



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

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**LAKE LURE CLASSICAL ACADEMY  
FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2016**

**(704) 739-0771**

**Lake Lure Classical Academy**  
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as of June 30, 2016

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# **Financial Section**

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Lake Lure Classical Academy  
Lake Lure, 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 Lake Lure Classical Academy, Lake Lure, North Carolina as of and for the year ended June 30, 2016, 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***

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 Lake Lure Classical Academy, Lake Lure, North Carolina, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

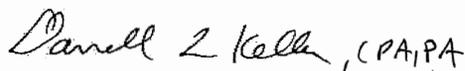
### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 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 December 6, 2016, on our consideration of Lake Lure Classical Academy, Lake Lure, North Carolina'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 Lake Lure Classical Academy, Lake Lure, North Carolina's internal control over financial reporting and compliance.

Darrell L. Keller, CPA, PA

Darrell L. Keller, CPA, PA  
Kings Mountain, North Carolina  
December 6, 2016

**Management's Discussion and Analysis**  
**Lake Lure Classical Academy**  
**June 30, 2016**

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, 2016. 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 \$473,294 (*net position*).
- The school's total net position decreased by \$279,885, 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 \$1,341,365.

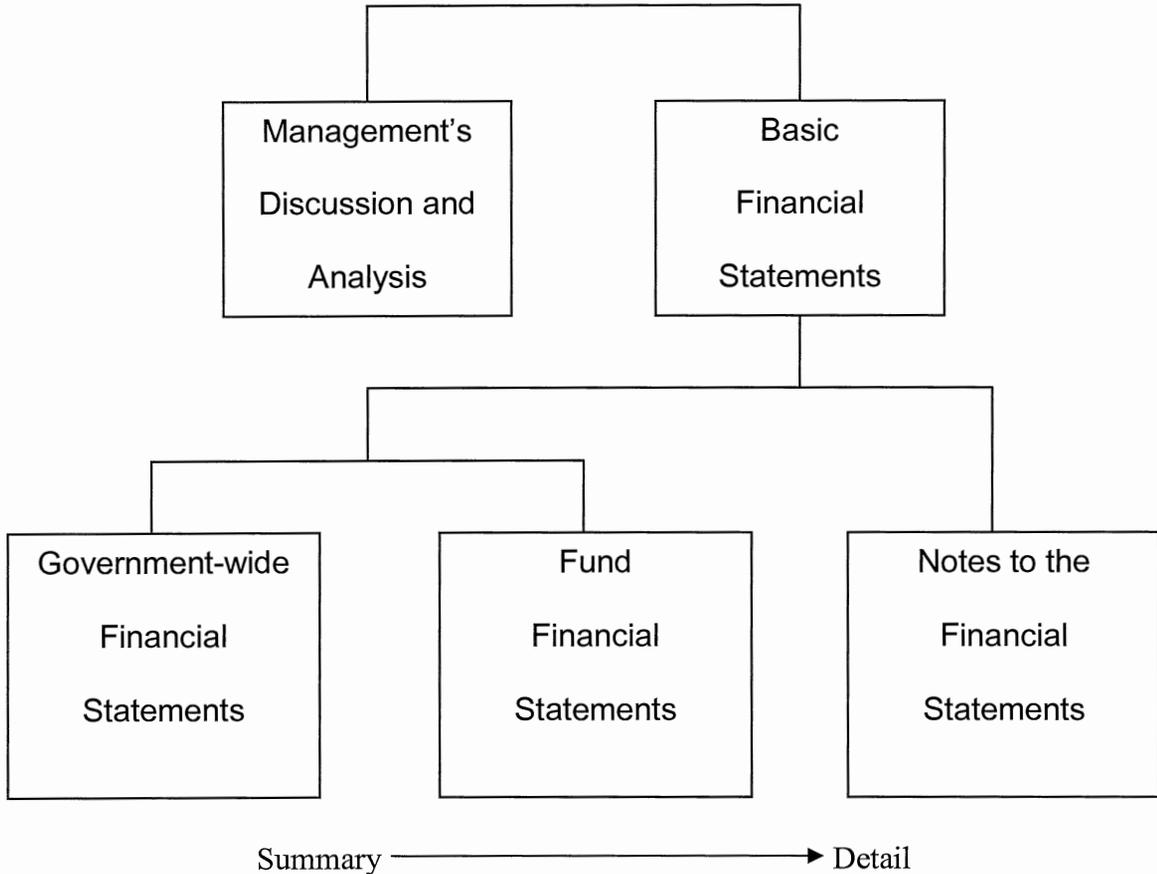
**Overview of the Financial Statements**

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, 2016**

**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, 2016**

**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 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 can be divided into two categories: governmental funds and proprietary funds.

