

**Darrell L. Keller, CPA, PA**

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**LAKE LURE CLASSICAL ACADEMY  
FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2015**

**(704) 739-0771**

**Lake Lure Classical Academy**  
 Table of Contents  
 as of June 30, 2015

Exhibit		Page
	Financial Section	
	Independent Auditor’s Report	1-2
	Management’s Discussion and Analysis	3-10
	Basic Financial Statements:	
	Government-wide Financial Statements:	
1	Statement of Net Position	11
2	Statement of Activities	12
	Fund Financial Statements:	
3	Balance Sheet – Governmental Funds	13
4	Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	14
5	Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
	Notes to the Financial Statements	16-27
	Combining and Individual Fund Financial Statements and Schedules:	
	Statements of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual – All Fund Types	28-29
	Compliance Section	
	Report on Internal Control Over Financial Reporting and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	30-31
	Report on Compliance with Requirements Applicable to each Major State Program and Internal Control over Compliance In Accordance With Applicable Sections of OMB Circular A-133 and The State Single Audit Implementation Act	32-33
	Schedule of findings and Questioned Costs	34-35
	Schedule of Prior Audit Findings	36
	Schedule of State and Federal Expenditures	37

## **Financial Section**

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Lake Lure Classical Academy  
Lake Lure, North Carolina

**Report on the Financial Statements**

I have audited the accompanying financial statements of the governmental activities and each major fund of Lake Lure Classical Academy, Lake Lure, North Carolina as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Lake Lure Classical Academy'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***

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

***Opinions***

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Lake Lure Classical Academy, Lake Lure, North Carolina, as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–10 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

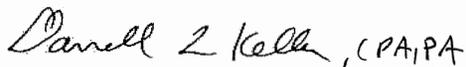
### *Supplementary and Other Information*

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lake Lure Classical Academy, Lake Lure, North Carolina'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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the *State Single Audit Implementation Act* 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 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 my 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*, I have also issued my report dated October 23, 2015, on my consideration of Lake Lure Classical Academy, Lake Lure, North Carolina's internal control over financial reporting and on my 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 my 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 Lake Lure Classical Academy, Lake Lure, North Carolina's internal control over financial reporting and compliance.



Darrell L. Keller, CPA, PA  
Kings Mountain, North Carolina  
October 23, 2015

**Management's Discussion and Analysis**  
**Lake Lure Classical Academy**  
**June 30, 2015**

As management of Lake Lure Classical Academy, we offer readers of Lake Lure Classical Academy's audited financial statements this narrative overview and analysis of the financial activities of Lake Lure Classical Academy for the year ended June 30, 2015. We encourage readers to read the information presented herein in conjunction with additional information that we have furnished in the School's financial statements, which follow this narrative.

**Financial Highlights**

- The assets of Lake Lure Classical Academy exceeded its liabilities and deferred inflows at the close of the fiscal year by \$753,179 (*net position*).
- The school's total net position decreased by \$259,507, due to decreases in the governmental activities net position.
- As of the close of the current fiscal year, Lake Lure Classical Academy's governmental funds reported combined ending fund balances of \$2,464,138.

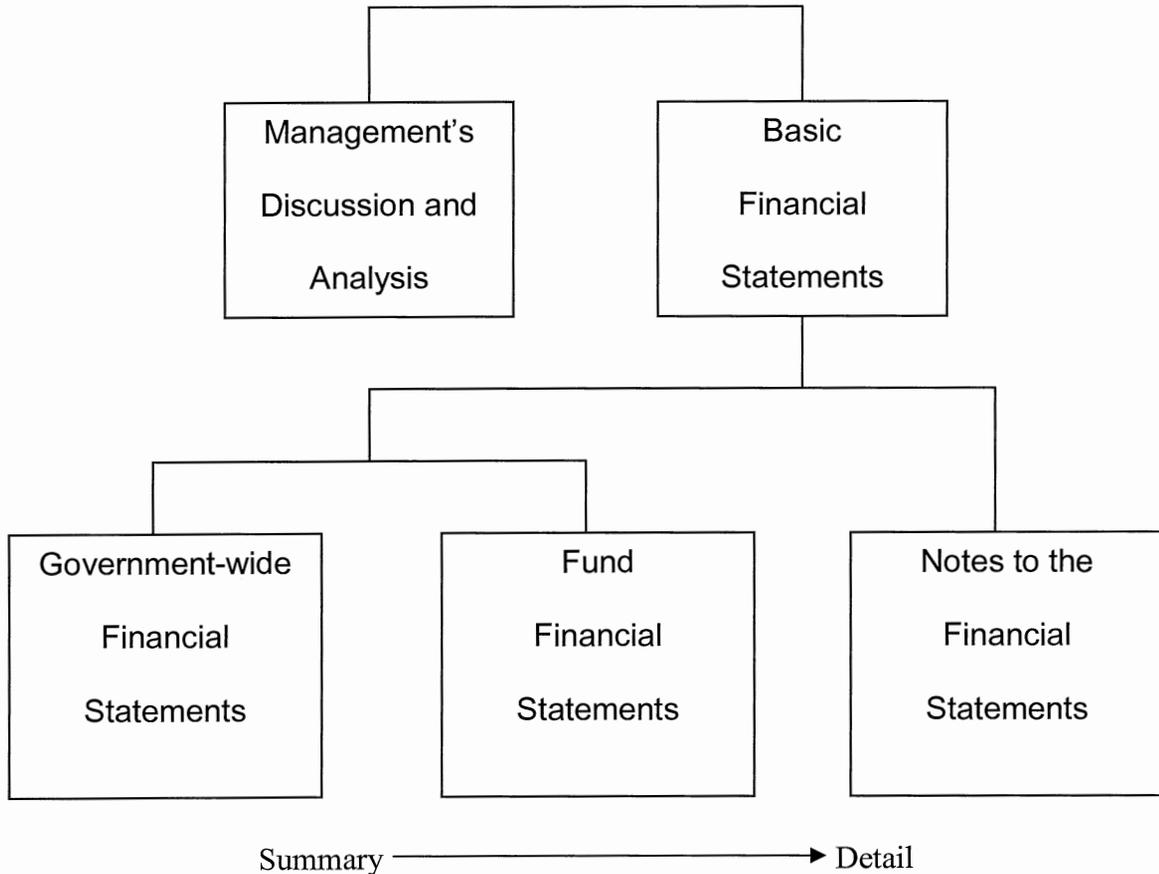
**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to Lake Lure Classical 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 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 Lake Lure Classical Academy.

