

FINANCIAL STATEMENTS  
ALLIANCE PREPARATORY SCHOOLS, INC.  
D.B.A. MALLARD CREEK STEM ACADEMY  
CHARLOTTE, NORTH CAROLINA  
JUNE 30, 2018

ALLIANCE PREPARATORY SCHOOLS, INC.  
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JUNE 30, 2018

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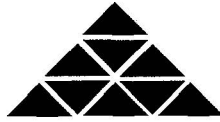
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FINANCIAL SECTION

ALLIANCE PREPARATORY SCHOOLS, INC.

CHARLOTTE, NORTH CAROLINA

JUNE 30, 2018



# Les Merritt CPA-CFP

## Independent Auditor's Report

Board of Directors  
Mallard Creek STEM Academy  
Charlotte, 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 Mallard Creek STEM Academy, North Carolina, as of and for the year ended June 30, 2018 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 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, the business-type activities, each major fund, and the aggregate remaining fund information of Mallard Creek STEM Academy, as of June 30, 2018, 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 7-14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary and Other Information*

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

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

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2019, on our consideration of Mallard Creek STEM Academy'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 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 Mallard Creek STEM Academy's internal control over financial reporting and compliance.



Leslie Merritt, CPA, PC  
Certified Public Accountant  
Zebulon, North Carolina

October 29, 2019

**Management's Discussion and Analysis**  
**Mallard Creek STEM Academy**  
**June 30, 2018**

As management of the Mallard Creek STEM Academy, we offer readers of the Mallard Creek's financial statements this narrative overview and analysis of the financial activities of the Mallard Creek STEM Academy for the fiscal year ended June 30, 2018. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the School's financial statements which follow this narrative.

**Financial Highlights**

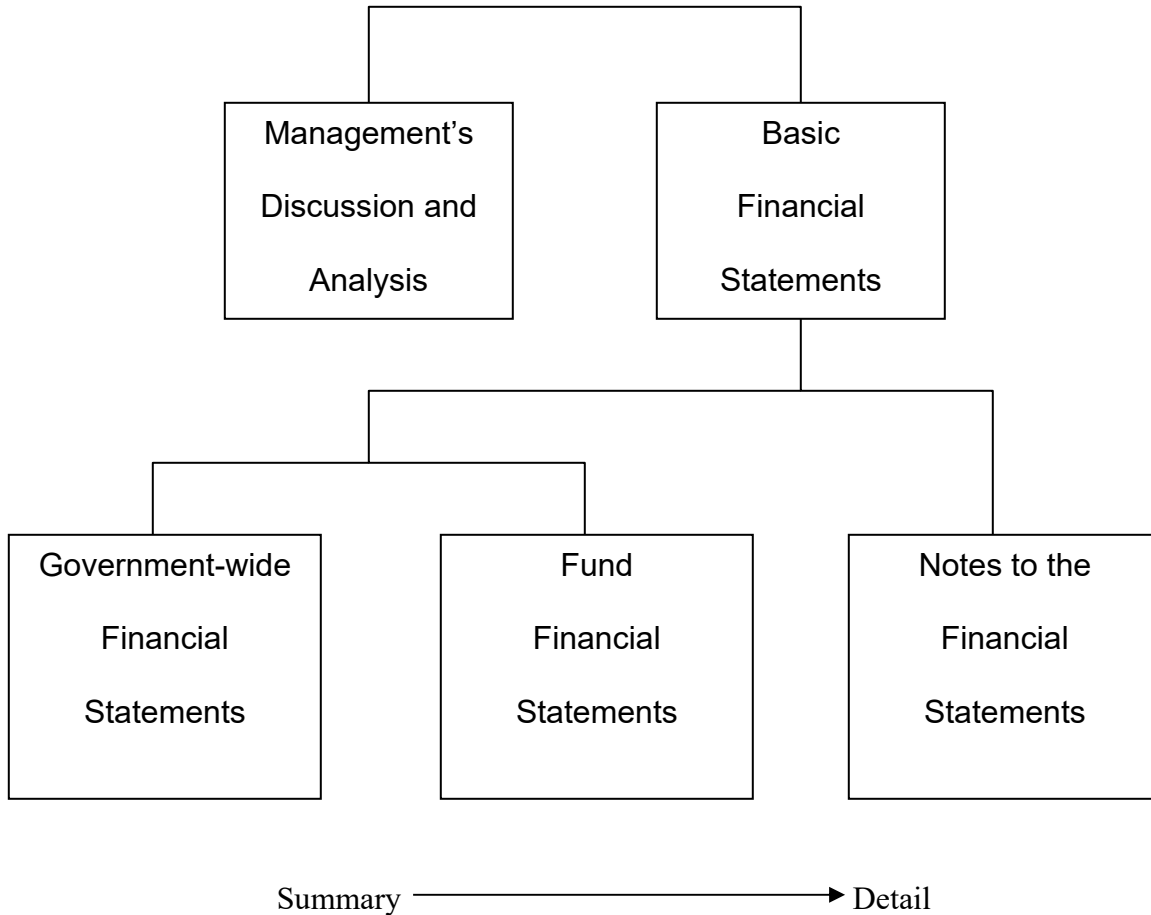
- The assets of the Mallard Creek STEM Academy exceeded its liabilities and deferred inflows at the close of the fiscal year by \$710,906 (*net position*).
- The school's total net position increased by \$298,838, primarily due to increases in the governmental-type activities net position.
- As of the close of the current fiscal year, the Mallard Creek STEM Academy's governmental funds reported combined ending fund balances of \$31,459, a decrease of \$307,989 in comparison with the prior year.
- The state funded Average Daily Membership (ADM) for the 2017-2018 fiscal year was 642 students.
- Mallard Creek STEM Academy had long-term debt of \$843,135 as of June 30, 2018.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to Mallard Creek STEM Academy'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 different views 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 Mallard Creek STEM Academy.

Required Components of Annual Financial Report

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 status.

The next statements (Exhibits 3 through 7) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the School's government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the proprietary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes,



## **Management Discussion and Analysis**

### **Mallard Creek STEM Academy June 30, 2018**

**supplemental information** is provided to show details about the School's individual funds. Budgetary information for the School also can be found in this section of the statements.