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

**Management's Discussion and Analysis**  
**Lake Lure Classical Academy**  
**June 30, 2016**

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 one proprietary fund, which is an enterprise fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. Lake Lure Classical Academy uses an enterprise fund to account for its before and after school care functions.

**Notes to the Financial Statements** – The notes provide additional information essential to facilitating a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 19 of this report.

**Government-Wide Financial Analysis**

As noted earlier, net 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 \$473,294 as of June 30, 2016. The School's net position decreased by \$279,885 for the fiscal year ended June 30, 2016. One of the largest portions (\$534,712) 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 for capital outlay and debt service in the amount of \$1,052,711. The remaining balance of \$172,648 is unrestricted. In 2015, the amount of net investment in capital assets was (\$565,214), with unrestricted net position standing at \$172,648.

**Management's Discussion and Analysis**  
**Lake Lure Classical Academy**  
**June 30, 2016**

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

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 1,547,546	\$ 3,698,525	\$ -	\$ -	\$ 1,547,546	\$ 3,698,525
Due from other governments	80,814	36,795	-	-	80,814	36,795
Capital assets, net of depreciation	8,032,929	7,184,541	-	-	8,032,929	7,184,541
Total Assets	<u>9,661,289</u>	<u>10,919,861</u>	<u>-</u>	<u>-</u>	<u>9,661,289</u>	<u>10,919,861</u>
Other Liabilities & deferred inflows	286,995	1,271,182	-	-	286,995	1,271,182
Long-term Liabilities outstanding	8,901,000	8,895,500	-	-	8,901,000	8,895,500
Total Liabilities	<u>9,187,995</u>	<u>10,166,682</u>	<u>-</u>	<u>-</u>	<u>9,187,995</u>	<u>10,166,682</u>
Net Position:						
Net investment in capital assets	\$ (534,712)	\$ (565,214)	\$ -	\$ -	\$ (534,712)	\$ - 565,214
Restricted for School Capital Outlay	1,052,711	1,145,745	-	-	1,052,711	1,145,745
Unrestricted	- 44,705	172,648	-	-	- 44,705	172,648
Total net position	<u>\$ 473,294</u>	<u>\$ 753,179</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 473,294</u>	<u>\$ 753,179</u>

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 completed the new facility in time for the opening of the 2015-16 school year.

**Management's Discussion and Analysis**  
**Lake Lure Classical Academy**  
**June 30, 2016**

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

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Donations and Other Revenues	\$1,903	\$ 149,671	\$ -	\$ -	\$1,903	\$ 149,671
Charges for Services	-	-	2,676	-	2,676	-
County, State, and Federal Funds	3,252,251	2,778,334	-	-	3,252,251	2,778,334
<b>Total revenues</b>	<b>3,254,154</b>	<b>2,928,005</b>	<b>2,676</b>	<b>-</b>	<b>3,256,830</b>	<b>2,928,005</b>
Instructional Programs	2,269,609	2,007,762	-	-	2,269,609	2,007,762
Support services	656,843	1,176,021	-	-	656,843	1,176,021
Interest on long-term debt	604,893	3,729	-	-	604,893	3,729
Child Care Expenses	-	-	5,370	-	5,370	-
<b>Total expenses</b>	<b>3,531,345</b>	<b>3,187,512</b>	<b>5,370</b>	<b>-</b>	<b>3,536,715</b>	<b>3,187,512</b>
Increase in net position:	\$ (277,191)	(259,507)	\$ (2,694)	-	\$ (279,885)	\$ (259,507)
Transfers	(2,694)	-	2,694	-	-	-
Net position, July 1	753,179	1,012,686	-	-	753,179	1,012,686
Net position, June 30	<b>\$ 473,294</b>	<b>\$ 753,179</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 473,294</b>	<b>\$ 753,179</b>

