| Net cash provided by operating activities | 56,880 |
| Net increase in cash and cash equivalents | 56,880 |
| Balance-beginning of the year | <u>280,171</u> |
| Balance-end of the year | <u><u>\$ 337,051</u></u> |
| Reconciliation of operating income to net cash provided by operating activities | |
| Operating income | <u>\$ 56,880</u> |
| Net cash provided by operating activities | <u><u>\$ 56,880</u></u> |

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

THE EXPLORIS SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

1. Summary of Significant Accounting Policies

The accounting policies of The Exploris School (the "School") conform to generally accepted accounting principles ("GAAP") as applicable to governments. Charter schools are established by non-profit entities, such as The Exploris School. Because of the authority of the State Board of Education (the "SBE") to terminate, not renew or seek applicants to assume a charter on grounds set out in the North Carolina General Statutes at G.S. 115C-218.95 with all net assets purchased with public funds reverting to a local education agency (G.S. 115C-218.100), 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 School is a North Carolina non-profit corporation incorporated in 1996. Pursuant to the provisions of the Charter School Act of 1996 as amended (the "Act"), the School has been approved to operate The Exploris School, a public school serving approximately 448 students. The School operates under an approved charter received from the SBE and applied for under the provisions of G.S. 115C-218.1. G.S. 115C-218.6(b)(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"), and requires the financial statements to be prepared in accordance with GAAP. The current charter is effective until June 30, 2027, and may be renewed for subsequent periods of ten (10) years unless one of the conditions in G.S. 115C-218.6(b) applies in which case the SBE may renew the charter for a shorter period or not renew the charter. Management believes that the charter will be renewed in the ordinary course of business.

The School has been recognized by the Internal Revenue Service as exempt from Federal income taxation under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(3).

Blended Component Unit: Exploris School Foundation (the "Foundation") was formed in January 2017 as a North Carolina non-profit corporation. The Foundation was created primarily to engage in activities to further the mission of the School and to administer and expend funds to support the School. GASB Statement No. 14 as amended, The Financial Reporting Entity, requires blending when 1) a component unit's governing body is substantively the same as the governing body of the primary government, 2) a component unit provides services entirely, or almost entirely, to the primary government, 3) a component unit's total debt outstanding, including leases, is expected to be repaid entirely, or almost entirely, with resources of the primary government, or 4) the primary government is the sole corporate member of the component unit. The Foundation provides services almost entirely to the School. Therefore, the Foundation is reported as a blended component unit included in the general fund in the School's financial statements. The Foundation did not issue separate financial statements.

B. Basis of Presentation

In accordance with GASB Statement No. 34, Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments ("GASB 34"), the School is a special-purpose government that is engaged in governmental activities and is not a component unit of another government. Therefore, the financial statements are prepared in the same manner as general purpose governments.

THE EXPLORIS SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

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 entity. 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 School and is reported as a special revenue fund.

The School reports the following non-major governmental fund:

Federal Grants Fund. The Federal Grants Fund is used to account for Federal monies that are paid through the State Department of Public Instruction to the School.

THE EXPLORIS SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

The School reports the following major enterprise fund:

After School Care. The After School Care Fund is used to account for activity of the after school care at the School.

C. Measurement Focus and Basis of Accounting

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

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

Under the terms of grant agreements, the School funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net 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, on a school-wide basis. All budgets are prepared using the modified accrual basis of accounting.

The governing board has voluntarily established the policy, as a sound business practice, that expenditures may not exceed appropriations, for all 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, 2019. All appropriations lapse at year end.

THE EXPLORIS SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

1. Summary of Significant Accounting Policies (Continued)

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. Also, the School may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

2. Cash and Cash Equivalents

The School pools money from several funds to facilitate disbursement. Therefore, all cash is essentially demand deposits considered cash and cash equivalents. All cash held with original maturities of three months or less are considered cash and cash equivalents.

3. Prepaid Items

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

4. Accounts Receivable and Pledges Receivable

Accounts receivable consist of amounts owed to the School from sales tax, students and local school boards. Pledges receivable consist of amounts pledged to the School by donors. Pledges receivable expected to be collected within one year are recorded at net realizable value. Pledges receivable that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to years in which the promises are received. The School has reviewed the accounts receivable balances and determined the amounts to be fully collectible.