#### **Government-wide Financial Statements**

The government-wide financial statements are designed to provide the reader with a broad overview of the School's finances, similar in format to a financial statement 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 is 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. State, county, and federal funds provide virtually all of the funding for these functions. The business-type activities are those services for which the School charges its students and other customers to provide. Mallard Creek STEM Academy offers lunch plus before and after school programs.

The government-wide financial statements are 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 that is used to maintain control over resources that have been segregated for specific activities or objectives. Mallard Creek STEM Academy, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the North Carolina General Statutes or the School's budget ordinance. All of the funds of Mallard Creek STEM Academy can be divided into two categories: governmental funds and proprietary funds.

**Governmental Funds** – Governmental funds are used to account for those 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 what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the School's programs. The relationship between

## **Management Discussion and Analysis**

### **Mallard Creek STEM Academy June 30, 2018**

governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

Mallard Creek STEM Academy adopts an annual budget, although it is not required to do so by the General Statutes. Because the budget is not legally required by the Statutes, the budgetary comparison statements are not included in the basic financial statements, but are part of the supplemental statements and schedules that follow the notes. The budget is a legally adopted document that incorporates input from the faculty, management, and the Board of Directors of the School in determining what activities will be pursued and what services will be provided by the School during the year. It also authorizes the School to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for each of the funds demonstrates how well the School has complied with the budget ordinance and whether or not the School has succeeded in providing the services as planned when the budget was adopted.

**Proprietary Funds** – Mallard Creek STEM Academy didn't operate any proprietary funds, which are enterprise fund. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. Mallard Creek STEM Academy uses enterprise funds.

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

### **Government-Wide Financial Analysis**

As noted earlier, net position may, over time, serve as one useful indicator of a school's financial condition. The assets of Mallard Creek STEM Academy exceeded liabilities and deferred inflows of resources by \$710,906 as of June 30, 2018. As of June 30, 2017, the net position of Mallard Creek STEM Academy stood at \$412,068. The School's net position increased by \$298,838 for the fiscal year ended June 30, 2018. One of the largest portions, \$675,060, reflects the School's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. Mallard Creek STEM Academy uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although Mallard Creek STEM Academy's net investment in 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 School's net position (<1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$35,846 is unrestricted.

**Management Discussion and Analysis  
Mallard Creek STEM Academy June 30, 2018**

**Mallard Creek STEM Academy's Net Position  
Figure 2**

	Governmental	Governmental	Business-type	Business-type	Total	Total
	Activities	Activities	Activities	Activities	2018	2017
	2018	2017	2018	2017		
Current and other assets	\$ 129,799	\$ 202,441	\$ 5,005	\$ 3,561	\$ 134,804	\$ 206,002
		\$ 144,780				\$ 144,780
Capital assets	\$ 1,518,195	\$ 1,288,559		\$ -	\$ 1,518,195	\$ 1,288,559
Total assets	\$ 1,647,994	\$ 1,491,000	\$ 5,005	\$ 3,561	\$ 1,652,999	\$ 1,639,341
Long-term liabilities outstanding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due within one year	\$ 547,629	\$ 232,200			\$ 547,629	\$ 232,200
Due in more than one year	\$ 295,506	\$ 986,800			\$ 295,506	\$ 986,800
Other Liabilities	\$ 98,340	\$ 7,773	\$ 618	\$ 500	\$ 98,958	\$ 8,273
Total Liabilities	\$ 941,475	\$ 1,226,773	\$ 618	\$ 500	\$ 942,093	\$ 1,227,273
Net Position						
Invested in capital assets net of related debt	\$ 675,060	\$ 69,559	\$ -	\$ -	\$ 675,060	\$ 69,559
Restricted		\$ -	\$ -	\$ -		\$ -
Unrestricted	\$ 31,459	\$ 339,448	\$ 4,387	\$ 3,061	\$ 35,846	\$ 342,509
Total Net Position	\$ 706,519	\$ 409,007	\$ 4,387	\$ 3,061	\$ 710,906	\$ 412,068

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

- The School adopted an annual budget for all funds. The School's performance was measured using these budgets on a monthly basis, allowing changes in spending as needed to stay within the budget.
- The School applied for and was awarded federal grants to assist with the expenses of meeting the education needs of its students.
- Funding changes proportionately with any changes in the student enrollment.

**Management Discussion and Analysis  
Mallard Creek STEM Academy June 30, 2018**

**Mallard Creek STEM Academy  
Changes in Net Position  
Figure 3**

	Governmental Activities 2018	Governmental Activities 2017	Business-type Activities 2018	Business-type Activities 2017	Total 2018	Total 2017
<b>Revenues:</b>						
Donations and Other Revenues	123,571.00	46,973.00			123,571.00	46,973.00
Charges for Services			210,113.00	121,744.00	210,113.00	121,744.00
Operating grants and contributions	141,227.00		52,637.00	2,138.00	193,864.00	2,138.00
County, State, and Federal	4,809,489.00	3,952,130.00		-	4,809,489.00	3,952,130.00
<b>Total Revenue</b>	<b>\$ 5,074,287.00</b>	<b>\$ 3,999,103.00</b>	<b>\$ 262,750.00</b>	<b>\$ 123,882.00</b>	<b>\$ 5,337,037.00</b>	<b>\$ 4,122,985.00</b>
<b>Expenses:</b>						
Instructional programs	3,035,040.00	2,213,140.00			3,035,040.00	2,213,140.00
Athletics, Arts, Clubs		2,166.00			-	2,166.00
Support services	1,593,430.00	1,289,564.00			1,593,430.00	1,289,564.00
Community Services	271.00				271.00	
Interest on Debt	265,467.00	97,423.00			265,467.00	97,423.00
Before and After school	-		142,337.00	105,512.00	142,337.00	105,512.00
School Lunch Service			142,881.00	58,911.00	142,881.00	58,911.00
<b>Total Expenses</b>	<b>4,894,208.00</b>	<b>3,602,293.00</b>	<b>285,218.00</b>	<b>164,423.00</b>	<b>5,179,426.00</b>	<b>3,766,716.00</b>
Increase(Decrease) in net position	180,079.00	396,810.00	(22,468.00)	(40,541.00)	157,611.00	356,269.00
Special Item - Disposal of Fixed Assets						-
Transfers	(23,794.00)	(43,602.00)	23,794.00	43,602.00		-
Increase (Decrease) in net position	297,512.00	409,007.00	1,326.00	3,061.00	298,838.00	412,068.00
Net position - July 1	409,007.00	-	3,061.00	-	412,068.00	-
Net position - June 30	<b>\$ 706,519.00</b>	<b>\$ 409,007.00</b>	<b>\$ 4,387.00</b>	<b>\$ 3,061.00</b>	<b>\$ 710,906.00</b>	<b>\$ 356,269.00</b>