**Management's Discussion and Analysis**  
**Lake Lure Classical Academy**  
**June 30, 2015**

**Figure 1**

**Required Components of Annual Financial Report**



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

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

**Management's Discussion and Analysis**  
**Lake Lure Classical Academy**  
**June 30, 2015**

**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 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. These functions are funded almost entirely through state, county, city, and federal educational funds. The business-type activities are those services that the School charges its students and other customers. The School has no business-type activities.

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. Lake Lure Classical Academy, 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 Lake Lure Classical Academy are governmental funds.

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

**Management's Discussion and Analysis**  
**Lake Lure Classical Academy**  
**June 30, 2015**

The School adopts an annual budget for each of its funds, 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 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 provided 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** – Lake Lure Classical Academy has no proprietary funds.

**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 16 of this report.

**Government-Wide Financial Analysis**

As noted earlier, net position may serve over time as one useful indicator of a school's financial condition. The assets of Lake Lure Classical Academy exceeded liabilities by \$753,179 as of June 30, 2015. The School's net position decreased by \$259,507 for the fiscal year ended June 30, 201. One of the largest portions (\$565,214) reflects the School's investment in capital assets (e.g. land, buildings and improvements, instructional equipment, and vehicles) less any related debt still outstanding that was issued to acquire those items. Lake Lure Classical Academy uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although Lake Lure Classical Academy'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. The restricted amount consists of restricted cash less accounts payable for capital outlay in the amount of \$1,145,745. The remaining balance of \$172,648 is unrestricted. In 2014, the amount of net investment in capital assets was \$2,100,130, with unrestricted net position standing at \$150,985.

**Management's Discussion and Analysis**  
**Lake Lure Classical Academy**  
**June 30, 2015**

**Figure 2**  
**Lake Lure Classical Academy's Net Position**

	Governmental Activities		Total	
	2015	2014	2015	2014
Current and other assets	\$ 3,698,525	\$ 261,003	\$ 3,698,525	\$ 261,003
Due from other governments	36,795	42,290	36,795	42,290
Capital assets, net of depreciation	7,184,541	853,393	7,184,541	853,393
Total Assets	10,919,861	1,156,686	10,919,861	1,156,686
Other Liabilities & deferred inflows	1,271,182	29,000	1,271,182	29,000
Long-term Liabilities outstanding	8,895,500	115,000	8,895,500	115,000
Total Liabilities	10,166,682	144,000	10,166,682	144,000
<b>Net Position:</b>				
Net investment in capital assets	\$ (565,214)	738,393	\$ (565,214)	738,393
Restricted for School Capital Outlay	1,145,745	-	1,145,745	-
Unrestricted	172,648	274,293	172,648	274,293
Total net position	\$ 753,179	\$ 1,012,686	\$ 753,179	\$ 1,012,686

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

- The School adopted an annual budget. The School's performance was measured using this budget on a monthly basis, allowing changes to be made in spending as needed to remain within the confines of the budget.
- The School applied for and was awarded several federal grants to assist with meeting the educational needs of the student population.
- The School issued a \$9 million dollar bond issue in the current year and began construction of a new facility that is expected to be completed in time for the opening of the 2015-16 school year.

**Management's Discussion and Analysis  
Lake Lure Classical Academy  
June 30, 2015**

**Figure 3  
Lake Lure Classical Academy's Changes in Net Position**

	Governmental Activities		Total	
	2015	2014	2015	2014
Donations and Other Revenues	\$149,671	\$ 548,966	\$149,671	\$ 548,966
Charges for Services	-	-	-	-
County, State, and Federal Funds	2,778,334	2,319,726	2,778,334	2,319,726
<b>Total revenues</b>	<u>2,928,005</u>	<u>2,868,692</u>	<u>2,928,005</u>	<u>2,868,692</u>
Instructional Programs	2,007,762	1,872,826	2,007,762	1,872,826
Support services	1,176,021	601,150	1,176,021	601,150
Interest on long-term debt	3,729	-	3,729	-
<b>Total expenses</b>	<u>3,187,512</u>	<u>2,473,976</u>	<u>3,187,512</u>	<u>2,473,976</u>
Increase in net position:	\$ (259,507)	394,716	\$ (259,507)	394,716
Transfers	-	-	-	-
Net position, July 1	1,012,686	617,970	1,012,686	617,970
Net position, June 30	<u>\$753,179</u>	<u>\$ 1,012,686</u>	<u>\$753,179</u>	<u>\$ 1,012,686</u>

**Governmental activities.** Governmental activities decreased the School's net position by \$259,507.

**Business-type activities.** The School has no business-type activities.

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

As noted earlier, Lake Lure Classical Academy uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The focus of Lake Lure Classical Academy's governmental funds is to provide information on near-term inflows, outflows, and balances of usable financial resources. Such information is useful in assessing Lake Lure Classical Academy's financing requirements. Specifically, unreserved 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 Lake Lure Classical Academy. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$2,454,699.

