



Darrell L. Keller, CPA, PA

**PINNACLE CLASSICAL ACADEMY
FINANCIAL STATEMENTS
FROM INCEPTION MAY 1, 2013 TO JUNE 30, 2014**

(704) 739-0771

Pinnacle Classical Academy

Table of Contents

June 30, 2014

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
	Corrective Action Plan	36
	Schedule of Prior Audit Findings	37
	Schedule of Expenditures of Federal and State Awards	38

Financial Section

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Pinnacle Classical Academy
Shelby, North Carolina

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities and each major fund of Pinnacle Classical Academy, Shelby, North Carolina as of and for the period from inception May 1, 2013 through June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 Pinnacle Classical Academy, Shelby, North Carolina, as of and for the period from inception May 1, 2013 through June 30, 2014, 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.

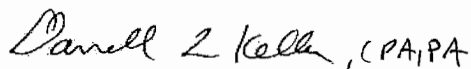
Supplementary and Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pinnacle Classical Academy, Shelby, 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 February 5, 2015, on my consideration of Pinnacle Classical Academy, Shelby, 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 Pinnacle Classical Academy, Shelby, North Carolina's internal control over financial reporting and compliance.

Darrell L. Keller, CPA, PA

Darrell L. Keller, CPA, PA
Kings Mountain, North Carolina
February 5, 2015

Management's Discussion and Analysis
Pinnacle Classical Academy
June 30, 2014

As management of Pinnacle Classical Academy, we offer readers of Pinnacle Classical Academy's audited financial statements this narrative overview and analysis of the financial activities of Pinnacle Classical Academy for the period from inception May 1, 2013 to June 30, 2014. 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 Pinnacle Classical Academy exceeded its liabilities and deferred inflows at the close of the fiscal year by \$883,710 (*net position*).
- The school's total net position increased by \$883,710, primarily due to increases in the governmental activities net position.
- As of the close of the current fiscal year, Pinnacle Classical Academy's governmental funds reported combined ending fund balances of \$227,637.