**Governmental activities.** Governmental activities decreased the School's net position by \$279,885.

**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 \$288,360.

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

**Management's Discussion and Analysis**  
**Lake Lure Classical Academy**  
**June 30, 2016**

**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, 2016, totals \$8,032,929 (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		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land, construction	\$ 255,000	\$ 6,991,042	\$ -	\$ -	\$ 255,000	\$ 6,991,042
Buildings	7,738,640	158,800	-	-	7,738,640	158,800
Leasehold Improvements	-	18,305	-	-	-	18,305
School Furnishings	31,371	1,500	-	-	31,371	1,500
Electronic equipment	-	-	-	-	-	-
Vehicles	7,918	14,894	-	-	7,918	14,894
<hr/>						
Total	\$ 8,032,929	\$ 7,184,541	\$ -	\$ -	\$ 8,032,929	\$ 7,184,541

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, 2016**

**Long-term Debt.** As of June 30, 2016, 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		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Note Payable-LLCEF	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Bonds Payable	9,000,000	9,000,000	-	-	9,000,000	9,000,000
<b>Total</b>	<b>\$ 9,000,000</b>	<b>\$ 9,000,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 9,000,000</b>	<b>\$ 9,000,000</b>

The Lake Lure Classical Academy's total debt remained unchanged during the past fiscal year. The debt is an issue of taxable and tax exempt bonds during the prior year. The bonds are presented on the statement of financial position net of \$99,000 bond discount at issue.

**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 completed construction of a new K-12 campus.

**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, 2016**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 491,681	\$ -	\$ 491,681
Restricted cash	1,052,711	-	1,052,711
Accounts receivable	2,860	-	2,860
Due from other governments	80,814	-	80,814
Prepaid Expenses	294	-	294
Capital assets (Note 1):			
Land, improvements, and construction in progress	255,000	-	255,000
Other capital assets, net of depreciation	7,777,929	-	7,777,929
Total capital assets	8,032,929	-	8,032,929
Total assets	9,661,289	-	9,661,289
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	269,650	-	269,650
Long-term liabilities:			
Bonds payable (net of bond discount):			
Due within one year	-	-	-
Due in more than one year	8,901,000	-	8,901,000
Total liabilities	9,170,650	-	9,170,650
<b>DEFERRED INFLOWS OF RESOURCES</b>	17,345	-	17,345
<b>NET POSITION</b>			
Net investment in capital assets	(534,712)	-	(534,712)
Restricted for School Capital Outlay	1,052,711	-	1,052,711
Unrestricted	(44,705)	-	(44,705)
Total net position	\$ 473,294	\$ -	\$ 473,294

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, 2016**

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	\$ 2,269,609	\$ -	\$ -	\$ -	\$ (2,269,609)	\$ -	\$ (2,269,609)
Support services	656,843	-	-	-	(656,843)	-	(656,843)
Interest expense	604,893	-	-	-	(604,893)	-	(604,893)
Total governmental activities	<u>3,531,345</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,531,345)</u>	<u>-</u>	<u>(3,531,345)</u>
Business-type Activities:							
Before and After School Care	5,370	2,676	-	-	-	(2,694)	(2,694)
Total Primary Government	<u>\$ 3,536,715</u>	<u>\$ 2,676</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(3,531,345)</u>	<u>(2,694)</u>	<u>(3,534,039)</u>
General revenues:							
Unrestricted county appropriations					665,619	-	665,619
Unrestricted State appropriations					2,490,588	-	2,490,588
Unrestricted Federal appropriations					96,044	-	96,044
Donations - general					82,682	-	82,682
Loss on abandonment of assets					(170,889)	-	(170,889)
Transfers					(2,694)	2,694	-
Miscellaneous, unrestricted					90,110	-	90,110
Total general revenues, special items, and transfers					<u>3,251,460</u>	<u>2,694</u>	<u>3,254,154</u>
Change in net position					(279,885)	-	(279,885)
Net position-beginning					753,179	-	753,179
Net position-ending					<u>\$ 473,294</u>	<u>\$ -</u>	<u>\$ 473,294</u>

