

# **DLK**

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

---

**PINNACLE CLASSICAL ACADEMY**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2018**

**(704) 739-0771**

**PINNACLE CLASSICAL ACADEMY**

Table of Contents

For the Year Ended June 30, 2018

Reference	Page
<b>Financial Section</b>	
<b>Independent Auditor's Report</b>	1-2
<b>Management's Discussion and Analysis</b>	3-10
<b>Basic Financial Statements</b>	
Government-wide Financial Statements:	
1. Statement of Net Position	11
2. Statement of Activities	12
Fund Financial Statements	
<u>Governmental Funds</u>	
3. Balance Sheet	13
4. Statement of Revenues, Expenditures, and Changes in Fund Balances	14
5. Reconciliation of the Statements of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
<b>Notes to the Financial Statements</b>	16-36
<b>Required Supplementary Information</b>	
Schedule of the Proportionate Share of Net Pension Liability - TSERS	37
Schedule of Contributions - TSERS	38
Schedule of the Proportionate Share of the Net OPEB Liability – RHBF	39
Schedule of Contributions – RHBF	40
Schedule of the Proportionate Share of the Net OPEB Asset – DIPNC	41
Schedule of Contributions – DIPNC	42
Combining and Individual Fund Financial Statements and Schedules	
<u>Statement of Revenues, Expenditures, and Changes in Fund Balances-     Budget and Actual</u>	
All Fund Types	43-44

**PINNACLE CLASSICAL ACADEMY**

Table of Contents

For the Year Ended June 30, 2018

**Compliance Section**

<b>Report on Internal Control Over Financial Reporting and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards</b>	45-46
<b>Report on Compliance with Requirements Applicable to each Major Federal Program and Internal Control over Compliance in Accordance with Applicable Sections of The Uniform Guidance and the State Single Audit Implementation Act</b>	47-48
<b>Report on Compliance with Requirements Applicable to each Major State Program and Internal Control over Compliance in Accordance with Applicable Sections of The Uniform Guidance and the State Single Audit Implementation Act</b>	49-50
Schedule of Findings and Questioned Costs	51-52
Schedule of Prior Audit Findings	53
Schedule of Federal and State Expenditures	54

# **Financial Section**

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

### **Report on the Financial Statements**

We 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 year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Pinnacle 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 and each major fund of Pinnacle Classical Academy, Shelby, North Carolina, as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Change in Accounting Principle***

As described in note VI to the financial statements the School adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

## 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 and the Schedule of the Proportionate Share of the Net Pension and OPEB Liabilities (Asset) and the Schedule of Contributions on pages 37 through 42, respectively, 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.

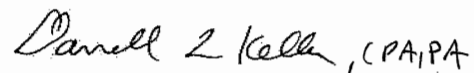
### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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 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 November 26, 2018, on our consideration of Pinnacle Classical Academy, Shelby, 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 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  
November 26, 2018

**Management's Discussion and Analysis**  
**Pinnacle Classical Academy**  
**June 30, 2018**

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 fiscal year ended June 30, 2018. 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 and deferred outflows of Pinnacle Classical Academy exceeded its liabilities and deferred inflows at the close of the fiscal year by (\$3,228,994) (*net position*).
- This negative net position is primarily due to pension and OPEB related items.
- The school's total net position decreased by \$881,984, primarily due to decreases in the governmental activities net position caused by pension and OPEB expenses.
- As of the close of the current fiscal year, Pinnacle Classical Academy's governmental funds reported combined ending fund balances of \$2,886,156.