5. Allowance for Doubtful Pledges

An allowance for doubtful pledges is provided for the estimated losses which may be incurred due to uncollectible pledges receivable. The estimated losses are based upon a review of the current status of the existing pledge receivables. The allowance recorded as of June 30, 2019 totaled \$50,000.

6. Capital Assets

The School's donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 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 \$2,500 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.

THE EXPLORIS SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

1. Summary of Significant Accounting Policies (Continued)

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

6. Capital Assets (Continued)

Capital assets are depreciated over the following estimated useful lives on a straight-line bases as follows:

| | <u>Years</u> |
|------------------------|--------------|
| Leasehold Improvements | 5 - 20 |
| Furniture | 3 - 7 |
| Electronic Equipment | 3 - 5 |

7. 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 has one item that meets this criterion: unearned revenue.

8. 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.

9. Compensated Absences

Employees are granted between four and fifteen personal leave days each year, which include vacation and sick days. The number of days granted is based on hours worked each week and number of months worked each year. Up to five sick leave days may be carried over to the following year. Employees who leave or are terminated do not have the right to be paid unused leave, thus no accrual is provided for compensated absences.

10. 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, net of related debt, 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.

THE EXPLORIS SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

1. Summary of Significant Accounting Policies (Continued)

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

10. Net Position/Fund Balances (Continued)

Fund Balance

In the governmental fund financial statements, fund balance is composed of three (out of five possible) 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 – 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.

Security Deposit – portion of fund balance not available for appropriation because it represents the year-end balance of a security deposit on the school facility, which is not an expendable, available resource.

Prepaid Items – portion of fund balance that is not an available resource because it represents the year-end balance of prepaid expenses which are not spendable resources.

Assigned for Capital Expenditures – revenue sources restricted for expenditures for the School's future construction of a new facility.

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

The 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: 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 balances, 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.

11. Reconciliation of Government-Wide and Fund Statements

The governmental fund balance sheet includes a reconciliation between governmental funds' total fund balance and governmental activities' net position as reported in the government-wide statement of net position.

THE EXPLORIS SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

1. Summary of Significant Accounting Policies (Continued)

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

11. Reconciliation of Government-Wide and Fund Statements (Continued)

The net adjustment of \$612,771 consists of several elements as follows:

| | |
|--|-------------------|
| Capital assets used in governmental activities are not financial resources and are therefore not reported in the fund (total capital assets on government-wide statement in governmental activities column). | \$ 1,006,779 |
| Less accumulated depreciation | (907,191) |
| Pledges receivable are not current financial resources and therefore are not reported in the funds. | <u>513,183</u> |
| Total adjustment | <u>\$ 612,771</u> |

F. Revenues, Expenditures, and Expenses

1. Funding

The School is funded by the SBE, receiving (i) an amount equal to the average per pupil allocation for the average daily membership ("ADM") from the local school administrative unit allotments in which the School is located (i.e. 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-218.105(a)).

Subject to certain limitations, funds allocated by the SBE may be used to enter into operational and financing leases for real property or mobile classroom units for use as school facilities for charter schools and may be used for payments on loans made to charter schools for facilities, equipment, or operations (G.S. 115C-218.105(b)).

Additionally, the School receives for each student an amount equal to the per pupil share of the local current expense fund of the local school administrative unit in which the child resides (G.S. 115C-218.105(c)). Amounts transferred that consist of revenue from supplemental taxes shall be transferred only to a charter school located in the district where the taxes are levied and the child resides. For the fiscal year ended June 30, 2019, the School received funding from the Boards of Education of Wake County (\$1,181,001), Johnston County (\$25,505), Durham County (\$15,805), Franklin County (\$1,774), and Pitt County (\$1,640).

Furthermore, the School has received donations of cash and/or equipment from private organizations. The cash is available to be used throughout the year for the School's various programs and activities.

THE EXPLORIS SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

1. Summary of Significant Accounting Policies (Continued)

F. Revenues, Expenditures, and Expenses (Continued)

2. Reconciliation Between Government-Wide and Fund Statements

The governmental fund statement of revenues, expenditures, and changes in fund balance is followed by a reconciliation between the change in the fund balance of the governmental funds and the change in the net position of governmental activities as reported on the government-wide statement of activities.