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

**Lake Lure Classical Academy  
Balance Sheet  
Governmental Funds  
June 30, 2016**

	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	\$ 491,681	\$ -	\$ -	\$ -	\$ 491,681
Restricted cash	719,352	-	333,359	-	1,052,711
Accounts receivable	2,860	-	-	-	2,860
Due from other governments	80,814	-	-	-	80,814
Prepaid expenses	294	-	-	-	294
Total assets	<u>\$ 1,295,001</u>	<u>\$ -</u>	<u>\$ 333,359</u>	<u>\$ -</u>	<u>\$ 1,628,360</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable and accrued liabilities	\$ 269,650	\$ -	\$ -	\$ -	\$ 269,650
Payroll Taxes Payable	-	-	-	-	-
Total liabilities	<u>269,650</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>269,650</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unearned grant revenue	17,345	-	-	-	17,345
	<u>17,345</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,345</u>
Fund balances:					
Nonspendable:					
Prepaid Expenses	294	-	-	-	294
Restricted					
School Capital Outlay	-	-	333,359	-	333,359
Debt Service	719,352	-	-	-	719,352
Unassigned, General Fund	288,360	-	-	-	288,360
Total fund balances	<u>1,008,006</u>	<u>-</u>	<u>333,359</u>	<u>-</u>	<u>1,341,365</u>
Total liabilities and fund balances	<u>\$ 1,295,001</u>	<u>\$ -</u>	<u>\$ 333,359</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.	8,032,929
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).	(8,901,000)
Net position of governmental activities	<u>\$ 473,294</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, 2016**

	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	\$ -	\$ 2,490,588	\$ -	\$ -	\$ 2,490,588
Buncombe County	10,579	-	-	-	10,579
Cleveland County	1,285	-	-	-	1,285
Henderson County	164,461	-	-	-	164,461
McDowell County	3,497	-	-	-	3,497
Polk County	168,841	-	-	-	168,841
Rutherford County	316,956	-	-	-	316,956
U.S. Government	34,882	-	-	61,162	96,044
Fines and Forfeitures	9,868	-	-	-	9,868
Contributions and donations	82,682	-	-	-	82,682
Other	79,953	-	289	-	80,242
Total revenues	873,004	2,490,588	289	61,162	3,425,043
<b>EXPENDITURES</b>					
<b>Current:</b>					
Instructional services:	207,045	1,996,416	-	61,162	2,264,623
System-wide support services	84,123	461,570	-	-	545,693
<b>Capital outlay:</b>	81,988	-	1,053,425	-	1,135,413
<b>Debt service:</b>					
Principal	-	-	-	-	-
Interest and other charges	337,754	32,602	229,037	-	599,393
Total expenditures	710,910	2,490,588	1,282,462	61,162	4,545,122
Excess (deficiency) of revenues over expenditures	162,094	-	(1,282,173)	-	(1,120,079)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers (to) from other funds	(472,481)	-	469,787	-	(2,694)
Bond discount	-	-	-	-	-
Loan proceeds	-	-	-	-	-
Total other financing sources (uses)	(472,481)	-	469,787	-	(2,694)
Net change in fund balance	(310,387)	-	(812,386)	-	(1,122,773)
Fund balances-beginning	1,318,393	-	1,145,745	-	2,464,138
Fund balances-ending	\$ 1,008,006	\$ -	\$ 333,359	\$ -	\$ 1,341,365

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, 2016**

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

Net changes in fund balances - total governmental funds	\$ (1,122,773)
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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	1,019,278
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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.	-
--	---

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.	
Loss on abandonment of assets	(170,889)
Amortization	(5,500)
Rounding	(1)
	(176,390)

Total changes in net position of governmental activities	\$ (279,885)
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The notes to the financial statements are an integral part of this statement.

**Lake Lure Classical Academy  
Statement of Net Assets  
Proprietary Funds  
June 30, 2016**

**Enterprise Funds**

Major Fund		Total
Child Care		Total

**ASSETS**

Current assets:		
Cash and cash equivalents	\$ -	\$ -
Receivables (net)	-	-
Due from other funds	-	-
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 and accrued expenses	\$ -	\$ -
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	\$ -	\$ -

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

**Lake Lure Classical Academy**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Proprietary Funds**  
**For the year ended June 30, 2016**

	Enterprise Funds	
	Major Fund Child Care	Total
<b>OPERATING REVENUES</b>		
Child care fees	\$ 2,676	\$ 2,676
Total operating revenues	2,676	2,676
<b>OPERATING EXPENSES</b>		
Salaries and benefits	4,929	4,929
Materials and supplies	441	441
Other	-	-
Total operating expenses	5,370	5,370
Operating income (loss)	(2,694)	(2,694)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Federal reimbursements	-	-
Total nonoperating revenue	-	-
(expenses)	-	-
Income (loss) before		
contributions and transfers	(2,694)	(2,694)
Capital contributions	-	-
Transfers from (to) other funds	2,694	2,694
Change in net position	-	-
Total net position - beginning	-	-
Total net position - ending	\$ -	\$ -