**Overview of the Financial Statements**

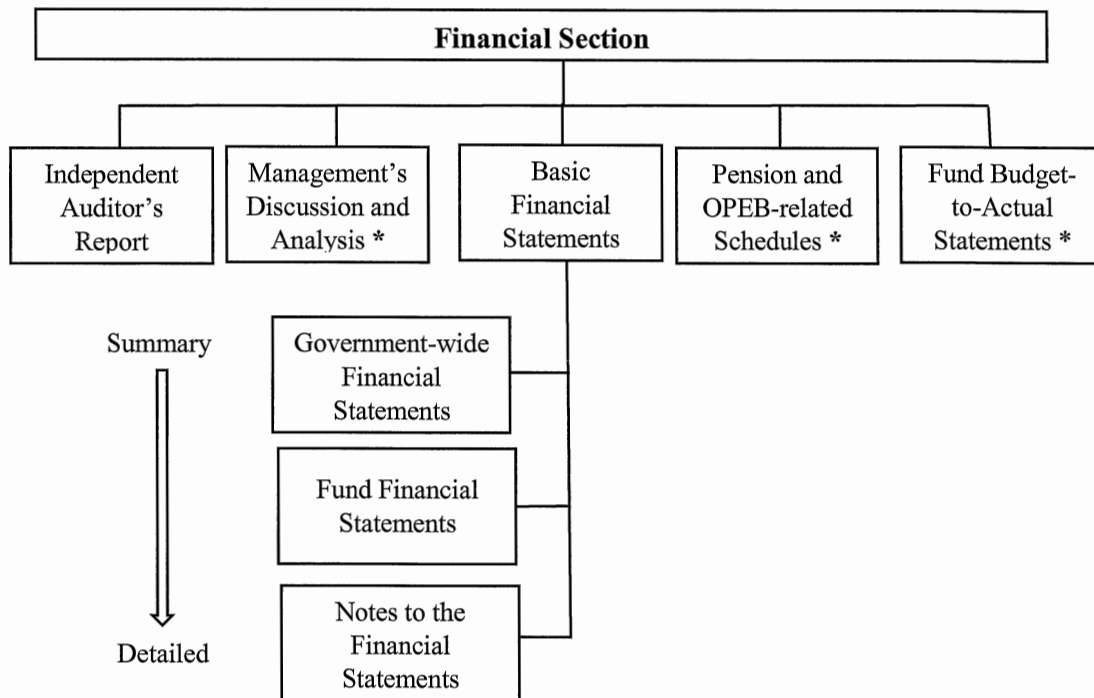
This discussion and analysis is intended to serve as an introduction to Pinnacle Classical Academy's basic financial statements. The School's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (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, the annual financial report contains the independent auditor's report, certain required supplementary information and other required schedules that provide additional information to enhance the reader's understanding of the financial position and activities of Pinnacle Classical Academy.

**Management's Discussion and Analysis  
Pinnacle Classical Academy  
June 30, 2018**

The chart in Figure 1 outlines the relationships of the components of the annual financial report.

**Components of Annual Financial Report**

**Figure 1**



\* Required Supplementary Information

**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, 2018**

**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 condensed 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. As a result, the governmental fund financial statements give the reader a detailed short term view that helps him or her determine if there are more or less financial resources available to finance the School's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation, that is a part of the fund financial statements.

**Management's Discussion and Analysis**  
**Pinnacle Classical Academy**  
**June 30, 2018**

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 and deferred outflows of Pinnacle Classical Academy exceeded liabilities and deferred inflows of resources by (\$3,228,994) as of June 30, 2018. The School's net position decreased by \$881,984 for the fiscal year ended June 30, 2018. One of the largest portions (\$273,103) 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 (\$2,955,891) is unrestricted. Also, the School implemented GASB Statement 75 this year. With the new reporting change, the School is allocated its proportionate share of the Retiree Health Benefit Fund's net OPEB liability and the Disability Income Plan of North Carolina's net OPEB Asset. As well as each OPEB's deferred outflows of resources, deferred inflows of resources, and OPEB expense. A restatement to record the effects of the new reporting guidance decreased beginning net position by \$4,462,359. Decisions regarding the allocations are made by the administrators of the OPEB plan, not by the School's management.