**Governmental activities:** Governmental activities increased the School's net position by \$297,512.

**Business-type activities:** Business-type activities increased the School's net position by \$1,326.

**Financial Analysis of the School's Funds**

As noted earlier, Mallard Creek STEM Academy uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The focus of Mallard Creek STEM Academy's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing Mallard Creek STEM Academy'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.

**Management Discussion and Analysis**  
**Mallard Creek STEM Academy June 30, 2018**

The general fund is the chief operating fund of Mallard Creek STEM Academy. At the end of the current fiscal year, unassigned fund balance of the General Fund was, \$31,459, while total fund balance reached \$706,519.

**Proprietary Funds.** The School’s proprietary funds provide the same type of information found in the government-wide statements but in more detail. Mallard Creek STEM ended the year with a fund balance of \$1,326 as of June 30, 2018. Other factors concerning the finances of this fund have already been addressed in the discussion of the School’s business-type activities.

**Capital Asset and Debt Administration**

**Capital assets.** Mallard Creek STEM Academy’s investment in capital assets for its governmental and business-type activities as of June 30, 2018, totals \$1,518,195 (net of accumulated depreciation). These assets include furniture and equipment.

**Mallard Creek STEM Academy’s Capital Assets**  
**(Net of Depreciation)**

**Figure 4**

	Governmental Activities 2018	Governmental Activities 2017	Business-type Activities 2018	Business-type Activities 2017	Total 2018	Total 2017
Leasehold improvements	1,497,265.00	1,257,422.00			1,497,265.00	1,257,422.00
Furniture & Office Equipment	20,930.00	31,137.00	-	-	20,930.00	31,137.00
<b>Total</b>	<b>\$1,518,195.00</b>	<b>\$ 1,288,559.00</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,518,195.00</b>	<b>\$ 1,288,559.00</b>

Additional information on the School’s capital assets can be found in note III.A.2. of the Basic Financial Statements.

**Long-term Debt.** As of June 30, 2018, Mallard Creek STEM Academy has long-term debt of \$843,165.

**Management Discussion and Analysis**  
**Mallard Creek STEM Academy June 30, 2018**

**Economic Factors**

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

- Mallard Creek STEM Academy had a very successful marketing campaign to bring in a large student enrollment for a start-up school. Enrollment was 642 over 8 (K-7) grade levels in 2017.
- Enrollment continued to increase for Mallard Creek's second year of operation to a total of 800 students.
- Ended the first year of operations with a reserve of \$339,448 in unrestricted funds.
- Ended the second year of operations with a reserve of \$710,906.

**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, Mallard Creek STEM Academy, 9142 Browne Rd. Charlotte, NC 28269 Telephone (980) 288-4811.

**Alliance Preparatory Schools, Inc.**  
**Statement of Net Position**  
**June 30, 2018**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 129,799	\$ 5,005	\$ 134,804
Restricted cash	-	-	-
Due from other governments	-	-	-
Accounts receivable - trade	-	-	-
Prepaid expenses	-	-	-
Security deposits	-	-	-
Capital assets:			
Land, improvements, and construction in progress	-	-	-
Other capital assets, net of depreciation	1,518,195	-	1,518,195
Total capital assets	<u>1,518,195</u>	<u>-</u>	<u>1,518,195</u>
Total assets	<u>1,647,994</u>	<u>5,005</u>	<u>1,652,999</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
	<u>-</u>	<u>-</u>	<u>-</u>
<b>LIABILITIES</b>			
Accounts payable - trade	23,340	618	23,958
Short-term note payable	75,000	-	75,000
Derivative instrument - interest rate swap	-	-	-
Long-term liabilities:			
Compensated absences	-	-	-
Due within one year	547,629	-	547,629
Due in more than one year	295,506	-	295,506
Total liabilities	<u>941,475</u>	<u>618</u>	<u>942,093</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET POSITION</b>			
Net investment in capital assets	675,060	-	675,060
Restricted for debt service	-	-	-
Unrestricted	31,459	4,387	35,846
Total net position	<u>\$ 706,519</u>	<u>\$ 4,387</u>	<u>\$ 710,906</u>

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

**Alliance Preparatory Schools, Inc.**  
**Statement of Activities**  
**For the Year Ended June 30, 2018**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>Primary government:</b>							
Governmental Activities:							
Instructional programs	\$ 3,035,040	\$ -	\$ 141,227	\$ -	\$ (2,893,813)	\$ -	\$ (2,893,813)
Athletics, arts and clubs	-	-	-	-	-	-	-
Support services	1,593,430	-	-	-	(1,593,430)	-	(1,593,430)
Community services	271	-	-	-	(271)	-	(271)
Interest on debt	265,467	-	-	-	(265,467)	-	(265,467)
Total governmental activities	4,894,208	-	141,227	-	(4,752,981)	-	(4,752,981)
Business-type activities:							
Before and after school fund	142,337	154,058	-	-	-	11,721	11,721
School lunch fund	142,881	56,055	52,637	-	-	(34,189)	(34,189)
Total business-type activities	285,218	210,113	52,637	-	-	(22,468)	(22,468)
Total primary government	\$ 5,179,426	\$ 210,113	\$ 193,864	\$ -	(4,752,981)	(22,468)	(4,775,449)
General revenues:							
Unrestricted county appropriations					1,568,513	-	1,568,513
Unrestricted State appropriations					3,382,203	-	3,382,203
Unrestricted Federal appropriations					-	-	-
Unrestricted fines and forfeitures					-	-	-
Donations - general					8,632	-	8,632
Miscellaneous, unrestricted					114,939	-	114,939
Transfers					(23,794)	23,794	-
Total general revenues, special items, and transfers					5,050,493	23,794	5,074,287
Change in net position					297,512	1,326	298,838
Net position-beginning, previously reported					409,007	3,061	412,068
Net position-ending					\$ 706,519	\$ 4,387	\$ 710,906