The net difference of (\$106,298) between the two amounts consists of the following elements:

| | |
|---|---------------------|
| Capital outlay expenditures recorded in the fund statements but capitalized as assets on the statement of activities. | \$ 47,749 |
| Depreciation expense that is recorded on the statement of activities but not in the fund statements. | (151,877) |
| Current year pledge receivable adjustments do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds: | |
| Current year collection of pledges receivable | (58,560) |
| Change in Allowance for Uncollectible Pledges Receivable | (25,000) |
| Current year pledge receivable revenue | <u>81,390</u> |
| Total | <u>\$ (106,298)</u> |

G. Use of Estimates and Assumptions

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

THE EXPLORIS SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

2. Detail Notes on All Funds

A. Assets

1. Deposits

At June 30, 2019, the School had deposits with banks and savings and loans with a carrying amount of \$1,360,574. The bank balance with the financial institutions was \$1,474,496, of which \$974,496 was not covered by federal depository insurance. The School does not have a deposit policy for custodial credit risk.

2. Pledges Receivable

Pledges receivable at June 30, 2019 were as follows:

| | |
|---------------------------------------|-----------------------|
| Receivable in less than one year | \$ 70,097 |
| Receivable in more than one year | 548,817 |
| Less: discount to present value | (55,731) |
| Less: allowance for doubtful accounts | <u>(50,000)</u> |
| Total pledges receivable | <u>\$ 513,183</u> |

The discount rate used on long-term pledges receivable was 5.50% at June 30, 2019.

3. Capital Assets

Capital asset activity related to governmental activities for the year ended June 30, 2019 was as follows:

| | <u>Beginning Balances</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balances</u> |
|---|-------------------------------|------------------|------------------|----------------------------|
| Governmental activities: | | | | |
| Capital assets being depreciated: | | | | |
| Furniture | \$ 22,891 | \$ - | \$ - | \$ 22,891 |
| Electronic equipment | 213,541 | 29,809 | - | 243,350 |
| Leasehold improvements | <u>722,598</u> | <u>17,940</u> | <u>-</u> | <u>740,538</u> |
| Total capital assets being depreciated | <u>959,030</u> | <u>47,749</u> | <u>-</u> | <u>1,006,779</u> |
| Less accumulated depreciation for: | | | | |
| Furniture | 21,502 | 416 | - | 21,918 |
| Electronic equipment | 211,416 | 10,928 | - | 222,344 |
| Leasehold improvements | <u>522,396</u> | <u>140,533</u> | <u>-</u> | <u>662,929</u> |
| Total accumulated depreciation | <u>755,314</u> | <u>151,877</u> | <u>-</u> | <u>907,191</u> |
| Total capital assets being depreciated, net | <u>203,716</u> | | | <u>99,588</u> |
| Total governmental capital assets, net | <u>\$ 203,716</u> | | | <u>\$ 99,588</u> |

Depreciation expense was charged to governmental functions as follows:

| | |
|------------------------|-------------------|
| Instructional programs | \$ 113,908 |
| Supporting services | <u>37,969</u> |
| | <u>\$ 151,877</u> |

THE EXPLORIS SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

2. Detail Notes on All Funds (Continued)

B. Liabilities

1. Pension Plan Obligations

The School does not participate in the North Carolina Teachers' and State Employees' Retirement System. The School has established a deferred compensation plan. Under the plan, all full-time employees who meet certain eligibility requirements can participate. The School matches 50% of employee contributions up to 4%. The expenses of the Plan totaled \$42,818, \$36,448, and \$24,955 for the years ended June 30, 2019, 2018, and 2017, respectively.

2. Deferred Inflows of Resources

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

| | |
|------------------|-----------------|
| Unearned revenue | \$ <u>5,000</u> |
|------------------|-----------------|

3. Risk Management

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

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

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

The School has elected not to carry flood insurance because the School is not in an area of the state that has been mapped and designated an "A" area (an area close to a river, lake or stream) by the Federal Emergency Management Agency.