**Management's Discussion and Analysis  
Pinnacle Classical Academy  
June 30, 2018**

A condensed statement of net position which summarizes the assets, liabilities, deferred inflows of resources and net position at June 30, 2018 and 2017 is as follows:

**Figure 2  
Pinnacle Classical Academy's Condensed Statement of Net Position**

	Governmental Activities		Total	
	2018	2017	2018	2017
Current and other assets	\$ 3,253,422	\$ 966,687	\$ 3,253,422	\$ 966,687
Due from other governments	56,655	282,026	56,655	282,026
Capital assets, net of depreciation	12,866,039	12,314,784	12,866,039	12,314,784
Total Assets	<u>16,176,116</u>	<u>13,563,497</u>	<u>16,176,116</u>	<u>13,563,497</u>
Deferred outflows of resources	<u>2,346,903</u>	<u>1,024,873</u>	<u>2,346,903</u>	<u>1,024,873</u>
Other Liabilities	399,781	1,121,756	399,781	1,121,756
Long-term Liabilities outstanding	19,695,185	11,299,183	19,695,185	11,299,183
Total Liabilities	<u>20,094,966</u>	<u>12,420,939</u>	<u>20,094,966</u>	<u>12,420,939</u>
Deferred inflows of resources	<u>1,657,047</u>	<u>52,082</u>	<u>1,657,047</u>	<u>52,082</u>
Net Position:				
Net investment in capital assets	(273,103)	2,117,606	(273,103)	2,117,606
Unrestricted	(2,955,891)	(2,257)	(2,955,891)	(2,257)
Total net position	<u>\$ (3,228,994)</u>	<u>\$ 2,115,349</u>	<u>\$ (3,228,994)</u>	<u>\$ 2,115,349</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, 2018**

Revenues, expenses, transfers and the change in net position is summarized in the following condensed statement of activities for the years ended June 30, 2018 and 2017:

**Figure 3**  
**Pinnacle Classical Academy's Condensed Statement of Activities**

	Governmental Activities		Total	
	2018	2017	2018	2017
<b>Donations and Other Revenues</b>	\$150,254	\$ 153,312	\$ 150,254	\$ 153,312
<b>Charges for Services</b>	-	-	-	-
<b>County, State, and Federal Funds</b>	5,591,524	4,237,342	5,591,524	4,237,342
<b>Total revenues</b>	5,741,778	4,390,654	5,741,778	4,390,654
<b>Instructional Sevices</b>	5,180,365	3,817,132	5,180,365	3,817,132
<b>System-wide support services</b>	947,536	467,686	947,536	467,686
<b>Interest on long-term debt</b>	495,861	39,385	495,861	39,385
<b>Total expenses</b>	6,623,762	4,324,203	6,623,762	4,324,203
<b>Increase in net position before transfers</b>	(881,984)	66,451	(881,984)	66,451
<b>Transfers</b>	-	-	-	-
<b>Increase in net position:</b>	(881,984)	66,451	(881,984)	66,451
<b>Net position, July 1</b>	2,115,349	2,048,898	2,115,349	2,048,898
<b>Net position, restatement</b>	(4,462,359)	-	(4,462,359)	-
<b>Net position, June 30</b>	(3,228,994)	\$ 2,115,349	(3,228,994)	\$ 2,115,349

**Governmental activities.** Governmental activities decreased the School's net position by \$881,964 primarily due to pension and OPEB expenses.

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

**Management's Discussion and Analysis**  
**Pinnacle Classical Academy**  
**June 30, 2018**

**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.

The general fund is the chief operating fund of Pinnacle Classical Academy. At the end of the current fiscal year, unassigned fund balance was \$2,094,313.

**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, 2018, totals \$12,866,039 (net of accumulated depreciation). Capital assets include leasehold improvements, instructional equipment, and vehicles.