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



**Alliance Preparatory Schools, Inc.**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2018**

	Major Funds		Total Non-Major Funds	Total Governmental Funds
	General	State Public School	Federal Grants	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 129,799	\$ -	\$ -	\$ 129,799
Restricted cash	-	-	-	-
Due from other governments	-	-	-	-
Accounts receivable - other	-	-	-	-
Prepaid items	-	-	-	-
Security deposits	-	-	-	-
<b>Total assets</b>	<b>129,799</b>	<b>-</b>	<b>-</b>	<b>129,799</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable - trade	23,340	-	-	23,340
Short term note payable	75,000	-	-	75,000
<b>Total liabilities</b>	<b>98,340</b>	<b>-</b>	<b>-</b>	<b>98,340</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
	-	-	-	-
Fund balances:				
Nonspendable:				
Reserve for prepaid items	-	-	-	-
Unassigned	31,459	-	-	31,459
<b>Total fund balances</b>	<b>31,459</b>	<b>-</b>	<b>-</b>	<b>31,459</b>
<b>Total liabilities, deferred inflows of resources, and funds balances</b>	<b>\$ 129,799</b>	<b>\$ -</b>	<b>\$ -</b>	

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.	1,518,195
Deferred outflows of resources related to pensions	-
Liabilities for earned but unavailable revenues in fund statements. Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds.	-
Long term notes payable	(843,135)
Compensated absences	-
<b>Net position of governmental activities</b>	<b>\$ 706,519</b>

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

**Alliance Preparatory Schools, Inc.**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2018**

	Major Funds		Total Non-Major Funds	Total Governmental Funds
	General	State Public School	Federal Grants	
<b>Revenues</b>				
State of North Carolina	\$ -	\$ 3,382,203	\$ -	\$ 3,382,203
Local education agencies	1,568,513	-	-	1,568,513
U.S. Government	-	-	141,227	141,227
Fines and forfeitures	-	-	-	-
Contributions and donations	8,632	-	-	8,632
Other	114,939	-	-	114,939
Total revenues	1,692,084	3,382,203	141,227	5,215,514
<b>EXPENDITURES</b>				
<b>Current:</b>				
Instructional programs	1,176,302	1,662,882	141,227	2,980,411
Athletics, arts and clubs	-	-	-	-
Support services	295,433	1,291,931	-	1,587,364
Community services	271	-	-	271
<b>Capital outlay:</b>	256,033	34,298	-	290,331
<b>Debt service:</b>				
Principal	99,900	275,965	-	375,865
Interest and other charges	148,340	117,127	-	265,467
Total expenditures	1,976,279	3,382,203	141,227	5,499,709
Excess (deficiency) of revenues over expenditures	(284,195)	-	-	(284,195)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers to other funds	(23,794)	-	-	(23,794)
Proceeds from debt	-	-	-	-
Total other financing sources (uses)	(23,794)	-	-	(23,794)
Net change in fund balance	(307,989)	-	-	(307,989)
Fund balances-beginning	339,448	-	-	339,448
Fund balances-ending	\$ 31,459	\$ -	\$ -	\$ 31,459

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

**Alliance Preparatory Schools, Inc.**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds to the Statements of Activities**  
**For the Year Ended June 30, 2018**

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

Net changes in fund balances - total governmental funds	\$	(307,989)
Change in fund balance due to change in reserve for inventory		-
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		229,636
Contributions to the pension plan in the current fiscal year are not included on the statement of activities.		-
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Amount of donated assets		-
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		375,865
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Pension expense		-
Compensated absences		-
Rounding adjustment		-
		<hr style="border-top: 1px solid black;"/>
Total changes in net position of governmental activities	\$	<u><u>297,512</u></u>

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

**Alliance Preparatory Schools, Inc.**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2018**

	Enterprise Funds		
	Major Fund	Non-Major Fund	Total
	Before and After School Fund	School Lunch Fund	
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 5,005	\$ -	\$ 5,005
Due from other governments	-	-	-
Accounts receivable - trade	-	-	-
Inventories	-	-	-
Total current assets	5,005	-	5,005
Noncurrent assets:			
Capital assets:			
Kitchen equipment, net	-	-	-
Transportation equipment, net	-	-	-
Total noncurrent assets	-	-	-
Total assets	\$ 5,005	\$ -	\$ 5,005
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
-			
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable - trade	\$ 618	\$ -	\$ 618
Deferred revenue	-	-	-
Total current liabilities	618	-	618
Long-term liabilities:			
Net pension liability	-	-	-
Total long-term liabilities	-	-	-
Total liabilities	618	-	618
<b>DEFERRED INFLOWS OF RESOURCES</b>			
-			
<b>NET ASSETS</b>			
Net investment in capital assets	-	-	-
Unrestricted	4,387	-	4,387
Total net position	\$ 4,387	\$ -	\$ 4,387

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

**Alliance Preparatory Schools, Inc.**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Proprietary Funds**  
**For the Year Ended June 30, 2018**

	Enterprise Funds		
	Major Fund	Non-Major Fund	Total
	Before and After School Fund	School Lunch Fund	
<b>OPERATING REVENUES</b>			
Before and after school care	\$ 154,058	\$ -	\$ 154,058
Lunch sales	-	56,055	56,055
Total operating revenues	154,058	56,055	210,113
<b>OPERATING EXPENSES</b>			
Salary and related costs	133,384	40,785	174,169
Supplies and materials	1,947	5,556	7,503
Contracted services	1,100	1,000	2,100
Food purchases	5,906	95,540	101,446
Depreciation expense	-	-	-
Total operating expenses	142,337	142,881	285,218
Operating income (loss)	11,721	(86,826)	(75,105)
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Federal reimbursements	-	52,637	52,637
Total nonoperating revenue (expenses)	-	52,637	52,637
Income (loss) before contributions and transfers	11,721	(34,189)	(22,468)
Capital contributions	-	-	-
Transfers (to) from other funds	(10,395)	34,189	23,794
Change in net position	1,326	-	1,326
Total net position - beginning	3,061	-	3,061
Total net position - ending	\$ 4,387	\$ -	\$ 4,387