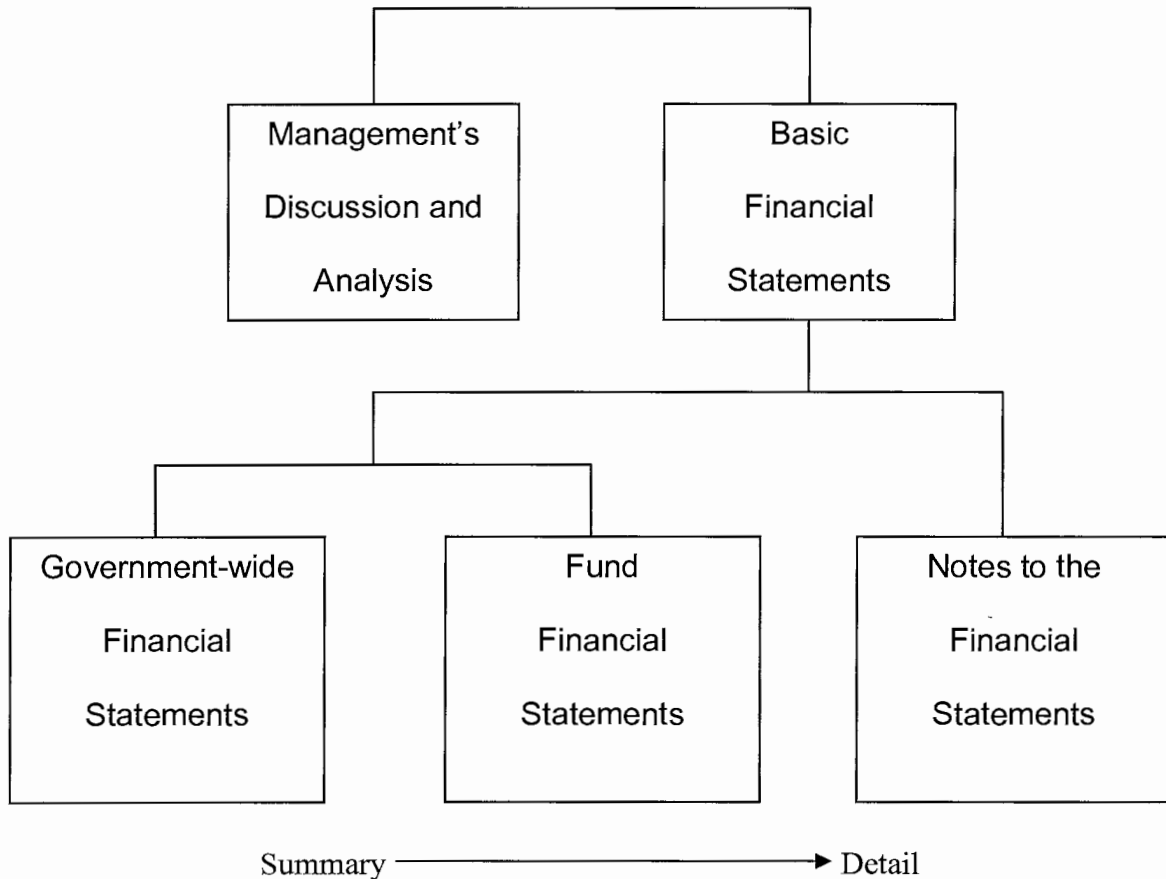
Overview of the Financial Statements

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

Management's Discussion and Analysis
Pinnacle Classical Academy
June 30, 2014

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
Pinnacle Classical Academy
June 30, 2014

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. Pinnacle 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 Pinnacle 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
Pinnacle Classical Academy
June 30, 2014

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 – Pinnacle 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 Pinnacle Classical Academy exceeded liabilities and deferred inflows of resources by \$883,710 as of June 30, 2014. The School's net position increased by \$883,710 for the fiscal year ended June 30, 2014. One of the largest portions \$656,073 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. Pinnacle Classical Academy uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although Pinnacle 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 remaining balance of \$227,637 is unrestricted.

Management's Discussion and Analysis
Pinnacle Classical Academy
June 30, 2014

Figure 2
Pinnacle Classical Academy's Net Position

	Governmental Activities		Total	
	2014	2013	2014	2013
Current and other assets	\$ 235,341	\$ -	\$ 235,341	\$ -
Due from other governments	43,004	-	43,004	-
Capital assets, net of depreciation	723,873	-	723,873	-
Total Assets	<u>1,002,218</u>	<u>-</u>	<u>1,002,218</u>	<u>-</u>
Other Liabilities	50,708	-	50,708	-
Long-term Liabilities outstanding	67,800	-	67,800	-
Total Liabilities	<u>118,508</u>	<u>-</u>	<u>118,508</u>	<u>-</u>
Net Position:				
Net investment in capital assets	656,073	-	656,073	-
Unrestricted	227,637	-	227,637	-
Total net position	<u>\$ 883,710</u>	<u>\$ -</u>	<u>\$ 883,710</u>	<u>\$ -</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 federal grants to assist with meeting the educational needs of the student population.

**Management's Discussion and Analysis
Pinnacle Classical Academy
June 30, 2014**

**Figure 3
Pinnacle Classical Academy's Changes in Net Position**

	Governmental Activities		Total	
	2014	2013	2014	2013
Donations and Other Revenues	\$591,862	\$ -	\$ 591,862	\$ -
Charges for Services	-	-	-	-
County, State, and Federal Funds	2,027,584	-	2,027,584	-
Total revenues	2,619,446	-	2,619,446	-
Instructional Services	1,390,241	-	1,390,241	-
System-wide support services	345,014	-	345,014	-
School food service	-	-	-	-
Child care	-	-	-	-
Interest on long-term debt	481	-	481	-
Total expenses	1,735,736	-	1,735,736	-
Increase in net position before transfers	883,710	-	883,710	-
Transfers	-	-	-	-
Increase in net position:	883,710	-	883,710	-
Net position, July 1	-	-	-	-
Net position, June 30	\$883,710	\$ -	\$ 883,710	\$ -

Governmental activities. Governmental activities increased the School's net position by \$883,710.

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

Financial Analysis of the School's Funds

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

Governmental Funds. The focus of Pinnacle 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 Pinnacle Classical Academy's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

Management's Discussion and Analysis
Pinnacle Classical Academy
June 30, 2014

The general fund is the chief operating fund of Pinnacle Classical Academy. At the end of the current fiscal year, unassigned fund balance was \$209,719.

Proprietary Funds. The School has no proprietary funds.