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

**Lake Lure Classical Academy  
Statement of Cash Flows  
Proprietary Funds  
For the year ended June 30, 2016**

<b>Enterprise Funds</b>				
		<b>Major Fund</b>		
		<b>Child Care</b>	<b>Total</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers	\$	2,676	\$	2,676
Cash paid for goods and services		(441)		(441)
Cash paid to employees for services		(4,929)		(4,929)
		(2,694)		(2,694)
<b>Net cash provided (used) by operating activities</b>				
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Federal reimbursements		-		-
		-		-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Transfers		2,694		2,694
Change in due to/from other funds		-		-
Acquisition of capital assets		-		-
		-		-
Net cash (used) by capital and related financing activities		2,694		2,694
		2,694		2,694
<b>Net increase (decrease) in cash and cash equivalents</b>				
		-		-
Balances-beginning of the year		-		-
Balances-end of the year	\$	-	\$	-
		-		-
		-		-
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$	(2,694)	\$	(2,694)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation		-		-
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable		-		-
Increase (decrease) in accounts payable and accrued liabilities		-		-
		-		-
Total adjustments		-		-
Net cash provided by operating activities	\$	(2,694)	\$	(2,694)
		(2,694)		(2,694)
		(2,694)		(2,694)

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, 2016

### 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 426 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 reports the following enterprise fund:

*Before and After School Care Fund.* The Before and After School Care Fund is used to account for the before, after school, and summer day care program within the school system.

### 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, 2016. 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. All cash and investments with original maturities of three months or less are considered cash and cash equivalents. The School does not have a deposit policy for custodial credit risk.

##### 3. Restricted Cash

Restricted cash consists of \$333,359 of unspent bond proceeds and \$719,352 restricted for debt service.

##### 4. Prepaid Items

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

## 5. 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 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

## 6. 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*.

## 7. 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.

#### 8. 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.

#### 9. 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.

10. 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 (\$868,071) 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).	\$8,190,332
Less accumulated depreciation	(157,403)
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	(8,901,000)
Liabilities for earned revenues considered deferred inflows of resources	-
Accrued interest payable	-
Total adjustment	<b><u>(\$868,071)</u></b>

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, 2016, 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 \$842,888 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.	\$1,135,413
Depreciation expense that is recorded on the statement of activities but not in the fund statements.	(116,135)
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.	-
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.	-
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).	-
Loss on abandonment of assets	(170,889)
Rounding	(1)
Total	<u>\$842,888</u>

**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, 2016, the School had deposits with banks and savings and loans with a carrying amount of \$1,544,392. The bank balance with the financial institutions was \$1,573,172, of which \$500,000 was covered by federal depository insurance.

##### 2. Capital Assets

Capital asset activity for the year ended June 30, 2016, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land, Construction in Progress	\$ 6,991,042	\$ 1,100,555	\$ 7,836,597	\$ 255,000
Capital assets being depreciated:				
Buildings	178,932	7,836,597	178,932	7,836,597
Leasehold Improvements	26,145	-	26,145	-
Vehicles	48,878	-	-	48,878
School furnishings & equipment	15,000	34,857	-	49,857
Electronic equipment	17,150	-	17,150	-
Total capital assets being depreciated	286,105	7,871,454	222,227	7,935,332
Less accumulated depreciation for:				
Buildings	20,132	102,431	24,606	97,957
Leasehold Improvements	7,840	1,742	9,582	-
Vehicles	33,984	6,976	-	40,960
School furnishings & equipment	13,500	4,986	-	18,486
Electronic equipment	17,150	-	17,150	-
Total accumulated depreciation	92,606	\$ 116,135	\$ 51,338	157,403
Total capital assets being depreciated, net	193,499			7,777,929
Governmental activity capital assets, net	<u>\$ 7,184,541</u>			<u>\$ 8,032,929</u>

Depreciation expense was charged to governmental functions as follows:

Instructional programs	\$4,986
Supporting services	111,149
	<u>\$116,135</u>

Business-Type Activities: There are no capital assets at June 30, 2016 in the business-type activities.