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

**Alliance Preparatory Schools, Inc.**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2018**

	Enterprise Funds		
	Major Fund	Non-Major Fund	Total
	Before and After School Fund	School Lunch Fund	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 154,058	\$ 56,055	\$ 210,113
Cash paid to employees for services	(133,384)	(40,785)	(174,169)
Cash paid for goods and services	(8,835)	(102,096)	(110,931)
Net cash provided (used) by operating activities	<u>11,839</u>	<u>(86,826)</u>	<u>(74,987)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Federal reimbursements	-	52,637	52,637
Transfer (to) from other funds	(10,395)	34,189	23,794
Net cash provided (used) by noncapital financing activities	<u>(10,395)</u>	<u>86,826</u>	<u>76,431</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Capital contributions	-	-	-
Acquisition of capital assets	-	-	-
Net cash (used) by capital and related financing	<u>-</u>	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	1,444	-	1,444
Balances-beginning of the year	<u>3,561</u>	<u>-</u>	<u>3,561</u>
Balances-end of the year	<u>\$ 5,005</u>	<u>\$ -</u>	<u>\$ 5,005</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 11,721	\$ (86,826)	\$ (75,105)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	-	-	-
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	-	-	-
Increase (decrease) in accounts payable and accrued liabilities	118	-	118
Increase (decrease) in deferred inflows of resources	-	-	-
Total adjustments	<u>118</u>	<u>-</u>	<u>118</u>
Net cash provided (used) by operating activities	<u>\$ 11,839</u>	<u>\$ (86,826)</u>	<u>\$ (74,987)</u>

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

**Alliance Preparatory Schools, Inc., North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2018**

I. Summary of Significant Accounting Policies

The accounting policies of the Alliance Preparatory Schools, Inc., North Carolina (the School) conform to generally accepted accounting principles (GAAP) as applicable to governments. Charter schools are established by non-profit entities. Because of the authority of the State Board of Education (SBE) to terminate, not renew or seek applicants to assume a charter on grounds sent out in the North Carolina General Statutes at G.S. 115C218.95 with all net assets purchased with the public funds reverting to a local education agency (G.S. 115C218.100), 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

Alliance Preparatory Schools, Inc. is a North Carolina non-profit corporation incorporated in December 2013. Pursuant to the provisions of the Charter School Act of 1996 as amended (the "Act"), Alliance Preparatory Schools, Inc. has been approved to operate the Mallard Creek STEM Academy, a public school serving approximately 624 students. The School operates under an approved charter received from the SBE and applied for under the provisions of General Statute (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, 2020 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.

B. Basis of Presentation

In accordance with GASB Statements No. 34, Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments (GASB 34), Alliance Preparatory Schools, Inc. 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.

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

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the School and for each function of the School's governmental activities. Direct expenses are those that are specifically associated with a program or function and,

therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the Statement of Activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

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

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

The School reports the following major governmental funds:

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

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

The School reports the following non-major governmental fund:

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

The School reports the following major enterprise fund:

*Before and After School Care Fund.* The Before and After School Care Fund is used to account for the before and after school activities conducted by the School.

The School reports the following non-major enterprise fund:

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

### C. Measurement Focus and Basis of Accounting

*Government-wide and Proprietary Fund Financial Statement.* The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the School



gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

The governing board has voluntarily established the policy, as a sound business practice, that expenditures may not exceed appropriations, for all of the School's funds, based on the adopted budget and subsequent amendments. During the year, several amendments to the original budget were necessary, the effects of which were not material. The budget presented in the supplemental data represents the budget of the School at June 30, 2018. All appropriations lapse at year end.

#### E. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Fund Equity

##### 1. Deposits and Investments

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

##### 2. Cash and Cash Equivalents

The School pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. Cash restricted to payments of principal and interest on USDA loans is reported separately in the financial statements.

### 3. Prepaid Items

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

### 4. Capital Assets

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

It is the policy of the School to capitalize all capital assets costing more than \$5,000 with an estimated useful life of two or more years. In addition, other items which are purchased and used in large quantities such as student desks and office furniture are capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. All depreciable assets are depreciated using the straight-line method of depreciation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated over the following estimated useful lives:

	<u>Years</u>
Leasehold improvements	25
Furniture and office equipment	7

### 5. Deferred outflows/inflows of resources

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The School has no items that meet the criterion for this category for the current fiscal year. 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 the criterion for this category - unearned revenue. The School has no items that meet the criterion for this category.

### 6. Long-term Obligations

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

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

## 7. Compensated Absences

The School pays its employees in June of the current year for any accumulated time that has accrued during the year. Therefore, no accrual for compensated absences has been made.

## 8. Net Position/Fund Balances

### Net Position

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

### Fund Balance

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

The governmental fund types classify fund balances as follows:

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

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

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

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

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

**Assigned Fund Balance** – Portion of fund balance the Alliance Preparatory Schools, Inc. intends to use for specific purposes.

Assigned for Clubs and Activities Fund – revenue sources restricted for expenditures for the various clubs and organizations, athletic events, and various fundraising activities for which they are collected.