Capital Asset and Debt Administration

Capital assets. Pinnacle Classical Academy's investment in capital assets for its governmental activities as of June 30, 2014, totals \$723,873 (net of accumulated depreciation). Capital assets include leasehold improvements, instructional equipment, and vehicles.

Figure 4
Pinnacle Classical Academy's Capital Assets
(net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land and CIP	\$ 597,643	\$ -	\$ -	\$ -	\$ 597,643	\$ -
Leasehold Improvements	75,420	-	-	-	75,420	-
School Furnishings	-	-	-	-	-	-
Electronic equipment	50,810	-	-	-	50,810	-
Total	\$ 723,873	\$ -	\$ -	\$ -	\$ 723,873	\$ -

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
Pinnacle Classical Academy
June 30, 2014

Long-term Debt. As of June 30, 2014, the Pinnacle Classical Academy had \$67,800 long-term debt outstanding.

Figure 5
Pinnacle Classical Academy's Outstanding Debt

	Governmental Activities		Total	
	2014	2013	2014	2013
Note Payable-CF	\$ 67,800	\$ -	\$ 67,800	\$ -
Total long term obligations	<u>\$ 67,800</u>	<u>\$ -</u>	<u>\$ 67,800</u>	<u>\$ -</u>

Economic Factors

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

- The School is located in the growing area of Shelby, North Carolina.

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, Pinnacle Classical Academy, 900 S Post Road, Shelby, North Carolina 28152.

FINANCIAL STATEMENTS

Pinnacle Classical Academy
Statement of Net Position
June 30, 2014

	Primary Government	
	Governmental Activities	Total
ASSETS		
Cash and cash equivalents	\$ 217,384	\$ 217,384
Receivables (net)	39	39
Due from other governments	43,004	43,004
Prepaid expenses	17,918	17,918
Capital assets (Note 1):		
Land, improvements, and construction in progress	597,643	597,643
Other capital assets, net of depreciation	126,230	126,230
Total capital assets	<u>723,873</u>	<u>723,873</u>
Total assets	<u>1,002,218</u>	<u>1,002,218</u>
LIABILITIES		
Accounts payable and accrued expenses	48,426	48,426
Note payable	-	-
Long-term liabilities:		
Due within one year	33,286	33,286
Due in more than one year	34,514	34,514
Total liabilities	<u>116,226</u>	<u>116,226</u>
DEFERRED INFLOWS OF RESOURCES		
Unearned revenues	2,282	2,282
NET POSITION		
Net investment in capital assets	656,073	656,073
Unrestricted	227,637	227,637
Total net position	<u>\$ 883,710</u>	<u>\$ 883,710</u>

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

**Pinnacle Classical Academy
Statement of Activities
For the Period From Inception May 1, 2013 to June 30, 2014**

Functions/Programs	Program Revenues				(expense) Revenue and Changes in Net Primary Government	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
Primary government:						
Governmental Activities:						
Instructional programs	\$ 1,390,241	\$ -	\$ -	\$ -	\$ (1,390,241)	\$ (1,390,241)
Support services	345,014	-	-	-	(345,014)	(345,014)
Interest expense	481	-	-	-	(481)	(481)
Total governmental activities	1,735,736	-	-	-	(1,735,736)	(1,735,736)
General revenues:						
Unrestricted county appropriations					382,948	382,948
Unrestricted State appropriations					1,605,244	1,605,244
Unrestricted Federal appropriations					39,392	39,392
Donations - general					528,034	528,034
Miscellaneous, unrestricted					63,828	63,828
Transfers					-	-
Total general revenues, special items, and transfers					2,619,446	2,619,446
Change in net position					883,710	883,710
Net position-beginning					-	-
Net position-ending					\$ 883,710	\$ 883,710

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

**Pinnacle Classical Academy
Balance Sheet
Governmental Funds
June 30, 2014**

	Major Funds			Total Governmental Funds
	General	State Public School	Federal Grants Fund	
ASSETS				
Cash and cash equivalents	\$ 217,384	\$ -	\$ -	\$ 217,384
Accounts receivable	39	-	-	39
Due from other governments	43,004	-	-	43,004
Prepaid Expenses	17,918	-	-	17,918
Total assets	<u>\$ 278,345</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 278,345</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 48,426	\$ -	\$ -	\$ 48,426
Note Payable	-	-	-	-
Total liabilities	<u>48,426</u>	<u>-</u>	<u>-</u>	<u>48,426</u>
DEFERRED INFLOWS OF RESOURCES				
Unearned Revenues	<u>2,282</u>	<u>-</u>	<u>-</u>	<u>2,282</u>
Fund balances:				
Nonspendable:				
Prepaid Expenses	17,918	-	-	17,918
Unassigned, General Fund	209,719	-	-	209,719
Total fund balances	<u>227,637</u>	<u>-</u>	<u>-</u>	<u>227,637</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 278,345</u>	<u>\$ -</u>	<u>\$ -</u>	

Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	723,873
Liabilities for earned but unavailable revenues in fund statements.	-
Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds (Note 5).	(67,800)
Net position of governmental activities	<u>\$ 883,710</u>

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

Pinnacle Classical Academy
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Period From Inception May 1, 2013 to June 30, 2014

	Major Funds			Total Governmental Funds
	General	State Public School	Federal Grants Fund	
REVENUES				
State of North Carolina	\$ -	\$ 1,605,244	\$ -	\$ 1,605,244
Cleveland County	352,916	-	-	352,916
Gaston County	27,405	-	-	27,405
Lincoln County	1,319	-	-	1,319
Rutherford County	1,308	-	-	1,308
Fines & Forfeitures	24	-	-	24
U.S. Government	-	-	39,392	39,392
Contributions and donations	524,731	-	-	524,731
Grants	3,303	-	-	3,303
Other	63,804	-	-	63,804
Total revenues	<u>974,810</u>	<u>1,605,244</u>	<u>39,392</u>	<u>2,619,446</u>
EXPENDITURES				
Current:				
Instructional services:	90,277	1,254,926	39,392	1,384,595
System-wide support services	49,874	293,862	-	343,736
Capital outlay:	674,341	56,456	-	730,797
Debt service:				
Principal	-	-	-	-
Interest and other charges	481	-	-	481
Total expenditures	<u>814,973</u>	<u>1,605,244</u>	<u>39,392</u>	<u>2,459,609</u>
Excess (deficiency) of revenues over expenditures	<u>159,837</u>	<u>-</u>	<u>-</u>	<u>159,837</u>
OTHER FINANCING SOURCES (USES)				
Loan proceeds	67,800	-	-	67,800
Capital lease obligations issued	-	-	-	-
Total other financing sources (uses)	<u>67,800</u>	<u>-</u>	<u>-</u>	<u>67,800</u>
Net change in fund balance	<u>227,637</u>	<u>-</u>	<u>-</u>	<u>227,637</u>
Fund balances-beginning	-	-	-	-
Fund balances-ending	<u>\$ 227,637</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 227,637</u>

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

Pinnacle Classical Academy
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Period From Inception May 1, 2013 to June 30, 2014

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

Net changes in fund balances - total governmental funds	\$ 227,637
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	223,873
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	500,000
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.	(67,800)
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.	
Interest expense	<u>-</u>
Total changes in net position of governmental activities	<u>\$ 883,710</u>

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

Pinnacle Classical Academy, North Carolina

Notes to the Financial Statements

For the Period From Inception May 1, 2013 to June 30, 2014

I. Summary of Significant Accounting Policies

The accounting policies of the Pinnacle 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

Pinnacle Classical Academy is a public school operated by a local non-profit corporation, serving approximately 300 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.

Federal Grants Fund. The Federal Grants Fund includes grants from the federal government passed through the Department of Public Instruction for specifically identified programs.

The School has no enterprise fund.

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, 2014. 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>
Leasehold Improvements	30
Furniture and Office Equipment	10
Electronic equipment	5
Equipment	5

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.

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

7. Compensated Absences

The policy of the School provides for eight days of personal leave for full-time employees. Employees may not carryover any days not used during the year and unused days are not paid out.

8. Net Position/Fund Balances

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.

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 Pinnacle 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 \$2,500.

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.