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 \$59,562 to the plan for the year ended June 30, 2016.

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. 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)	\$17,345

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)].

## 5. Claims and Judgments

At June 30, 2016, the School was not involved in any legal proceedings.

## 6. Long-Term Obligations

### a. Changes in General Long-Term Obligations

In the 2014-15 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, 2016:

	Balance			Balance		Current
Governmental activities:	July 1, 2015	Increases	Decreases	June 30, 2016		Portion
Note payable-LLCEF	\$ -	\$ -	\$ -	\$ -	\$ -	-
Bond discount	(104,500)	-	(5,500)	(99,000)	-	-
Bond payable	9,000,000	-	-	9,000,000	-	-
<b>Total</b>	<b>\$ 8,895,500</b>	<b>\$ -</b>	<b>\$ (5,500)</b>	<b>\$ 8,901,000</b>	<b>\$ -</b>	<b>-</b>

The future debt payments are scheduled as follows:

	Principal	Interest
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
June 30, 2021	140,000	564,988
2022-2026	855,000	2,683,819
2027-2031	1,120,000	2,400,750
2032-2036	1,505,000	2,008,325
2037-2041	2,065,000	1,414,875
2042-2046	2,955,000	501,725
	<b>\$ 9,000,000</b>	<b>\$ 11,930,432</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, 2016 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 has a ratio of 1.02 to 1 and the School is not in compliance with this covenant. The bank has granted a waiver of this covenant for the 2016 fiscal year.

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	\$ 3,534,021
Less Depreciation	(116,135)
Less Amortization	(5,500)
Operating Expenses for covenant calculation	3,412,386
Divided by days in year	365
Cash on hand per day	9,349
Times number of days	45
Minimum cash on hand per loan covenant	\$ 420,705
Actual unrestricted cash on hand	\$ 491,681

The School has met this covenant for the year ended June 30, 2016.

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 operated in prior years. The initial lease term ends June 2019. Effective July 1, 2015 the rent is being 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. Inter-fund Transfer

The School's general fund transferred \$469,787 to the School's capital project fund during the year ended June 30, 2016. The School's general fund also transferred \$2,694 to the School's Before and After School Care fund to cover operating expenses.

#### D. 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.

<u>Total fund balance</u>	<u>\$ 1,341,365</u>
Less:	
Prepaid Items	294
Appropriated Fund Balance in 2017 budget	-
Restricted for capital outlay	333,359
Restricted for debt service	719,352
Remaining Fund Balance	<u>\$ 288,360</u>

#### E. Net Investment in Capital Assets

Capital Assets, net of depreciation	\$ 8,032,929
Debt	(8,901,000)
Unspent Bond Proceeds	333,359
Accounts Payable-related to capital outlay	-
	<u>\$ (534,712)</u>

#### **IV. 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.

**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, 2016**

	2016		Favorable (Unfavorable) Variance
	Final Budget	Actual	
<b>Revenues:</b>			
State of North Carolina	\$ 2,506,403	\$ 2,490,588	\$ (15,815)
Board(s) of Education:			
Buncombe County	10,579	10,579	-
Cleveland County	1,285	1,285	-
Henderson County	164,461	164,461	-
McDowell County	3,497	3,497	-
Polk County	168,841	168,841	-
Rutherford County	316,956	316,956	-
U.S. Government	102,124	96,044	(6,080)
Fines and forfeitures	9,893	9,868	(25)
Donations	95,477	82,682	(12,795)
Others	79,488	80,242	754
Before and After School Revenue	2,676	2,676	-
Total	<u>3,461,680</u>	<u>3,427,719</u>	<u>(33,961)</u>
<b>Expenditures:</b>			
Current:			
Instructional program Services:			
Regular curricular services	1,881,795	1,781,401	100,394
Special populations services	177,834	176,999	835
School Leadership Services	184,710	184,002	708
Co-Curricular Services	55,694	53,374	2,320
School-Based Support Services	68,868	68,847	21
Total instructional programs	<u>2,368,901</u>	<u>2,264,623</u>	<u>104,278</u>
System-wide support services:			
Support and development services		-	
Special population support and development services		-	
Technology Support Services	11,675	1,445	10,230
Operational Support Services	342,341	307,099	35,242
Financial and human resource services	146,084	145,538	546
Policy, Leadership and Public Relations Services	92,111	91,611	500
Total supporting services	<u>592,211</u>	<u>545,693</u>	<u>46,518</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, 2016