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

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

9. The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. The net adjustment of \$675,060 consists of several elements as follows:

<u>DESCRIPTION</u>	<u>AMOUNT</u>
Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column).	\$ 1,623,973
Less accumulated depreciation	(105,778)
Pension related deferred outflows of resources	
Differences between contributions and proportional share of contributions and changes in proportion	-
Contributions made to the pension plan in current fiscal year	-
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not reported in the fund statements:	
Long-term notes payable	(843,135)
Capital leases payable	-
Bonds payable	-
Compensated absences	-
Net pension liability	-
Deferred inflows of resources related to pensions	
Differences between expected and actual experience	-
Differences between projected and actual earnings on plan investments	-
Total adjustment	<u>\$ 675,060</u>

F. Revenues, Expenditures, and Expenses

1. Funding

The Alliance Preparatory Schools, Inc. is funded by the State Board of Education, receiving (i) an amount equal to the average per pupil allocation for the average daily membership (ADM) from the local school administrative unit allotments in which the School is located (i.e. Charlotte-Mecklenburg County Board of Education) for each child attending the School except for the allocation for children with special needs and (ii) an additional amount for each child attending the School who is a child with special needs [G.S. 115C-238.29H(a)]. Additionally, the appropriate local school administrative unit(s) transfers to the School, for each student who resides in the local administrative unit and attends the charter school, an amount equal to the per pupil local current expense appropriation to the respective unit for the fiscal year. [G.S. 115C.238.29H(b)]. For the fiscal year ended June 30, 2018, the Alliance Preparatory Schools, Inc. received

funding from the Boards of Education for Cabarrus (\$41,239), Charlotte-Mecklenburg (\$1,520,260), Gaston (\$4,250), Union (\$805) and Lincoln (\$1,958) Counties.

Furthermore, Alliance Preparatory Schools, Inc. has received donations of cash and/or equipment from individuals and private organizations. The cash has been used for general fund activities.

2. Reconciliation Between Government-Wide and Fund Statements

The governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balance is followed by a reconciliation between the change in fund balance – governmental activities and the change in net position – governmental funds as reported on the government-wide statement of activities. The net difference of \$605,501 between the two amounts consists of the following elements:

<u>DESCRIPTION</u>	<u>AMOUNT</u>
Capital outlay expenditures recorded in the fund statements but capitalized as assets on the statement of activities.	\$ 290,331
Depreciation expense that is recorded on the statement of activities but not in the fund statements.	(60,695)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities.	-
New debt issued during the year is recorded as a source of funds on the fund statements but has no effect on the Statement of Activities, only the Statement of Net Assets.	-
Principal payments on debt owed are recorded as a use of funds on the fund statements but again affect only the Statement of Net Assets in the government-wide statements.	375,865
Rounding adjustment	-
Compensated absences	-
Total	<u>\$ 605,501</u>

G. Use of Estimates and Assumptions

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

II. Stewardship, Compliance, and Accountability

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

Noncompliance with North Carolina General Statutes

None.

Contractual Violations

None.

B. Deficit Fund Balance or Net position of Individual Funds

None.

III. Detail Notes on All Funds

A. Assets

1. Deposits

At June 30, 2018, the School had deposits with banks and savings and loans with a carrying amount of \$134,804. The bank balances with the financial institutions totaled \$248,399, which was covered by the FDIC at June 30, 2018. The School does not have a deposit policy for custodial credit risk.

2. Capital Assets

Capital asset activity for the year ended June 30, 2018, was as follows:

	<u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u>
Governmental activities				
Capital assets being depreciated:				
Leasehold improvements	\$ 1,262,190	\$ 290,331	\$ -	\$ 1,552,521
Furniture and office equipment	71,452	-	-	71,452
Total capital assets being depreciated	<u>1,333,642</u>	<u>290,331</u>	<u>-</u>	<u>1,623,973</u>
Less accumulated depreciation for:				
Leasehold improvements	4,768	50,488	-	55,256
Furniture and office equipment	40,315	10,207	-	50,522
Total accumulated depreciation	<u>45,083</u>	<u>\$ 60,695</u>	<u>\$ -</u>	<u>105,778</u>
Total capital assets being depreciated, net	<u>1,288,559</u>			<u>1,518,195</u>
Governmental activity capital assets, net	<u>\$ 1,288,559</u>			<u>\$ 1,518,195</u>

Depreciation expense was charged to governmental functions as follows:

Instructional programs	\$ 54,629
Supporting services	<u>6,066</u>
	<u>\$ 60,695</u>

## B. Liabilities

### 1. Retirement Plan

Alliance Preparatory Schools, Inc. does not participate in the North Carolina Teacher’s and State Employees’ Retirement System.

Instead, the School offers a 401(k) Retirement Plan. Under the plan, the School contributes an amount equal to the employees’ contributions up to a limit of 3% of the employees’ compensation for the calendar year. The employee may make voluntary contributions, pursuant to a salary reduction agreement of a percentage of annual compensation not to exceed the limits set by the Internal Revenue Code. For the year ended June 30, 2018, total pension cost to the School was \$38,119.

### 2. Risk Management

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

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

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

The School carries fidelity bond coverage in the amount of \$250,000. The company that does all outsourced accounting carries fidelity bond coverage in the amount of \$500,000.

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.

### 3. Short-Term Obligations

During the year ended June 30, 2018 the School borrowed \$75,000 for operations. This note is due and payable on demand and carries an interest rate of prime. At June 30, 2018 the School had not repaid these funds. Changes in short-term obligations are as follows:

	Balance		Balance	
	July 1, 2017	Increases	Decreases	June 30, 2018
Governmental activities:				
Short term note payable	\$ -	\$ 75,000	\$ -	\$ 75,000

#### 4. Long-Term Obligations

##### a.) Notes Payable

During the year ended June 30, 2018, the board of directors of Alliance Preparatory Schools, Inc., the nonprofit holding the charter for Alliance Preparatory Schools, Inc., borrowed \$2,400,000 in Series 2016 Charter School Revenue Bonds. Of this amount borrowed, Alliance Preparatory Schools allocated \$1,300,000 to Alliance Preparatory Schools, Inc. for the purchase of furniture, fixtures and equipment for the School's location that opened for the year ended June 30, 2018. The bonds carry an interest rate of 10.2% and the School is paying monthly payments of fixed principal plus interest. During 2017, these bonds were refinanced into a separate loan carrying the same interest rate of 10.2%.