Pinnacle 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 \$656,073 consists of several elements as follows:

<u>DESCRIPTION</u>	<u>AMOUNT</u>
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).	\$730,797
Less accumulated depreciation	(6,924)
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	(67,800)
Compensated absences	-
Accrued interest payable	-
Total adjustment	\$656,073

F. Revenues, Expenditures, and Expenses

1. Funding

Pinnacle 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. Mecklenburg County Board of Education) for each child attending the School except for the allocation for children with special needs and (ii) an additional amount for each child attending the School who is a child with special needs [G.S. 115C-238.29H(a)]. Additionally, the appropriate local school administrative unit(s) transfers to the School, for each student who resides in the local administrative unit and attends the charter school, an amount equal to the per pupil local current expense appropriation to the respective local school administrative unit for the fiscal year. [G.S. 115C-238.29H(b)]. For the fiscal year ended June 30, 2014, the Pinnacle Classical Academy received funding from the Board of Education for Cleveland County, Gaston County, Lincoln County, and Rutherford County.

Furthermore, Pinnacle Classical Academy has received donations of cash and/or equipment from private organizations. The cash has been used for the purchase of new equipment for the School's facilities. The School also received an in-kind contribution in the form of land valued at \$500,000 from Cleveland County.

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 \$656,073 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.	\$730,797
Depreciation expense that is recorded on the statement of activities but not in the fund statements.	(6,924)
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.	(67,800)
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).	-
Total	<u>\$656,073</u>

II. Stewardship, Compliance, and Accountability

A. Violation of State General Statutes

The School entered into several contracts that did not include the required state language regarding indebtedness of a charter school.

The School will set up procedures to review all contracts prior to signing to ensure the required state language regarding indebtedness of a charter school is included.

III. Detail Notes on All Funds

A. Assets

1. Deposits

At June 30, 2014, the School had deposits with banks and savings and loans with a carrying amount of \$217,184. The bank balance with the financial institutions was \$282,493 of which \$250,000 was covered by federal depository insurance. The School had \$200 petty cash on hand at June 30, 2014.

2. Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land, Construction in Progress	\$ -	\$ 597,643	\$ -	\$ 597,643
Capital assets being depreciated:				
Leasehold Improvements	-	76,698	-	76,698
School furnishings & equipment	-	-	-	-
Electronic equipment	-	56,456	-	56,456
Total capital assets being depreciated	-	133,154	-	133,154
Less accumulated depreciation for:				
Leasehold Improvements	-	1,278	-	1,278
School furnishings & equipment	-	-	-	-
Electronic equipment	-	5,646	-	5,646
Total accumulated depreciation	-	\$ 6,924	\$ -	6,924
Total capital assets being depreciated, net	-			126,230
Governmental activity capital assets, net	\$ -			\$ 723,873

Depreciation expense was charged to governmental functions as follows:

Instructional programs	\$5,646
Supporting services	1,278
	<u>\$6,924</u>

B. Liabilities

1. Pension Plan Obligations

a. Teachers' and State Employees Retirement Plan

Plan Description. Pinnacle Classical Academy contributes to the statewide Teachers' and State Employees Retirement System (TSERS), a cost sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. TSERS provides retirement benefits to plan members and beneficiaries. Article 1 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Teachers' and State Employees Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for TSERS. That report may be obtained by writing to the Office of the State Comptroller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute six percent of their annual covered salary and the Board is required to contribute at an actuarially determined rate. The current rate is 14.23% of annual covered payroll. The contribution requirements of plan members and Pinnacle Classical Academy are established and may be amended by the North Carolina General Assembly. The Board's contributions to TSERS for the year ended June 30, 2014 was \$112,804.

b. Post Employment Benefits

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

2. Deferred Inflows of Resources

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

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

	Unavailable
	<u>Revenues</u>
Unearned revenues-Contributions	\$2,282

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.

4. Claims and Judgments

At June 30, 2014, the School was not involved in any legal proceedings.

5. Note Payable

Changes in Note Payable

The School obtained a loan to purchase modular units from Alliance Bank & Trust. The loan is payable \$2,938.38 monthly including interest at 3.75% beginning July 10, 2014.

The following is a summary of changes in the School's notes payable for the year ended June 30, 2014:

	Balance May 1, 2013	Increases	Decreases	Balance June 30, 2014	Current Portion
Governmental activities:					
Note payable-CF	\$ -	\$ 67,800	\$ -	\$ 67,800	\$ 33,286
Total	\$ -	\$ 67,800	\$ -	\$ 67,800	\$ 33,286

The future debt payments are as follows:

	Principal	Interest	Total
June 30:			
2015	\$ 33,286	\$ 1,974	\$ 35,260
2016	34,514	704	35,218
2017	-	-	-
2018	-	-	-
2019	-	-	-
2020-2024	-	-	-
	<u>\$ 67,800</u>	<u>\$ 2,679</u>	<u>\$ 70,479</u>

b. Lease Agreements

Pinnacle Classical Academy has a lease agreement with a third party owner for the facilities in which it operates. The initial lease term ends June 30, 2015, with the right to extend the lease for one additional twelve month period. The monthly lease payment is \$12,500.