The following schedule summarizes the School's capital assets as of June 30, 2018 and 2017:

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

	Governmental Activities		Total	
	2018	2017	2018	2017
Land and CIP	\$ 551,700	\$ 10,780,044	\$ 551,700	\$ 10,780,044
Building/Leasehold Imp	12,125,285	1,081,125	12,125,285	1,081,125
Modulars	112,008	436,677	112,008	436,677
Electronic equipment	77,046	16,938	77,046	16,938
<b>Total</b>	<b>\$ 12,866,039</b>	<b>\$ 12,314,784</b>	<b>\$ 12,866,039</b>	<b>\$ 12,314,784</b>

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, 2018**

**Long-term Debt.** As of June 30, 2018, the Pinnacle Classical Academy had \$13,860,906 long-term debt outstanding.

**Figure 5**  
**Pinnacle Classical Academy's Long-term Obligations**

	Governmental Activities		Total	
	2018	2017	2018	2017
Note Payable-USDA	\$13,000,000	\$ -	\$13,000,000	\$ -
Note Payable-Alliance	860,906	893,015	860,906	893,015
Construction Loan	-	9,304,163	-	9,304,163
<b>Total long term obligations</b>	<b>\$13,860,906</b>	<b>\$ 10,197,178</b>	<b>\$13,860,906</b>	<b>\$ 10,197,178</b>

**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.
- The School recently completed a new 64,000 square foot facility that sits on 56.85 acres of land. This new facility will allow the school to continue to expand and add a grade each year until the school reaches grades K-12. The school now has two campuses on 73 acres of land and possesses over 100,000 square feet of instructional space.
- In November, 17, 2017 the USDA provided a 100%, 40-year loan for \$13,000,000 at an interest rate of 3.5%. The loan proceeds were used to pay off the current construction loan. Loan proceeds and construction took place over the 2016 and 2017 fiscal years. Annual payments on the USDA loan are due on November 17 each year beginning November 2018.
- The school has also experienced a high level of growth over the past several years and FY2018 was no exception. The school increased to 736 students for the current school year.

**Requests for Information**

This report is designed to provide an overview of the School's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Executive Director, Pinnacle Classical Academy, 900 S Post Road, Shelby, North Carolina 28152.

# **Basic Financial Statements**

**Pinnacle Classical Academy**  
**Statement of Net Position**  
**June 30, 2018**

	<b>Primary Government</b>	
	<b>Governmental Activities</b>	<b>Total</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,350,731	\$ 2,350,731
Restricted cash-construction	821,770	821,770
Restricted cash-debt service	50,000	50,000
Receivables (net)	2,084	2,084
Due from other governments	56,655	56,655
Prepaid expenses	20,079	20,079
Net OPEB Asset	8,758	8,758
Capital assets (Note 1):		
Land, improvements, and construction in progress	551,700	551,700
Other capital assets, net of depreciation	12,314,339	12,314,339
Total capital assets	12,866,039	12,866,039
Total assets	16,176,116	16,176,116
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
TSERS Pension related deferrals	935,009	935,009
RHBF OPEB related deferrals	1,403,893	1,403,893
DIPNC OPEB related deferrals	8,001	8,001
Total deferred outflows of resources	2,346,903	2,346,903
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	114,758	114,758
Accrued interest	285,023	285,023
Long-term liabilities:		
Net Pension Liability	1,234,599	1,234,599
Net OPEB Liability	4,599,680	4,599,680
Due within one year	180,471	180,471
Due in more than one year	13,680,435	13,680,435
Total liabilities	20,094,966	20,094,966
<b>DEFERRED INFLOWS OF RESOURCES</b>		
TSERS Pension related deferrals	40,390	40,390
RHBF OPEB related deferrals	1,598,245	1,598,245
DIPNC OPEB related deferrals	3,030	3,030
Unearned revenue	15,382	15,382
	1,657,047	1,657,047
<b>NET POSITION</b>		
Net investment in capital assets	(273,103)	(273,103)
Unrestricted	(2,955,891)	(2,955,891)
Total net position	\$ (3,228,994)	\$ (3,228,994)