The School carries fidelity bond coverage in the amount of \$250,000 for all its employees.

4. Claims and Judgements

At June 30, 2019, the School was a defendant to a lawsuit. In the opinion of the School's management and the School's attorney, the ultimate effect of this legal matter will not have a material adverse effect on the School's financial position.

THE EXPLORIS SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

5. Long-Term Obligations

Operating Leases

Effective July 2009, the School entered into an operating lease for the school building. The lease required monthly payments of \$15,842 for July and August 2018. The lease increases annually based on either the CPI or the increase in per pupil allotment. Effective September 2018, the lease requires \$16,349 per month. The lease expires August 31, 2024.

In July 2017, the School entered into a ground lease agreement which matures in December 2020. The lease required monthly payments of \$5,000 through September 2018, monthly payments of \$5,150 through August 2019, monthly payments of \$5,305 through August 2020, then monthly payments of \$5,465 through December 2020. The School also has a modular lease agreement which matures in December 2020 and requires monthly payments of \$7,524. Additionally, the School leases equipment under a lease agreement that expires in September 2021. Monthly payments total \$388.

Rent expense for the year ended June 30, 2019 under noncancelable lease agreements totaled \$354,616.

The following is a schedule of the future minimum lease payments as of June 30:

| <u>Year Ending June 30,</u> | |
|-----------------------------|---------------------|
| 2020 | \$ 356,207 |
| 2021 | 284,142 |
| 2022 | 207,073 |
| 2023 | 210,028 |
| 2024 | 214,228 |
| 2025 | <u>35,822</u> |
| | <u>\$ 1,307,500</u> |

THE EXPLORIS SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

5. Long-Term Obligations (Continued)

Development Agreement

Effective December 2017, the School entered into an operating lease agreement to lease a school facility that will be constructed. The lease payments are to commence the later of the first full day of school after the earliest summer, fall, winter or spring break following the date a tenant certificate of occupancy is issued. The lease requires monthly payments of \$76,367 the first year and \$94,083 thereafter for thirty years after the date of commencement. The annual rent will be adjusted at the commencement of the third year of the term and each year thereafter, by the same percentage as the North Carolina state allotment for Average Daily Membership ("ADM"). As part of the lease agreement, the landlord shall bear all costs of tenant improvements up to but not to exceed \$30 per square foot. The School will bear all improvement costs in excess of such allowance and will be paid via a promissory note with the Landlord in an amount up to \$2,500,000. The School also has the right to a 15% gain on a portion of land that was subdivided at the future facility site, upon the sale of the tract by the developer.

The School also entered into a donation agreement with the developer whereas the developer will make a donation to the School for the exclusive restricted purpose of paying for the interior space upfits of the building. The developer will match funds raised by the School for upfit through July 1, 2019 on a dollar-for-dollar basis, up to the amount of \$1,000,000. A receivable of \$493,086 was recorded as of June 30, 2019 for the current year match owed from the developer and is included in pledges receivable. Subsequent to year end, management determined that this development agreement may be subject to change as discussed in footnote 5.

C. Fund Balance

The School has a revenue spending policy that provides policy for programs with multiple revenue sources. The finance officer of the School will use resources in the following hierarchy: federal funds, State funds, local non-board of education funds, and 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 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 EXPLORIS SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

2. Detail Notes on All Funds (Continued)

C. Fund Balance (Continued)

The following schedule provides information on the portion of general fund balance that is available for appropriation:

| | |
|-----------------------------------|-------------------|
| Total fund balance | \$ 1,158,138 |
| Less: | |
| Prepaid Items | (24,537) |
| Security Deposit | (15,658) |
| Assigned for Capital Expenditures | <u>(545,090)</u> |
| Remaining fund balance | <u>\$ 572,853</u> |

3. Related Party Transactions

Two employees of the School serve as members of the governing board of The Exploris School. For the fiscal year ended June 30, 2019, these employees were paid salaries of \$110,000 and \$66,136 from the State Public School Fund.