Future minimum rent payments are expected to be \$150,000 per year through June 30, 2015.

C. Fund Balance

Pinnacle 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, Pinnacle 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>	\$ 227,637
Less:	
Prepaid Items	17,918
Security Deposit	-
Remaining Fund Balance	\$ 209,719

VI. Related Party Transactions

The brother of the Vice-Chair owns a construction company that remodeled the current school facilities. The construction company also agreed to 90-120 days with no interest for payment since the School did not receive funding from the State until July. Bids were taken and the Vice-Chair abstained from the vote. The contract was for \$65,100. Total payments to the company were \$72,534 for the year.

The School also paid \$2,325 to a company owned by the board chair for printing services. The company also is a donor to the school and does printing at cost for the School.

VII. Commitments/Construction In Progress

The School entered into a purchase agreement for modular classrooms. \$48,198 was paid prior to June 30, 2014 and the remaining \$47,300 was paid subsequent to year end.

The Construction in Progress at June 30, 2014 is for the costs and installation of the above mentioned modular units.

IX. 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.

Pinnacle Classical Academy, North Carolina
All Fund Types
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Period From Inception May 1, 2013 to June 30, 2014

	2014		
	Final Budget	Actual	Favorable (Unfavorable) Variance
Revenues:			
State of North Carolina	\$ 1,620,244	\$ 1,605,244	\$ (15,000)
Board(s) of Education:			
Cleveland County	352,906	352,916	10
Gaston County	28,000	27,405	(595)
Lincoln County	1,319	1,319	-
Rutherford County	1,308	1,308	-
Fines and Forfeitures	24	24	-
U.S. Government	39,392	39,392	-
Donations	34,776	524,731	489,955
Grants	3,303	3,303	-
Others	61,515	63,804	2,289
Total	<u>2,142,787</u>	<u>2,619,446</u>	<u>476,659</u>
Expenditures:			
Current:			
Instructional services:			
Regular curricular services	1,264,765	1,047,245	(217,520)
Special populations services	111,410	94,834	(16,576)
Alternative programs and services	-	-	-
School leadership services	179,550	226,604	47,054
Co-curricular services	796	417	(379)
School-based support services	14,340	15,495	1,155
Total instructional programs	<u>1,570,861</u>	<u>1,384,595</u>	<u>186,266</u>
System-wide support services:			
Support and development services	-	-	-
Special population support and development services	-	-	-
Technology support services	43,700	32,253	11,447
Operational support services	185,299	99,908	85,391
Financial and human resource services	52,434	50,905	1,529
Policy, leadership and public relations services	162,082	160,670	1,412
Total support services	<u>443,515</u>	<u>343,736</u>	<u>99,779</u>

(continued)

(continued)

Pinnacle Classical Academy, North Carolina
All Fund Types
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Period From Inception May 1, 2013 to June 30, 2014

	2014		Favorable (Unfavorable) Variance
	Final Budget	Actual	
Capital outlay	-	730,797	(730,797)
Debt service:			
Principal	-	-	-
Interest and other charges	481	481	-
Total debt service	481	481	-
 Total expenditures	 2,014,857	 2,459,609	 (444,752)
Other financing sources (uses):			
Loan Proceeds	-	67,800	67,800
Fund Balance Appropriated	-	-	-
Total other financing sources and (uses)	-	67,800	67,800
Capital contributions	-	-	-
 Excess of revenue over expenditures	 \$ 127,930	 227,637	 \$ 99,707

**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
Pinnacle Classical Academy
Shelby, 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 Pinnacle Classical Academy, Shelby, North Carolina, as of and for the period of inception May 1, 2013 through June 30, 2014, and the related notes to the financial statements, which collectively comprise Pinnacle Classical Academy, Shelby, North Carolina's basic financial statements and have issued my report thereon dated February 5, 2015.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Pinnacle Classical Academy, Shelby, 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 Pinnacle Classical Academy, Shelby, North Carolina's internal control. Accordingly, I do not express an opinion on the effectiveness of Pinnacle Classical Academy, Shelby, 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 internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during 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 Pinnacle Classical Academy, Shelby, 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 circled 'D' at the beginning.