The following is a schedule of future debt payments:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
For fiscal year ended June 30, 2019	\$ 547,629	\$ 61,181	\$ 608,810
For fiscal year ended June 30, 2020	295,506	8,899	304,405
Totals	<u>\$ 843,135</u>	<u>\$ 70,080</u>	<u>\$ 913,215</u>

##### b.) Changes in General Long-Term Obligations

	<u>Balance</u>			<u>Balance</u>	<u>Current</u>
	<u>July 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2018</u>	<u>Portion</u>
Governmental activities:					
Notes payable	\$ 1,219,000	\$ -	\$ 375,865	\$ 843,135	\$ 547,629

##### c.) Operating Leases

The School leases its facilities under a twenty-five-year lease that expires in June 2041. Monthly lease payments during the term were \$62,700 and they increase annually. The School has other contracts and leases for various services and some of them also continue after year end. Rent expense under all the lease agreements totaled \$895,650 during the year ended June 30, 2018. Future minimum lease payments are expected to be:

June 30, 2019	1,468,276
June 30, 2020	1,625,896
June 30, 2021	1,682,570
June 30, 2022	1,741,460
June 30, 2023	2,140,699
June 30, 2024 - 2028	11,881,200
June 30, 2029 - 2033	14,111,135
June 30, 2034 - 2038	16,759,597
June 30, 2039 - 2041	15,116,529



C. Fund Balance

Alliance Preparatory Schools, Inc. 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-School funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the School.

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

<b>Total fund balance</b>	<b>\$31,459</b>
<b>Less:</b>	
<b>Inventories</b>	-
<b>Reserve for prepaid items</b>	-
<b>Appropriated Fund Balance in 2016 budget</b>	-
<b>Remaining Fund Balance</b>	<b>\$31,459</b>

IV. Transfers

The School general fund transferred \$23,794 and the After School Fund transferred \$10,395 for a total of \$34,189 to the School Lunch Fund during the year to help with the operating costs of the fund.

V. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

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

VI. Subsequent Events – Date of Management’s Review

The School has evaluated subsequent events from the date of the balance sheet through the date the report is available to be issued which is the date of the Independent Auditor’s Report. The School has not evaluated subsequent events after that date.

## **NON-MAJOR FUNDS**

Federal Grants Fund - This fund is used to account for the federal grant activity of the School.

School Lunch Fund - This fund is used to account for the school lunch activity.

Statement 1

Alliance Preparatory Schools, Inc.  
 Non-major Governmental Fund  
 Balance Sheet  
 June 30, 2018

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

Statement 2

**Alliance Preparatory Schools, Inc.  
Non-major Governmental Fund  
Statement of Revenues, Expenditures, and  
Changes in Fund Balances  
For the Fiscal Year Ended June 30, 2018**

	Special Revenue Funds
	Totals 2018
Revenues:	
U.S. Government	
Title 1 Basic Funding	\$ 38,730
Idea VI-B Handicapped	93,819
Improving Teacher Quality	7,519
Idea VI-B Targeted Assistance	1,159
Total	141,227
Donations	-
Other	-
Total	-
Total Revenues	141,227
Expenditures:	
Current	
Instructional programs:	
Regular programs	7,519
Special programs	94,978
Alternative programs	38,730
School-based support services	-
Total	141,227
Support services:	
Special population	-
Total	-
Non-programmed charges:	
Other	-
Total	-
Total expenditures	141,227
Revenues over expenditures	-
Fund balances:	
Beginning of year, July 1	-
End of year, June 30	\$ -

**Alliance Preparatory Schools, Inc.  
Statement of Net Position  
Non-major Proprietary Fund  
June 30, 2018**

<b>School Lunch Fund</b>
------------------------------

**ASSETS**

Current assets:

Cash and cash equivalents	\$ -
Due from other governments	-
Receivables (net)	-
Inventories	-
Total current assets	-

Noncurrent assets:

Capital assets:

Furniture and office equipment, net	-
Computer equipment, net	-
Total noncurrent assets	-
Total assets	\$ -

**LIABILITIES**

Current liabilities:

Accounts payable - trade	
Due to other funds	
Total current liabilities	\$ -

Long-term liabilities:

Due within one year	
Due in more than one year	
Total long-term liabilities	-
Total liabilities	-

**NET POSITION**

Net investment in capital assets	-
Unrestricted	-
Total net position	-
	\$ -

**Alliance Preparatory Schools, Inc.**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Non-major Proprietary Fund**  
**June 30, 2018**

	<b>School Lunch Fund</b>
<b>OPERATING REVENUES</b>	
Lunch sales	\$ 56,055
Total operating revenues	56,055
<b>OPERATING EXPENSES</b>	
Salaries and related costs	40,785
Supplies and equipment	5,556
Contracted services	1,000
Food purchases	95,540
Total operating expenses	-
Operating income (loss)	142,881
	(86,826)
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Federal reimbursements	52,637
Total nonoperating revenue (expenses)	-
Income (loss) before contributions and transfers	52,637
Capital contributions	(34,189)
Transfers (to) from other funds	34,189
Change in net position	-
Total net position - beginning	-
Total net position - ending	\$ -

**Alliance Preparatory Schools, Inc.**  
**All Fund Types**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
**Government-wide Budget**  
**Year Ended June 30, 2018**

	2018		
	Final Budget	Actual	Favorable (Unfavorable) Variance
<b>Revenues:</b>			
State of North Carolina	\$ 3,382,203	\$ 3,382,203	\$ -
Boards of Education	1,732,572	1,568,513	(164,059)
Fines and forfeitures	-	-	-
U.S.Government	141,227	141,227	-
Before and after school	153,058	154,058	1,000
Lunch sales	55,556	56,055	499
Contributions and donations	-	8,632	8,632
Others	166,949	114,939	(52,010)
Total revenues	<u>5,631,565</u>	<u>5,425,627</u>	<u>(205,938)</u>
<b>Expenditures</b>			
Salaries and bonuses	2,177,126	2,249,952	(72,826)
Benefits	495,228	433,560	61,668
Books and supplies	144,716	122,930	21,786
Technology	35,000	48,244	(13,244)
Non capitalized equipment	596,093	683,700	(87,607)
Contracted student services	90,000	121,455	(31,455)
Staff development	85,115	55,678	29,437
Administrative services	413,809	382,941	30,868
Insurances	27,750	32,243	(4,493)
Rents and debt service	740,443	915,069	(174,626)
Facilities	90,524	141,042	(50,518)
Utilities	57,000	62,613	(5,613)
Nutrition and food	131,571	139,427	(7,856)
Transportation and travel	177,000	249,079	(72,079)
Capital purchases	8,000	5,154	2,846
Before and after school	154,160	141,840	12,320
Other	-	-	-
Total expenditures	<u>5,423,535</u>	<u>5,784,927</u>	<u>(361,392)</u>
<b>Other financing sources (uses):</b>			
Federal reimbursements	53,000	52,637	(363)
Proceeds from notes payable	-	-	-
Total other financing sources	<u>53,000</u>	<u>52,637</u>	<u>(363)</u>
Excess of revenues over expenditures	<u>\$ 261,030</u>	<u>\$ (306,663)</u>	<u>\$ (567,693)</u>