4. 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 monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

5. Significant Effects of Subsequent Events

As disclosed in footnote 2.B.4, the School was planning to lease a portion of a facility upon completion of construction of that facility. The developer agreement included lease terms, a promissory note for tenant improvements, and a developer match for tenant improvements for funds raised by the School. In September 2019, the School was informed by the developer that the project was no longer viable. The School was provided with various options with the current developer, some of which were generally the same as the terms outlined in the development agreement as disclosed in footnote 2.B.4. Due to management's uncertainty in the School's future facility plans, the terms and amounts recorded and disclosed have remained the same.

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through October 14, 2019, which is the date the financial statements were available to be issued.

THE EXPLORIS SCHOOL
All Governmental Fund Types
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2019

Statement 1

| | 2019 | | |
|---|------------------|------------------|--|
| | Final Budget | Actual | Favorable (Unfavorable) Variance |
| Revenues: | | | |
| State of North Carolina | \$ 2,544,125 | \$ 2,686,430 | \$ 142,305 |
| Board(s) of Education: | | | |
| Wake County | 1,089,481 | 1,181,001 | 91,520 |
| Johnston County | 29,694 | 25,505 | (4,189) |
| Durham County | 10,987 | 15,805 | 4,818 |
| Franklin County | - | 1,774 | 1,774 |
| Pitt County | - | 1,640 | 1,640 |
| Harnett County | 3,258 | - | (3,258) |
| U.S. Government | 68,164 | 71,592 | 3,428 |
| Contributions and donations | - | 81,964 | 81,964 |
| Grants | 40,577 | 25,000 | (15,577) |
| Field Trips | - | 140,017 | 140,017 |
| Other | 6,670 | 9,604 | 2,934 |
| Total | 3,792,956 | 4,240,332 | 447,376 |
| Expenditures: | | | |
| Current: | | | |
| Instructional services: | | | |
| Regular programs | - | 2,247,510 | - |
| Special programs | - | 450,863 | - |
| Alternative programs | - | 65,784 | - |
| School leadership programs | - | 443,444 | - |
| Co-Curricular programs | - | 16,371 | - |
| School based support programs | - | 133,911 | - |
| Total instructional programs | 3,268,999 | 3,357,883 | (88,884) |
| Support services: | | | |
| Curriculum Support | - | 27,720 | - |
| Technology | - | 41,732 | - |
| Operational support | - | 74,673 | - |
| Finance and human resources | - | 60,347 | - |
| Policy, leadership and public relations | - | 485,454 | - |
| Total support services | 580,956 | 689,926 | (108,970) |
| Capital outlay | - | 47,749 | (47,749) |

THE EXPLORIS SCHOOL
All Governmental Fund Types
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2019
(Continued)

Statement 1

| | 2019 | | |
|--|---------------------|--------------------------|--|
| | Final Budget | Actual | Favorable (Unfavorable) Variance |
| Total expenditures | <u>\$ 3,849,955</u> | <u>\$ 4,095,558</u> | <u>\$ (245,603)</u> |
| Other financing sources (uses): | | | |
| Fund balance appropriated | <u>56,999</u> | <u>-</u> | <u>(56,999)</u> |
| Total other financing sources and (uses) | <u>56,999</u> | <u>-</u> | <u>(56,999)</u> |
| Excess of revenue over expenditures | <u><u>\$ -</u></u> | <u><u>\$ 144,774</u></u> | <u><u>\$ 144,774</u></u> |

THE EXPLORIS SCHOOL
Proprietary Fund Types
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non - GAAP)
For the Fiscal Year Ended June 30, 2019

Statement 2

| | 2019 | | |
|--|-----------------|------------------|--|
| | Final Budget | Actual | Favorable (Unfavorable) Variance |
| Revenues: | | | |
| Child care fees | \$ 90,000 | \$ 98,997 | \$ 8,997 |
| Total revenues | 90,000 | 98,997 | 8,997 |
| Expenditures: | | | |
| Salaries and benefits | 39,582 | 42,117 | (2,535) |
| Total expenditures | 39,582 | 42,117 | (2,535) |
| Revenues over expenditures | 50,418 | 56,880 | 6,462 |
| Other financing sources (uses): | | | |
| Fund balance appropriated | (50,418) | - | 50,418 |
| Total other financing sources (uses) | (50,418) | - | 50,418 |
| Revenues and other sources over expenditures | <u>\$ -</u> | 56,880 | <u>\$ 56,880</u> |
| Reconciliation from budgetary basis (modified accrual) to full accrual: | | | |
| Reconciling items: | | | |
| Change in net assets | | <u>\$ 56,880</u> | |

**INDEPENDENT AUDITORS' 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**

To the Board of Directors
The Exploris 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 financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The Exploris School as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise The Exploris School's basic financial statements, and have issued our report thereon dated October 14, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Exploris 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 Exploris School's internal control. Accordingly, we do not express an opinion on the effectiveness of The Exploris 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 to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Exploris 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.