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



**Pinnacle Classical Academy  
Statement of Activities  
For the Year Ended June 30, 2018**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
<b>Primary government:</b>						
Governmental Activities:						
Instructional programs	\$ 5,180,365	\$ -	\$ 99,620	\$ -	\$ (5,080,745)	\$ (5,080,745)
Support services	947,536	-	-	-	(947,536)	(947,536)
Interest expense	495,861	-	-	-	(495,861)	(495,861)
Total governmental activities	6,623,762	-	99,620	-	(6,524,142)	(6,524,142)
General revenues:						
Unrestricted county appropriations					1,055,539	1,055,539
Unrestricted State appropriations					4,322,185	4,322,185
Unrestricted Federal appropriations					114,180	114,180
Donations - general					65,710	65,710
Miscellaneous, unrestricted					194,834	194,834
Loss on sale of assets					(110,290)	(110,290)
Total general revenues, special items, and transfers					5,642,158	5,642,158
Change in net position					(881,984)	(881,984)
Net position, beginning, previously reported					2,115,349	2,115,349
Net position - Restatement					(4,462,359)	(4,462,359)
Net position-ending					\$ (3,228,994)	\$ (3,228,994)

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

Pinnacle Classical Academy  
 Balance Sheet  
 Governmental Funds  
 June 30, 2018

	Major Funds			Total Governmental Funds
	General	State Public School	Federal Grants Fund	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,350,731	\$ -	\$ -	\$ 2,350,731
Restricted cash-construction	821,770	-	-	821,770
Restricted cash-debt service	50,000	-	-	50,000
Accounts receivable	2,084	-	-	2,084
Due from other governments	56,655	-	-	56,655
Prepaid Expenses	20,079	-	-	20,079
Total assets	<u>\$ 3,301,319</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,301,319</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable and accrued liabilities	\$ 114,758	\$ -	\$ -	\$ 114,758
Accrued interest	285,023	-	-	285,023
Total liabilities	<u>399,781</u>	<u>-</u>	<u>-</u>	<u>399,781</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unearned revenue	15,382	-	-	15,382
Fund balances:				
Nonspendable:				
Prepaid Expenses	20,079	-	-	20,079
Restricted				
Reserved for Capital Project	721,764	-	-	721,764
Reserved for Debt Service	50,000	-	-	50,000
Unassigned, General Fund	2,094,313	-	-	2,094,313
Total fund balances	<u>2,886,156</u>	<u>-</u>	<u>-</u>	<u>2,886,156</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 3,301,319</u>	<u>\$ -</u>	<u>\$ -</u>	

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

Net OPEB Asset	8,758
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	12,866,039
Deferred outflows of resources related to pensions	935,009
Deferred outflows of resources related to OPEBS	1,411,894
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 III B 4).	(13,860,906)
Net Pension Liability	(1,234,599)
Net OPEB Liability	(4,599,680)
Deferred infows of resources related to pensions	(40,390)
Deferred infows of resources related to OPEB	(1,601,275)
Net position of governmental activities	<u>\$ (3,228,994)</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 Year Ended June 30, 2018**