**Management's Discussion and Analysis**  
**Lake Lure Classical Academy**  
**June 30, 2015**

**Proprietary Funds.** The School has no proprietary funds.

**Capital Asset and Debt Administration**

**Capital assets.** Lake Lure Classical Academy's investment in capital assets for its governmental and business-type activities as of June 30, 2015, totals \$7,184,541 (net of accumulated depreciation). Capital assets include land, buildings and improvements, instructional equipment, and vehicles.

**Figure 4**  
**Lake Lure Classical Academy's Capital Assets**  
 (net of depreciation)

	Governmental Activities		Total	
	2015	2014	2015	2014
Land, construction	\$ 6,991,042	\$ 648,292	\$ 6,991,042	\$ 648,292
Buildings	158,800	163,273	158,800	163,273
Leasehold Improvements	18,305	20,047	18,305	20,047
School Furnishings	1,500	4,500	1,500	4,500
Electronic equipment	-	-	-	-
Vehicles	14,894	17,281	14,894	17,281
<hr/>				
Total	<u>\$ 7,184,541</u>	<u>\$ 853,393</u>	<u>\$ 7,184,541</u>	<u>\$ 853,393</u>

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

**Management's Discussion and Analysis**  
**Lake Lure Classical Academy**  
**June 30, 2015**

**Long-term Debt.** As of June 30, 2015, the Lake Lure Classical Academy had total debt outstanding of \$9,000,000.

**Lake Lure Classical Academy's Outstanding Debt**  
**Building Note**

**Figure 5**

	Governmental Activities		Total	
	2015	2014	2015	2014
Note Payable-LLCEF	\$ -	\$ 115,000	\$ -	\$ 115,000
Bonds Payable	9,000,000	-	9,000,000	-
<b>Total</b>	<b>\$ 9,000,000</b>	<b>\$ 115,000</b>	<b>\$ 9,000,000</b>	<b>\$ 115,000</b>

The Lake Lure Classical Academy's total debt increased by \$8,885,000 during the past fiscal year. This was an issue of taxable and tax exempt bonds during the current year. The bonds are presented on the statement of financial position net of \$104,500 bond discount at issue. The credit line was paid off using proceeds from school construction financing.

**Economic Factors**

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

- The School is located in the growing area of Lake Lure, North Carolina.
- The School is in the process of constructing a new K-12 campus and expects to have the facility completed in time for the beginning of the 2015-16 academic school year.

**Requests for Information**

This report is designed to provide an overview of the School's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Executive Director, Lake Lure Classical Academy, P O Box 6, Lake Lure, North Carolina 28746.

# FINANCIAL STATEMENTS

**Lake Lure Classical Academy**  
**Statement of Net Position**  
**June 30, 2015**

	<b>Primary Government</b>	
	<b>Governmental Activities</b>	<b>Total</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,541,009	\$ 1,541,009
Restricted cash-unspent bond funds	2,148,077	2,148,077
Due from other governments	36,795	36,795
Prepaid Expenses	9,439	9,439
Capital assets (Note 1):		
Land, improvements, and construction in progress	6,991,042	6,991,042
Other capital assets, net of depreciation	193,499	193,499
Total capital assets	<u>7,184,541</u>	<u>7,184,541</u>
Total assets	<u>10,919,861</u>	<u>10,919,861</u>
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	1,256,074	1,256,074
Long-term liabilities:		
Bonds payable (net of bond discount):		
Due within one year	-	-
Due in more than one year	8,895,500	8,895,500
Total liabilities	<u>10,151,574</u>	<u>10,151,574</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>15,108</u>	<u>15,108</u>
<b>NET POSITION</b>		
Net investment in capital assets	(565,214)	(565,214)
Restricted for School Capital Outlay	1,145,745	1,145,745
Unrestricted	172,648	172,648
Total net position	<u>\$ 753,179</u>	<u>\$ 753,179</u>

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

**Lake Lure Classical Academy  
Statement of Activities  
For the Year Ended June 30, 2015**

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	Total
<b>Primary government:</b>						
Governmental Activities:						
Instructional programs	\$ 2,007,762	\$ -	\$ -	\$ -	\$ (2,007,762)	\$ (2,007,762)
Support services	1,176,021	-	-	-	(1,176,021)	(1,176,021)
Interest expense	3,729	-	-	-	(3,729)	(3,729)
Total governmental activities	<u>\$ 3,187,512</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(3,187,512)</u>	<u>(3,187,512)</u>
General revenues:						
Unrestricted county appropriations					585,346	585,346
Unrestricted State appropriations					2,097,549	2,097,549
Unrestricted Federal appropriations					95,439	95,439
Donations - general					52,568	52,568
Investment earnings, unrestricted					871	871
Miscellaneous, unrestricted					96,232	96,232
Total general revenues, special items, and transfers					<u>2,928,005</u>	<u>2,928,005</u>
Change in net position					(259,507)	(259,507)
Net position-beginning					1,012,686	1,012,686
Net position-ending					<u>\$ 753,179</u>	<u>\$ 753,179</u>