Darrell L. Keller, CPA, PA
Kings Mountain, North Carolina
February 5, 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
Pinnacle Classical Academy
Shelby, North Carolina

Report on Compliance for Each Major State Program

I have audited Pinnacle Classical Academy, Shelby, 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 Pinnacle Classical Academy, Shelby, North Carolina's major state programs for the period from inception May 1, 2013 through June 30, 2014. Pinnacle Classical Academy, Shelby, 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 Pinnacle Classical Academy, Shelby, 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 Pinnacle Classical Academy, Shelby, 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 Pinnacle Classical Academy, Shelby, North Carolina's compliance.

Opinion on Each Major State Program

In my opinion, Pinnacle Classical Academy, Shelby, 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 period from inception May 1, 2013 through June 30, 2014.

Other Matters

The results of my auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with applicable sections of section OMB Circular A-133 as described in the *Audit Manual for Governmental Auditors in North Carolina* and which are described in the accompanying schedule of findings and questioned costs as item 14-1. My opinion on each major state program is not modified with respect to these matters.

The Pinnacle Classical Academy, Shelby, North Carolina's response to the noncompliance finding identified in my audit is described in the accompanying schedule of findings and questioned costs. The Pinnacle Classical Academy, Shelby, North Carolina's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, I express no opinion on the response.

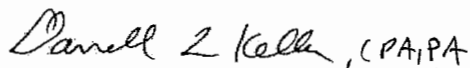
Report on Internal Control Over Compliance

Management of Pinnacle Classical Academy, Shelby, 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 Pinnacle Classical Academy, Shelby, 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 an 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 Pinnacle Classical Academy, Shelby, 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
February 5, 2015

PINNACLE CLASSICAL ACADEMY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE PERIOD FROM INCEPTION MAY 1, 2013 TO JUNE 30, 2014

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	_X_Yes	___No
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Identification of major State programs:

Program Name

State Public School Fund

PINNACLE CLASSICAL ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE PERIOD FROM INCEPTION MAY 1, 2013 TO JUNE 30, 2014

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

North Carolina Department of Public Instruction
Program Name: State Public School Fund

14-1 Non-compliance

Audit Finding

Criteria: North Carolina General Statutes require every contract or lease which a charter school enters into shall include the following sentence: "No indebtedness of any kind incurred or created by the charter school shall constitute an indebtedness of the State or its political subdivisions, and no indebtedness of the charter school shall involve or be secured by the faith, credit, or taxing power of the State or its political subdivisions."

Condition: The School did not have this sentence included in several contracts.

Effect: The School is not in compliance because the contracts did not contain the required sentence.

Cause: The School did not ensure the sentence was included in the contract.

Questioned Costs: No dollar amount is considered to be questioned costs.

Recommendation: The School should implement internal controls to ensure proper language is included in each contract.

Views of responsible officials and corrective action plan: The School agrees with this finding and will establish procedures to ensure the School complies with this requirement in future years.

PINNACLE CLASSICAL ACADEMY
CORRECTIVE ACTION PLAN
FOR THE PERIOD FROM INCEPTION MAY 1, 2013 TO
JUNE 30, 2014

Section II – Financial Statement Findings

None required

Section III – Federal Award Findings and Questioned Costs

None required

Section IV-State Award Findings and Questioned Costs

North Carolina Department of Public Instruction
Program Name: State Public School Fund

14-1 Non-compliance.

Name of Contact Person: Robert Brown, Headmaster

Corrective Action: The school will review all contracts and ensure the required language is included as a part of all contracts.

Proposed Completion Date: Immediately with ongoing monitoring.

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

Finding: None

Status: N/A

PINNACLE CLASSICAL ACADEMY
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 FOR THE PERIOD FROM INCEPTION MAY 1, 2013 TO JUNE 30, 2014

	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:			
Education of the handicapped	84.027	PRC 060	\$ 39,392
State Grants:			
Cash Assistance:			
<u>N.C. Department of Public Instruction:</u>			
State Public School Fund (Charter Schools)			\$ 1,605,244
Total State Grants			\$ 1,605,244
 TOTAL FEDERAL AND STATE ASSISTANCE			 \$ 1,644,636

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 Pinnacle 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.