Thomas, Judy & Tucker, P.A.

October 14, 2019
Raleigh, North Carolina

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND THE
STATE SINGLE AUDIT IMPLEMENTATION ACT**

To the Board of Directors
The Exploris School
Raleigh, North Carolina

Report on Compliance for Each Major State Program

We have audited The Exploris 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 each of The Exploris School's major State programs for the year ended June 30, 2019. The Exploris School's major State programs are 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 state statutes, regulations, and the terms and conditions of its state awards applicable to its State programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of The Exploris School's major State programs 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 *Government Auditing Standards*, issued by the Comptroller General of the United States; and the applicable sections of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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 The Exploris 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 each major State program. However, our audit does not provide a legal determination of The Exploris School's compliance.

Opinion on Each Major State Program

In our opinion, The Exploris School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major State programs for the year ended June 30, 2019.

Report on Internal Control over Compliance

Management of The Exploris 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 The Exploris 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 the 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 Exploris 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Thomas, Judy & Tucker, P.A.

October 14, 2019
Raleigh, North Carolina

THE EXPLORIS SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2019

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? _____ Yes X No
- Significant deficiency(s) identified? _____ Yes X None Reported
- Noncompliance material to financial statements noted? _____ Yes X No

State Awards

Internal control over major State programs:

- Material weakness identified? _____ Yes X No
- Significant deficiencies identified? _____ Yes X None Reported

Type of auditors' report issued on compliance for major State programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act? _____ Yes X No

Identification of major State programs:

Program Name
State Public School Fund

SECTION II – FINANCIAL STATEMENT FINDINGS

No Findings

SECTION III – STATE AWARD FINDINGS AND QUESTIONED COSTS

None.

THE EXPLORIS SCHOOL
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Fiscal Year Ended June 30, 2019

None.

THE EXPLORIS SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2019

| Grantor/Pass-through <u>Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>State/ Pass-through Grantor's Number</u> | <u>Expendi- tures</u> |
|---|------------------------------------|---|----------------------------|
| Federal Grants: | | | |
| Cash Assistance: | | | |
| <u>U.S. Department of Education</u> | | | |
| Passed-through the N.C. Department of Public Instruction: | | | |
| Improving America School Act of 1994 (IASA) | | | |
| <u>IDEA VI Cluster</u> | | | |
| IDEA VI-B | 84.027 | PRC 060 | \$ 68,007 |
| IDEA VI-B Targeted Assistance | 84.027A | PRC 118 | <u>3,585</u> |
| Total U.S. Department of Education | | | <u>71,592</u> |
| Total Federal Assistance | | | <u>71,592</u> |
| State Grants: | | | |
| Cash Assistance: | | | |
| <u>N.C. Department of Public Instruction:</u> | | | |
| State Public School Fund | xxxx | PRC 036 | 2,676,661 |
| Summer Reading | xxxx | PRC 016 | 1,098 |
| Behavioral Support | xxxx | PRC 029 | 3,288 |
| State Bonus | xxxx | PRC 048 | <u>5,383</u> |
| Total N.C. Department of Public Instruction | | | <u>2,686,430</u> |
| Total State Assistance | | | <u>2,686,430</u> |
| Total Federal and State Assistance | | | <u><u>\$ 2,758,022</u></u> |

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

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal and State awards (SEFSA) includes the federal and State grant activity of the School under the programs of the federal government and the State of North Carolina for the year ended June 30, 2019. 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 School, it is not intended to and does not present the financial position, changes in net position, or cash flows of the School.

Note 2: Summary of Significant Accounting Policies

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited. The School has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.