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

**Lake Lure Classical Academy  
Balance Sheet  
Governmental Funds  
June 30, 2015**

	Major Funds			Total Non-major Funds	Total Governmental Funds
	General	State Public School	Capital Project Fund	Federal Grants Fund	
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,541,009	\$ -	\$ -	\$ -	\$ 1,541,009
Restricted cash	-	-	2,148,077	-	2,148,077
Due from other governments	36,795	-	-	-	36,795
Prepaid expenses	9,439	-	-	-	9,439
Total assets	<u>\$ 1,587,243</u>	<u>\$ -</u>	<u>\$ 2,148,077</u>	<u>\$ -</u>	<u>\$ 3,735,320</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable and accrued liabilities	\$ 253,742	\$ -	\$ 1,002,332	\$ -	\$ 1,256,074
Payroll Taxes Payable	-	-	-	-	-
Total liabilities	<u>253,742</u>	<u>-</u>	<u>1,002,332</u>	<u>-</u>	<u>1,256,074</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unearned grant revenue	15,108	-	-	-	15,108
Sales and Fuel Tax Refunds	-	-	-	-	-
	<u>15,108</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,108</u>
Fund balances:					
Nonspendable:					
Prepaid Expenses	9,439	-	-	-	9,439
Restricted					
School Capital Outlay	-	-	1,145,745	-	1,145,745
Unassigned, General Fund	1,308,954	-	-	-	1,308,954
Total fund balances	<u>1,318,393</u>	<u>-</u>	<u>1,145,745</u>	<u>-</u>	<u>2,464,138</u>
Total liabilities and fund balances	<u>\$ 1,587,243</u>	<u>\$ -</u>	<u>\$ 2,148,077</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.	7,184,541
Liabilities for earned revenues considered deferred inflows of resources in fund statements.	-
Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds (Note 5).	(8,895,500)
Net position of governmental activities	<u>\$ 753,179</u>

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

**Lake Lure Classical Academy**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended June 30, 2015**

	Major Funds			Total Non-major Funds	Total Governmental Funds
	General	State Public School	Capital Projects Fund	Federal Grants Fund	
<b>REVENUES</b>					
State of North Carolina	\$ 13,076	\$ 2,097,549	\$ -	\$ -	\$ 2,110,625
Buncombe County	18,382	-	-	-	18,382
Cleveland County	1,949	-	-	-	1,949
Henderson County	124,377	-	-	-	124,377
McDowell County	1,935	-	-	-	1,935
Polk County	166,500	-	-	-	166,500
Rutherford County	272,203	-	-	-	272,203
U.S. Government	45,923	-	-	49,516	95,439
Fines and Forfeitures	10,527	-	-	-	10,527
Contributions and donations	52,568	-	-	-	52,568
Other	72,629	-	871	-	73,500
Total revenues	<u>780,069</u>	<u>2,097,549</u>	<u>871</u>	<u>49,516</u>	<u>2,928,005</u>
<b>EXPENDITURES</b>					
<b>Current:</b>					
Instructional services:	362,243	1,593,003	-	49,516	2,004,762
System-wide support services	650,656	504,546	-	-	1,155,202
<b>Capital outlay:</b>	397,982	-	5,951,485	-	6,349,467
<b>Debt service:</b>					
Principal	115,000	-	-	-	115,000
Interest and other charges	3,729	-	-	-	3,729
Total expenditures	<u>1,529,610</u>	<u>2,097,549</u>	<u>5,951,485</u>	<u>49,516</u>	<u>9,628,160</u>
Excess (deficiency) of revenues over expenditures	<u>(749,541)</u>	<u>-</u>	<u>(5,950,614)</u>	<u>-</u>	<u>(6,700,155)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers (to) from other funds	1,790,298	-	(1,790,298)	-	-
Bond discount	-	-	(110,000)	-	(110,000)
Loan proceeds	-	-	9,000,000	-	9,000,000
Total other financing sources (uses)	<u>1,790,298</u>	<u>-</u>	<u>7,099,702</u>	<u>-</u>	<u>8,890,000</u>
Net change in fund balance	1,040,757	-	1,149,088	-	2,189,845
Fund balances-beginning	277,636	-	(3,343)	-	274,293
Fund balances-ending	<u>\$ 1,318,393</u>	<u>\$ -</u>	<u>\$ 1,145,745</u>	<u>\$ -</u>	<u>\$ 2,464,138</u>

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

**Lake Lure Classical Academy**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended June 30, 2015**

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

Net changes in fund balances - total governmental funds	\$ 2,189,845
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 outlay exceeded depreciation in the current period	6,331,148
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	-
Deferred Inflows of Resources	-
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.	(8,780,500)
Difference in accrued interest payable and interest expensed on fund statements	-
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Rounding	-
Total changes in net position of governmental activities	<u>\$ (259,507)</u>

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

## The Lake Lure Classical Academy, North Carolina

### Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2015

#### I. Summary of Significant Accounting Policies

The accounting policies of the Lake Lure Classical Academy, North Carolina (School) conform to generally accepted accounting principles (GAAP) as applicable to governments. Charter schools are established by non-profit entities. Because of the authority of the State Board of Education (SBE) to unilaterally abolish a school with all the assets reverting to a local education agency, the charter schools in North Carolina follow the governmental reporting model, as used by local education agencies. The following is a summary of the more significant accounting policies:

##### A. Reporting Entity

The Lake Lure Classical Academy is a public school operated by a local non-profit corporation, serving approximately 370 students. The School operates under an approved charter received from the SBE, and applied for under the provisions of General Statute (G.S.) 115C-238.29B. G.S. 115C-238.29F(f)(1) states that a charter school shall be subject to the audit requirements adopted by the SBE, which includes the audit requirements established by G.S. 115C-447 of the School Budget and Fiscal Control Act (SBFCA). G.S. 115C-447 also requires financial statements to be prepared in accordance with GAAP.