	Major Funds			Total Governmental Funds
	General	State Public School	Federal Grants Fund	
<b>REVENUES</b>				
State of North Carolina	\$ -	\$ 4,322,185	\$ -	\$ 4,322,185
Cleveland County	1,013,870	-	-	1,013,870
Gaston County	32,582	-	-	32,582
Rutherford County	9,087	-	-	9,087
Fines & Forfeitures	2,062	-	-	2,062
U.S. Government	114,180	-	99,620	213,800
Contributions and donations	57,092	-	-	57,092
Grants	8,618	-	-	8,618
Other	377,770	-	-	377,770
Total revenues	1,615,261	4,322,185	99,620	6,037,066
<b>EXPENDITURES</b>				
<b>Current:</b>				
Instructional services:	919,595	3,629,077	99,620	4,648,292
System-wide support services	135,513	533,944	-	669,457
<b>Capital outlay:</b>	1,127,986	-	-	1,127,986
<b>Debt service:</b>				
Principal	11,968,470	32,109	-	12,000,579
Interest and other charges	368,806	127,055	-	495,861
Total expenditures	14,520,370	4,322,185	99,620	18,942,175
Excess (deficiency) of revenues over expenditures	(12,905,109)	-	-	(12,905,109)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers (out) in	-	-	-	-
Loan proceeds	15,664,308	-	-	15,664,308
Total other financing sources (uses)	15,664,308	-	-	15,664,308
Net change in fund balance	2,759,199	-	-	2,759,199
Fund balances-beginning	126,957	-	-	126,957
Fund balances-ending	\$ 2,886,156	\$ -	\$ -	\$ 2,886,156

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 Year Ended June 30, 2018**

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

Net changes in fund balances - total governmental funds	\$ 2,759,199
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	846,544
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	-
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	283,376
Contributions to the OPEB plans in the current fiscal year are not included on the Statement of Activities	162,718
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.	(3,663,729)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Pension Expense	(494,142)
OPEB Expense	(480,662)
Book value of assets sold	(295,290)
Rounding	2
	2
Total changes in net position of governmental activities	<b>\$ (881,984)</b>

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

# Pinnacle Classical Academy, North Carolina

## Notes to the Financial Statements

June 30, 2018

### 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, such as Pinnacle Classical Academy. Because of the authority of the State Board of Education (the "SBE") to terminate, not renew or seek applicants to assume a charter on grounds set out in the North Carolina General Statutes at G.S. 115C-218.95 with all net assets purchased with public funds reverting to a local education agency (G.S. 115C-218.100), the charter schools in North Carolina follow the governmental reporting model as used by local education agencies. The following is a summary of the more significant accounting policies:

#### A. Reporting Entity

Pinnacle Classical Academy is a North Carolina non-profit corporation incorporated in November 2011. Pursuant to the provisions of the Charter School Act of 1996 as amended (the "Act"), Pinnacle Classical Academy has been approved to operate the Pinnacle Classical Academy, a public school serving approximately 736 students. The School operates under an approved charter received from the SBE, and applied for under the provisions of General Statute G.S. 115C-218.1. G.S. 115C-218.6(b)(1) states that a charter school shall be subject to the audit requirements adopted by the SBE, which includes the audit requirements established by G.S. 115C-447 of the School Budget and Fiscal Control Act (SBFCA), and requires the financial statements to be prepared in accordance with GAAP. The current charter is effective until June 30, 2023 and may be renewed for subsequent periods of ten (10) years unless one of the conditions in G.S. 115C-218.6(b) applies in which case the SBE may renew the charter for a shorter period or not renew the charter.

#### B. Basis of Presentation

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

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

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

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

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. 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 ninety 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, 2018. 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. 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 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	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 items that meet this criterion-contributions made to the pension plan in the current fiscal year and other pension related deferrals. 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 two items that meet the criterion for this category-pension related deferrals and 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* - 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 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. Reconciliation of Government-Wide and Fund Financial Statements

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 (\$6,115,150) 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).	\$13,263,576
Less accumulated depreciation	(397,537)
Net OPEB Asset	8,758
Pension related deferred outflows of resources	935,009
OPEB related deferred outflows of resources	1,411,894
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:	
Notes, leases, and installment financing	(13,860,906)
Compensated absences	-
Accrued interest payable	-
Net Pension Liability	(1,234,599)
Net OPEB Liability	(4,599,680)
Deferred inflows of resources related to pensions	(40,390)
Deferred inflows of resources related to OPEBs	(1,601,275)
Total adjustment	<u>\$6,115,150</u>

## 10. Defined Benefit Pension Plan and OPEB Plans

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teachers' and State Employees' Retirement System (TSERS), the Retiree Health Benefit Fund (RHBF), and the Disability Income Plan of NC (DIPNC) and additions to/deductions from TSERS, RHBF, and DIPNC's fiduciary net position have been determined on the same basis as they are reported by TSERS, RHBF, and DIPNC. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The School's employer contributions are recognized when due and the Board has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of TSERS, RHBF, and DIPNC. Investments are reported at fair value.