COMPLIANCE SECTION

ALLIANCE PREPARATORY SCHOOLS, INC.

CHARLOTTE, NORTH CAROLINA

JUNE 30, 2018





# Les Merritt CPA-CFP

## 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  
Mallard Creek STEM Academy  
Charlotte, 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 accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Mallard Creek STEM Academy as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprises Mallard Creek STEM Academy's basic financial statements and have issued our report thereon dated October 29, 2019.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Mallard Creek STEM Academy'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 Mallard Creek STEM Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of Mallard Creek STEM Academy'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 School'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.

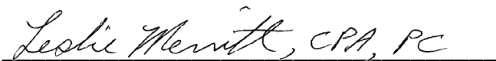
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, 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 Mallard Creek STEM Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### 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 School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



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Leslie Merritt, CPA, PC  
Certified Public Accountant  
Zebulon, North Carolina

October 29, 2019



# Les Merritt CPA-CFP

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE; IN ACCORDANCE WITH OMB UNIFORM GUIDANCE; AND THE  
STATE SINGLE AUDIT IMPLEMENTATION ACT

Board of Directors  
Mallard Creek STEM Academy  
Charlotte, North Carolina

## **Report on Compliance for Each Major State Program**

We have audited Mallard Creek STEM Academy'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 its major State program for the year ended June 30, 2018. Mallard Creek STEM Academy's major State program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Mallard Creek STEM Academy'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 and the standards applicable to financial audits contained in the applicable sections of Title 2 US 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 Mallard Creek STEM Academy'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 Mallard Creek STEM Academy's compliance.

### ***Opinion on Each Major State Program***

In our opinion, the Mallard Creek STEM Academy 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, 2018.


### **Report on Internal Control Over Compliance**

Management of the Mallard Creek STEM Academy 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 Mallard Creek STEM Academy's internal control over compliance with the types of requirements that could have a direct and material effect on a major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

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

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

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

  
\_\_\_\_\_  
Leslie Merritt, CPA, PC  
Certified Public Accountant  
Zebulon, North Carolina

October 29, 2019

ALLIANCE PREPARATORY SCHOOLS, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018

SECTION I. -- SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance to GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	_____ yes	___X___ no
Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____ yes	___X___ none reported

Noncompliance material to financial statements noted	_____ yes	___X___ no
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State Awards

Internal control over major State programs:

Material weakness(es) identified?	_____ yes	___X___ no
Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____ yes	___X___ none reported

Type of auditor's 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
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Identification of major State programs:

Program Name

State Public School Funds (PRC036 - Charter School Funds)

ALLIANCE PREPARATORY SCHOOLS, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018

SECTION II. -- FINANCIAL STATEMENT FINDINGS

None reported

SECTION III. -- STATE AWARD FINDINGS AND QUESTIONED COSTS

None reported

ALLIANCE PREPARATORY SCHOOLS, INC.  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED JUNE 30, 2018

SECTION II. -- FINANCIAL STATEMENT FINDINGS

None reported

SECTION III. -- STATE AWARD FINDINGS AND QUESTIONED COSTS

None reported

ALLIANCE PREPARATORY SCHOOLS, INC.  
SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2018

This is the School's first year of operation.



ALLIANCE PREPARATORY SCHOOLS, INC.  
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

GRANTOR/PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	STATE/ PASS-THROUGH GRANTOR'S NUMBER	EXPENDITURES
FEDERAL GRANTS:			
CASH ASSISTANCE			
<u>US Department of Education</u>			
Passed Through the North Carolina Department of Public Instruction:			
Improving Teacher Quality	84.367A	PRC 103	\$ 7,519
Title 1 Basic Funding	84.010	PRC 050	38,730
Special Education Cluster:			
Idea VI-B Handicapped	84.027-CL	PRC 060	93,819
Idea VI-B Targeted Assistance	84.027-CL	PRC 118	1,159
Total Special Education Cluster			<u>94,978</u>
 <u>US Department of Agriculture</u>			
Passed Through the NC Department of Public Instruction:			
National School Lunch Program	10.555	PRC 035	<u>52,637</u>
TOTAL FEDERAL CASH ASSISTANCE			<u>193,864</u>
NC STATE GRANTS:			
CASH ASSISTANCE			
<u>NC Department of Public Instruction</u>			
State Public School Funds		PRC 036	3,344,184
Summer Reading Program		PRC 016	25,368
Third Grade Reading Teacher Bonus		PRC 046	8,021
Test Results Bonus		PRC 048	<u>4,629</u>
TOTAL NC STATE CASH ASSISTANCE			<u>3,382,202</u>
TOTAL FEDERAL AND STATE AWARDS			<u>\$ 3,576,066</u>

Notes to the Schedule of Expenditures of Federal and State 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 Alliance Preparatory Schools, Inc. under the programs of the federal government and the State of North Carolina for the year ended June 30, 2018. 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 Alliance Preparatory Schools, Inc., it is not intended to and does not present the financial position, changes in net position, or cash flows of Alliance Preparatory Schools, Inc..

Note 2: Summary of Significant Accounting Policies

Alliance Preparatory Schools, Inc. has elected not to use the 10-percent de minimis indirect cost rate as allowed under Uniform Guidance.