##### B. Basis of Presentation

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

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

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

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.

*Capital projects Fund.* The Capital Projects Fund has been established to account for a multi-year construction project. The School is in the process of obtaining financing for the construction of a new permanent facility to be used as a K-12 charter school.

The School has no enterprise funds.

### C. Measurement Focus and Basis of Accounting

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

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

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

#### D. Budgetary Data

An annual budget is adopted on a unit-wide level rather than by individual funds. All budgets are prepared using the modified accrual basis of accounting.

The governing board has voluntarily established the policy, as a sound business practice, that expenditures may not exceed appropriations, for all of the School's funds, based on the adopted budget and subsequent amendments. During the year, several amendments to the original budget were necessary, the effects of which were not material. The budget presented in these financial statements represents the budget of the School at June 30, 2015. All appropriations lapse at year end.

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

##### 1. Deposits and Investments

All deposits of the School are made in a local bank, whose accounts are FDIC insured. Also, the School has established time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit. The School does not have a custodial risk policy.

##### 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. The School does not have a deposit policy for custodial credit risk.

##### 3. Prepaid Items

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

##### 4. Capital Assets

The School's capital assets are recorded at original cost. Donated assets are listed at their estimated fair value at the date of donation. The total of these estimates is not considered large enough that any errors would be material when capital assets are considered as a whole.

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

Capital assets are depreciated over the following estimated useful lives:

	<u>Years</u>
Buildings	40
Leasehold Improvements	15
School furnishings & equipment	5
Vehicles	5
Electronic equipment	3

#### 5. Deferred outflows/inflows of resources

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

#### 6. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position. Bond discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt

In the fund financial statements, governmental fund types recognize bond discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

## 7. Compensated Absences

Employees do not accumulate vacation pay. The policy of the School provides for eight days of personal leave for full-time employees and four days for part-time employees. Any days not used during the year are lost as they do not accumulate.

## 8. Net Position/Fund Balances

### Net Position

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

### Fund Balance

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

The governmental fund types classify fund balances as follows:

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

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

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

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

**Assigned Fund Balance**-portion of fund balance that Lake Lure Classical Academy intends to use for specific purposes.

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

**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.

Lake Lure Classical Academy has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Business Manager 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 Business Manager 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 governmental fund's total fund balance and governmental activities' net position as reported in the government-wide statement of net position. The net adjustment of (\$1,710,959) consists of several elements as follows:

<b><u>DESCRIPTION</u></b>	<b><u>AMOUNT</u></b>
Capital assets used in governmental activities are not financial resources are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column).	\$7,277,147
Less accumulated depreciation	(92,606)
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not reported in the fund statements:	
Bonds, leases, and installment financing	(8,895,500)
Liabilities for earned revenues considered deferred inflows of resources	-
Accrued interest payable	-
Total adjustment	<u>(\$1,710,959)</u>

F. Revenues, Expenditures, and Expenses

1. Funding

The Lake Lure Classical Academy 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. Buncombe County Board of Education) for each child attending the School except for the allocation for children with special needs and (ii) an additional amount for each child attending the School who is a child with special needs [G.S. 115C-238.29H(a)]. Additionally, the appropriate local school administrative unit(s) transfers to the School, for each student who resides in the local administrative unit and attends the charter school, an amount equal to the per pupil local current expense appropriation to the respective local school administrative unit for the fiscal year. [G.S. 115C-238.29H(b)]. For the fiscal year ended June 30, 2015, the Lake Lure Classical Academy received funding from the Board of Education for Buncombe County, Cleveland County, Henderson County, McDowell County, Polk County, and Rutherford County.

Furthermore, Lake Lure Classical Academy has received donations of cash and land from private organizations. The cash has been used for the purchase of new equipment for the School's facilities.

## 2. Reconciliation between government-wide and fund statements

The governmental fund statement of revenues, expenditures, and changes in fund balance is followed by a reconciliation between the change in governmental funds' fund balance and the change in governmental activities' net position as reported on the government-wide statement of activities. The net difference of (\$2,449,352) between the two amounts consists of the following elements:

<b><u>DESCRIPTION</u></b>	<b><u>AMOUNT</u></b>
Capital outlay expenditures recorded in the fund statements but capitalized as assets on the statement of activities.	\$6,349,467
Depreciation expense that is recorded on the statement of activities but not in the fund statements.	(18,319)
New debt issued during the year is recorded as a source of funds on the fund statements but has not effect on the statement of activities, only the statement of net position.	(8,890,000)
Amortization of bond discount	(5,500)
Principal payments on debt owed are recorded as a use of funds on the fund statements but again affect only the statement of net position in the government-wide statements.	115,000
Expenses reported on the statement of activities that do not require the use of current resources to pay are not recorded as expenditures in the fund statements.	
Difference in interest expense between fund statements (modified accrual) and government-wide statements (full accrual).	-
Rounding	-
<b>Total</b>	<b><u>(\$2,449,352)</u></b>

## II. Stewardship, Compliance, and Accountability

### A. Violation of State General Statutes

None

## III. Detail Notes on All Funds

### A. Assets

#### 1. Deposits

At June 30, 2015, the School had deposits with banks and savings and loans with a carrying amount of \$3,689,086. The bank balance with the financial institutions was \$3,708,020, of which \$500,000 was covered by federal depository insurance.