### 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-218.105(a)].

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

Additionally, Pinnacle Classical Academy receives for each student an amount equal to the per pupil share of the local current expense fund of the local school administrative unit in which the child resides. [G.S. 115C-218.105(c)]. Amounts transferred that consist of revenue from supplemental taxes shall be transferred only to a charter school located in the district where the taxes are levied and the child resides.

For the fiscal year ended June 30, 2018, the Pinnacle Classical Academy received funding from the Board of Education for Cleveland County (\$1,013,870), Gaston County (\$32,582), and Rutherford County (\$9,087).

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.

## 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 \$3,641,183 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.	\$1,127,986
Depreciation expense that is recorded on the statement of activities but not in the fund statements.	(281,442)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	283,376
Contributions to the OPEB plan in the current fiscal year are not included on the Statement of Activities	162,718
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.	(15,664,308)
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.	12,000,579
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.	
Pension Expense	(494,142)
OPEB Expense	(480,662)
Book Value of Assets Sold	(295,290)
Rounding	2
Total	<u>\$3,641,183</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, 2018, the School had deposits with banks and savings and loans with a carrying amount of \$3,222,301. The bank balance with the financial institutions was \$3,334,027 of which \$250,000 was covered by federal depository insurance. The School had \$200 petty cash on hand at June 30, 2018.

##### 2. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land, Construction in Progress	\$ 10,780,044	\$ 596,661	\$ 10,825,005	\$ 551,700
Capital assets being depreciated:				
Buildings	1,066,517	11,276,998	-	12,343,515
Leasehold Improvements	76,698	-	-	76,698
Modulars	493,450	-	337,574	155,876
Electronic equipment	56,456	79,332	-	135,788
Total capital assets being depreciated	1,693,121	11,356,330	337,574	12,711,877
Less accumulated depreciation for:				
Buildings	53,140	230,281	-	283,421
Leasehold Improvements	8,950	2,557	-	11,507
Modulars	56,773	29,380	42,285	43,868
Electronic equipment	39,518	19,224	-	58,742
Total accumulated depreciation	158,381	\$ 281,442	\$ 42,285	397,538
Total capital assets being depreciated, net	1,534,740			12,314,339
Governmental activity capital assets, net	\$ 12,314,784			\$ 12,866,039

Depreciation expense was charged to governmental functions as follows:

Instructional programs	\$19,224
Supporting services	262,218
	<u>\$281,442</u>

## B. Liabilities

### 1. Pension Plan Obligations

#### a. Teachers' and State Employees Retirement Plan

*Plan Description.* The School is a participating employer in 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 membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the employees of Local Education Agencies and charter schools. Article 1 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the TSERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. 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 Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at [www.osc.nc.gov](http://www.osc.nc.gov).

*Benefits Provided.* TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

TSERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

*Contributions.* Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. School employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the TSERS Board of Trustees. The School's contractually required contribution rate for the year ended June 30, 2018, was 10.78% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the School were \$283,376 for the year ended June 30, 2018.

*Refunds of Contributions* – School employees who have terminated service as a contributing member of TSERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual’s right to employer contributions or any other benefit provided by TSERS.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At June 30, 2018, the School reported a liability of \$1,234,599 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2017 utilizing update procedures incorporating the actuarial assumptions. The School’s proportion of the net pension liability was based on a projection of the School’s long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating TSERS employers, actuarially determined. At June 30, 2017 and at June 30, 2016, the School’s proportion was .01556% and .01199%.