	2016		Favorable (Unfavorable) Variance
	Final Budget	Actual	
Before and After School Care:			
Salaries and benefits	5,078	4,929	149
Materials and supplies	750	441	309
	<u>5,828</u>	<u>5,370</u>	<u>458</u>
Capital outlay	-	1,135,413	(1,135,413)
Debt service:			
Principal	90,000	-	90,000
Interest and other charges	391,165	599,393	(208,228)
Total debt service	<u>481,165</u>	<u>599,393</u>	<u>(118,228)</u>
Total expenditures	<u>3,448,105</u>	<u>4,550,492</u>	<u>(1,102,387)</u>
Other financing sources (uses):			
Transfers out	-	(472,481)	(472,481)
Transfers in	-	472,481	472,481
Bond discount	-	-	-
Loan Proceeds	-	-	-
Total other financing sources and (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenue over expenditures	<u>\$ 13,575</u>	<u>\$ (1,122,773)</u>	<u>\$ (1,136,348)</u>

**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

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 Lake Lure Classical Academy, Lake Lure, North Carolina, as of and for the year ended June 30, 2016, 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 our report thereon dated December 6, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we 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 our 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, we 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.

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 Lake Lure Classical Academy, Lake Lure, North Carolina's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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

A handwritten signature in cursive script that reads "Darrell L Keller, CPA, PA".

Darrell L. Keller, CPA, PA  
Kings Mountain, North Carolina  
December 6, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE  
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**

We 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, 2016. 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***

Our 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 our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 Lake Lure Classical Academy, Lake Lure, North Carolina'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 Lake Lure Classical Academy, Lake Lure, North Carolina's compliance.

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

In our 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, 2016.

**Report on Internal Control Over Compliance**

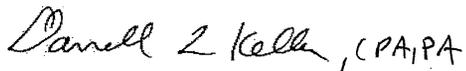
Management of Lake Lure Classical Academy, Lake Lure, North Carolina, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Lake Lure Classical 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 our opinion on compliance for each major state program and to test and report on internal control over compliance in accordance

with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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.

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 material weaknesses or significant deficiencies. 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.



Darrell L. Keller, CPA, PA  
Kings Mountain, North Carolina  
December 6, 2016

LAKE LURE CLASSICAL ACADEMY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

- \* Material weaknesses(es) identified?  Yes  No
- \* Significant Deficiency(s) identified that are not considered to be material weaknesses  Yes  None reported
- Noncompliance material to financial statements notes  Yes  No

Federal Awards

There were no major federal programs.

State Awards

Internal control over major State programs:

- \* Material weakness(es) identified?  Yes  No
- \* Significant Deficiency(s) identified that are not considered to be material weaknesses  Yes  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  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, 2016

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, 2016

	Federal CFDA Number	State Pass-through Grantor's Number	Expenditures
Federal Grants			
Cash Assistance:			
<u>U.S. Department of Education</u>			
<u>Rural Education</u>	84.358A	PRC 341	\$ 34,882
<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	\$ 59,354
Special Needs Targeted Assistance	84.027	PRC 118	102
Total Special Education Cluster			59,456
Rural Education Achievement	84.351	PRC 091	1,706
Total Federal Grants			\$ 96,044
State Grants:			
Cash Assistance:			
<u>N.C. Department of Public Instruction:</u>			
State Public School Fund (Charter Schools)			\$ 2,490,588
Total State Grants			\$ 2,490,588
TOTAL FEDERAL AND STATE ASSISTANCE			\$ 2,586,632

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 (SEFSA) include the federal and State grant activity of Lake Lure Classical Academy under the programs of the federal government and the State Of North carolina for the year ended June 30, 2016. The Information in this SEFSA is presented in accordance with the requirements of Title 2 US Code of Federal Regulations Part 200, Uniform Administratvie 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 Lake Lure Classical Academy, it is not intended to and does not present the financial position, changes in net position, or cash flows of Lake Lure Classical Academy.
  
2. Summary of Significant Accounting Policies  
Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained In Uniform Guidance, wherein certain types of expenditures are not allowable or are limited.