## 2. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land, Construction in Progress	\$ 648,292	\$ 6,342,750	\$ -	\$ 6,991,042
Capital assets being depreciated:				
Buildings	178,932	-	-	178,932
Leasehold Improvements	26,145	-	-	26,145
Vehicles	42,161	6,717	-	48,878
School furnishings & equipment	15,000	-	-	15,000
Electronic equipment	17,150	-	-	17,150
Total capital assets being depreciated	279,388	6,717	-	286,105
Less accumulated depreciation for:				
Buildings	15,659	4,473	-	20,132
Leasehold Improvements	6,098	1,742	-	7,840
Vehicles	24,880	9,104	-	33,984
School furnishings & equipment	10,500	3,000	-	13,500
Electronic equipment	17,150	-	-	17,150
Total accumulated depreciation	74,287	\$ 18,319	\$ -	92,606
Total capital assets being depreciated, net	205,101			193,499
Governmental activity capital assets, net	\$ 853,393			\$ 7,184,541

Depreciation expense was charged to governmental functions as follows:

Instructional programs	\$3,000
Supporting services	15,319
	<u>\$18,319</u>

## B. Liabilities

### 1. Pension Plan Obligations

#### a. Retirement Plan

The Lake Lure Classical Academy does not participate in the North Carolina Teachers' and State Employees' Retirement System.

All eligible employees may participate in the Charter School's qualified plan under Internal Revenue Code Section 403(b) of the Internal Revenue Code. The Plan is a defined contribution plan

and is administered by The Hartford Company. The School matches 6% of participating employ's salaries. Employees must contribute to receive a matching contribution. The School contributed \$67,935 to the plan for the year ended June 30, 2015.

Funding policy: All employees are immediately eligible and may contribute to the plan through a salary reduction agreement.

b. Post Employment Benefits

Lake Lure Classical Academy does not offer post-employment benefits other than the retirement plan described above.

2. Unearned Revenues

The balance in unearned revenues at year end is unspent funds received from contributors.

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 does not have flood insurance.

The School carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage, and claims have not exceeded coverage.

The School also participates in the Teachers' and State Employees Comprehensive Major Medical Plan, a self-funded risk financing pool of the State administered by Blue Cross and Blue Shield of North Carolina. Through the Plan, permanent full-time employees of the School are eligible to receive health care benefits up to a \$2 million lifetime limit. In addition, employees have the option of receiving health care benefits through one of the available health maintenance organizations (HMOs). The School pays for the full cost of coverage for employees enrolled in the Comprehensive Major Medical Plan and makes an equal contribution for employees enrolled in one of the available HMO plans [G.S.115C-238.29F(e)(4)].

4. Deferred Inflows of Resources

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

	Unavailable
	<u>Revenue</u>
Unearned grant revenue (General Fund)	\$15,108

5. Claims and Judgments

At June 30, 2015, the School was not involved in any legal proceedings.

6. Long-Term Obligations

a. Changes in General Long-Term Obligations

In the current year the School issued taxable and tax-exempt bonds totaling \$9,000,000 for the construction costs of their new facility and to repay a pre-construction loan obtained in a prior year. The bonds are payable interest only on February one and August one each year. Principle payments begin August 1, 2017 annually through August 1, 2044. The taxable bonds will be repaid first and bear interest at 8%. The tax exempt bond principle payments begin August 1, 2021 and bear interest at 6.58%.

The following is a summary of changes in the School's long-term obligations for the year ended June 30, 2015:

	Balance			Balance		Current
Governmental activities:	July 1, 2014	Increases	Decreases	June 30, 2015		Portion
Note payable-LLCEF	\$ 115,000	\$ -	\$ 115,000	\$ -	\$ -	-
Bond discount	\$ -	\$ (110,000)	\$ (5,500)	(104,500)		-
Bond payable	-	9,000,000	-	9,000,000		-
<b>Total</b>	<b>\$ 115,000</b>	<b>\$ 8,890,000</b>	<b>\$ 109,500</b>	<b>\$ 8,895,500</b>		<b>\$ -</b>

The future debt payments are scheduled as follows:

	Principal	Interest
June 30, 2016	\$ -	\$ 599,388
June 30, 2017	-	599,388
June 30, 2018	110,000	594,988
June 30, 2019	120,000	585,787
June 30, 2020	130,000	575,787
2021-2025	805,000	2,732,056
2026-2030	1,060,000	2,466,150
2031-2035	1,420,000	2,097,750
2036-2040	1,930,000	1,554,700
2041-2045	3,425,000	725,025
	<b>\$ 9,000,000</b>	<b>\$ 12,531,019</b>

The bonds were issued at a discount of \$110,000 which will be amortized on a straight-line basis. The amortization for June 30, 2015 was \$5,500.

Loan Covenants:

The bond issue has imposed certain financial covenant requirements related to the above issue. The School must maintain a debt service coverage ratio of at least 1.10 beginning June 30, 2016.

The School must also have a minimum of 45 days cash on hand defined as "the sum of cash, cash equivalents, liquid investments and unrestricted marketable securities as shown on the borrower's

audited financial statements for each fiscal year, divided by the quotient of operating expenses, as shown on the audited financial statements for the preceding fiscal year, divided by 365. Operating expenses shall not include depreciation, amortization, or other non-cash expenses."

The 45 days cash on hand calculation is as follows:

The 45 days cash on hand calculation is as follows:	
Operating Expenses	3,187,512
Less Depreciation	(18,319)
Less Amortization	(5,500)
Operating Expenses for covenant calculation	3,163,693
Divided by days in year	365
Cash on hand per day	8,668
Times number of days	45
Minimum cash on hand per loan covenant	390,044
Actual Cash on hand	1,541,009

The School has met this covenant for the year ended June 30, 2015.

**b. Lease Agreements**

Lake Lure Classical Academy has an operating lease agreement with a third party owner for the facilities (modular classrooms) in which it operates. The initial lease term ends June 2019. Effective July 1, 2015 the rent will be deferred until June 30, 2019. The deferred rent of \$127,104 will become due and payable at that time. If the property is sold prior to June 30, 2019 for greater than \$628,000, any excess will apply to the deferred rent. If the excess does not cover the deferred rent due, any remaining balance will become due and payable. If the property is not sold, the deferred rent will be due and payable June 30, 2019 and the school will have no further liability. The monthly lease payment is \$2,648. Future minimum rent payments are expected to be \$31,776 per year through June 30, 2019.

**C. Fund Balance**

Lake Lure Classical Academy has a revenue spending policy that provides policy for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: federal funds, State funds, local non-School funds, Lake Lure Classical Academy 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.

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

<i>Total fund balance</i>	\$ 2,464,138
Less:	
Prepaid Items	9,439
Appropriated Fund Balance in 2016 budget	-
Remaining Fund Balance	\$ 2,454,699

#### D. Inter-fund Transfer

The School's capital projects fund transferred \$1,790,298 to the School's general fund during the year ended June 30, 2015. These funds were used to fund pre-construction costs of the new facility prior to obtaining permanent financing.

#### E. Net Investment in Capital Assets

Capital Assets, net of depreciation	7,184,541
Debt	(8,895,500)
Unspent Bond Proceeds	2,148,077
Accounts Payable-related to capital outlay	<u>(1,002,332)</u>
	<u>(565,214)</u>

#### VI. Related Party Transactions

Mrs. Jessica Boland, School Director, is married to John Boland, a teacher at the school.

Mr. Russell Pitts is a board member and also a board member of PANGAEA which provides internet service to the school. The School paid PANGAEA \$3,315 for services during the fiscal year.

The board treasurer is also a board member of the Lake Lure Community Education Foundation, Inc. and PANGAEA. During the prior year the Foundation advanced an unsecured loan to the School in the amount of \$150,000. The School had drawn \$115,000 against this loan and this amount was paid back from the bond proceeds. The School also paid PANGAEA \$3,315 for internet services during the fiscal year.

#### VII. 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.

##### Construction Contingencies

The Town of Lake Lure town council donated land to the School for the construction of a new school facility. The deed has been recorded and the land has been recorded on the books at its appraised value of \$255,000. The school entered into a contract for the construction of a new facility for \$3,314,690 and as of June 30, 2015 \$2,266,940 had been completed. The school also entered into a contract for the purchase of modular units in the amount of \$3,599,443. As of June 30, 2015 \$3,583,988 had been completed. The school anticipates the total cost of the new facility to be between 7 and 8 million dollars.

**Lake Lure Classical Academy**  
**All Fund Types**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
**For the Year Ended June 30, 2015**

	2015		Favorable (Unfavorable) Variance
	Final Budget	Actual	
<b>Revenues:</b>			
State of North Carolina Board(s) of Education:	\$ 2,107,320	\$ 2,110,625	\$ 3,305
Buncombe County	19,453	18,382	(1,071)
Cleveland County	1,949	1,949	-
Henderson County	124,377	124,377	-
McDowell County	1,935	1,935	-
Polk County	166,500	166,500	-
Rutherford County	272,203	272,203	-
U.S. Government	100,117	95,439	(4,678)
Fines and forfeitures	10,527	10,527	-
Donations	67,735	52,568	(15,167)
Others	278,758	73,500	(205,258)
Total	<u>3,150,874</u>	<u>2,928,005</u>	<u>(222,869)</u>
<b>Expenditures:</b>			
<b>Current:</b>			
<b>Instructional programServices:</b>			
Regular curricular services	1,611,179	1,590,826	20,353
Special populations services	165,419	164,977	442
School Leadership Services	119,728	119,566	162
Co-Curricular Services	58,929	50,210	8,719
School-Based Support Services	79,238	79,183	55
Total instructional programs	<u>2,034,493</u>	<u>2,004,762</u>	<u>29,731</u>
<b>Systm-wide support services:</b>			
Support and development services		-	
Special population support and development services		-	
Technology Support Services	460	460	-
Operational Support Services	281,594	273,946	7,648
Financial and human resource services	166,764	166,472	292
Policy, Leadership and Public Relations Services	715,759	714,324	1,435
Total supporting services	<u>1,164,577</u>	<u>1,155,202</u>	<u>9,375</u>

(continued)

(continued)

Lake Lure Classical Academy  
**All Fund Types**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
For the Year Ended June 30, 2015

	2015		Favorable (Unfavorable) Variance
	Final Budget	Actual	
Capital outlay	4,949,151	6,349,467	(1,400,316)
Debt service:			
Principal	115,000	115,000	-
Interest and other charges	145,251	3,729	141,522
Total debt service	260,251	118,729	141,522
 Total expenditures	 8,408,472	 9,628,160	 (1,219,688)
Other financing sources (uses):			
Transfers out	-	(1,790,298)	(1,790,298)
Transfers in	-	1,790,298	1,790,298
Bond discount	-	(110,000)	(110,000)
Loan Proceeds	9,523,522	9,000,000	(523,522)
Total other financing sources and (uses)	9,523,522	8,890,000	(633,522)
 Excess of revenue over expenditures	 \$ 4,265,924	 \$ 2,189,845	 \$ (2,076,079)

**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***

To the Board of Directors  
Lake Lure Classical Academy  
Lake Lure, North Carolina

I 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 and each major fund, of Lake Lure Classical Academy, Lake Lure, North Carolina, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Lake Lure Classical Academy, Lake Lure, North Carolina's basic financial statements and have issued my report thereon dated October 23, 2015.

**Internal Control Over Financial Reporting**

In planning and performing my audit of the financial statements, I considered Lake Lure Classical Academy, Lake Lure, North Carolina's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lake Lure Classical Academy, Lake Lure, North Carolina's internal control. Accordingly, I do not express an opinion on the effectiveness of Lake Lure Classical Academy, Lake Lure, North Carolina'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.

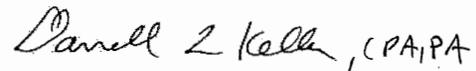
My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I 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 Lake Lure Classical Academy, Lake Lure, North Carolina's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my 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 my 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.

A handwritten signature in black ink that reads "Darrell L. Keller, CPA, PA". The signature is written in a cursive style with a large initial 'D'.

Darrell L. Keller, CPA, PA  
Kings Mountain, North Carolina  
October 23, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133  
AND THE STATE SINGLE AUDIT IMPLEMENTATION ACT**

To the Board of Directors  
Lake Lure Classical Academy  
Lake Lure, North Carolina

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

I have audited Lake Lure Classical Academy, Lake Lure, North Carolina'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 Lake Lure Classical Academy, Lake Lure, North Carolina's major state programs for the year ended June 30, 2015. Lake Lure Classical Academy, Lake Lure, North Carolina's major state programs are 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 state programs.

***Auditor's Responsibility***

My responsibility is to express an opinion on compliance for each of Lake Lure Classical Academy, Lake Lure, North Carolina's major state programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable sections of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that I 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 Lake Lure Classical Academy, Lake Lure, North Carolina's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major state program. However, my audit does not provide a legal determination of Lake Lure Classical Academy, Lake Lure, North Carolina's compliance.

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

In my opinion, Lake Lure Classical Academy, Lake Lure, North Carolina, 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, 2015.

**Report on Internal Control Over Compliance**

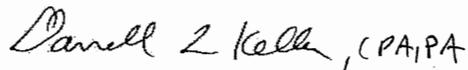
Management of Lake Lure Classical Academy, Lake Lure, North Carolina, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered Lake Lure Classical Academy, Lake Lure, North Carolina's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing my opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

Accordingly, I do not express an opinion on the effectiveness of Lake Lure Classical Academy, Lake Lure, North Carolina'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 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 a 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.

My 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 material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I 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 my testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Darrell L. Keller, CPA, PA  
Kings Mountain, North Carolina  
October 23, 2015

LAKE LURE CLASSICAL ACADEMY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- |  |        |                  |
|--|--------|------------------|
| * Material weaknesses(es) identified?  | ___Yes | _X_No            |
| * Significant Deficiency(s) identified that are not considered to be material weaknesses | ___Yes | _X_None reported |
| Noncompliance material to financial statements notes                                     | ___Yes | _X_No            |

Federal Awards

There were no major federal programs.

State Awards

Internal control over major State programs:

- |  |        |                  |
|--|--------|------------------|
| * Material weakness(es) identified?  | ___Yes | _X_No            |
| * Significant Deficiency(s) 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 |
|--|--------|-------|

Identification of major State programs:

Program Name

State Public School Fund

LAKE LURE CLASSICAL ACADEMY  
SCHEDULE OF FINDINGS AND QUESTIONED COST  
FISCAL YEAR ENDED JUNE 30, 2015

Section II – Financial Statement Findings

None reported

Section III – Federal Award Findings and Questioned Costs

None reported

Section IV-State Award Findings and Questioned Costs

None reported

LAKE LURE CLASSICAL ACADEMY  
SUMMARY SCHEDULE OF PRIOR AUDITING FINDINGS  
YEARS ENDED JUNE 30

Finding: None

Status: N/A

LAKE LURE CLASSICAL ACADEMY  
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	Federal CFDA Number	State Pass-through Grantor's Number	Expenditures
Federal Grants			
Cash Assistance:			
<u>U.S. Department of Education</u>			
<u>Office of Elementary and Secondary Education</u>			
Passed-through the N.C. Department of Public Instruction:			
Special Education Cluster:			
Special education-Grants to States (IDEA, Part B)_			
Education of the handicapped	84.027	PRC 060	\$ 46,109
Special Needs Targeted Assistance	84.027	PRC 118	137
Total Special Education Cluster			46,246
Rural Education Achievement	84.351	PRC 091	3,270
Rural Education Achievement	84.358(a)		45,923
Total Federal Grants			\$ 95,439
State Grants:			
Cash Assistance:			
<u>N.C. Department of Public Instruction:</u>			
State Public School Fund (Charter Schools)			\$ 2,097,549
Total State Grants			\$ 2,097,549
TOTAL FEDERAL AND STATE ASSISTANCE			\$ 2,192,988

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

1. Basis of Presentation  
The accompanying schedule of expenditures of federal and State awards include the federal and State grant activity of Lake Lure Classical Academy and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the State Single Audit Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.