For the year ended June 30, 2018, the School recognized pension expense of \$494,142. At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 26,764	\$ 40,390
Changes of assumptions	195,048	-
Net difference between projected and actual earnings on pension plan investments	167,083	-
Changes in proportion and differences between School contributions and proportionate share of contributions	262,738	-
School contributions subsequent to the measurement date	283,376	-
Total	<u>\$ 935,009</u>	<u>\$ 40,390</u>

\$283,376 reported as deferred outflows of resources related to pensions resulting from School contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2019.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended June 30:</b>	
2019	\$ 212,450
2020	307,191
2021	158,470
2022	(66,868)
2023	-
Thereafter	-
	<u>\$ 611,243</u>

*Actuarial Assumptions.* The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.5 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.20 percent, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
Total	<u>100%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2016 asset, liability, and investment policy study for the North Carolina Retirement Systems, including TSERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. All rates of return and inflation are annualized.

*Discount rate.* The discount rate used to measure the total pension liability was 7.20%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the County’s proportionate share of the net pension asset to changes in the discount rate.* The following presents the School’s proportionate share of the net pension liability calculated using the discount rate of 7.20 percent, as well as what the School’s proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.20 percent) or 1-percentage-point higher (8.20 percent) than the current rate:

	<u>1% Decrease</u> <u>(6.20%)</u>	<u>Discount Rate</u> <u>(7.20%)</u>	<u>1% Increase</u> <u>(8.20%)</u>
School's proportionate share of the net pension liability (asset)	\$ 2,541,316	\$ 1,234,599	\$ 139,737

*Pension plan fiduciary net position.* Detailed information about the pension plan’s fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

**b. Other Postemployment Benefits**

**1. Healthcare Benefits**

*Plan description.* The Retiree Health Benefit Fund (RHBF) has been established as a fund to provide health benefits to retired and disabled employees and their applicable beneficiaries. RHBF is established by General Statute 135-7, Article 1. It is a cost-sharing, multiple-employer, defined benefit healthcare plan, exclusively for the benefit of former employees of the State, the University of North Carolina System, and community colleges. In addition, LEAs, charter schools, and some select local governments also participate.

Management of the plan is vested in the State Health Plan Board of Trustees, which consists of 13 members – eight appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer the State Superintendent and the Director of the Office of State Human Resources who serve as ex-officio members. RHBF is supported by a percent of payroll contribution from participating employing units. Each year the percentage is set in legislation, as are the maximum per retiree contributions from RHBF to the State Health Plan. The State Treasurer, with the approval of the State Health Plan Board of Trustees, then sets the employer contributions (subject to the legislative cap) and the premiums to be paid by retirees, as well as the health benefits to be provided through the State Health Plan.

The financial statements and other required disclosures for the plan are presented in the State of North Carolina’s CAFR, which can be found at <https://www.osc.nc.gov/public-information/reports>.

*Benefits provided.* Plan benefits received by retired employees and disabled employees from RHBF are OPEB. The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees. The plan options change when former employees become eligible for



Medicare. Medicare retirees have the option of selecting one of two fully-insured Medicare Advantage/Prescription Drug Plan (MA-PDP) options of the self-funded Traditional 70/30 preferred Provider Organization plan option that is also offered to non-Medicare members. If the Traditional 70/30 Plan is selected by a Medicare retiree, the self-funded State Health Plan coverage is secondary to Medicare.

Those former employees who are eligible to receive medical benefits from RHBF are long-term disability beneficiaries of the Disability Income Plan of North Carolina (DIPNC) and retirees of the TSERS, the Consolidated Judicial Retirement System (CJRS), the Legislative Retirement System (LRS), the University Employees' Optional Retirement Program (ORP), and a small number of local governments, with five or more years of contributory membership service in their retirement system prior to disability or retirement, with the following exceptions: for employees first hired on or after October 1, 2006, and members of the General Assembly first taking office on or after February 1, 2007, future coverage as retired employees and retired members of the General Assembly is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on or after October 1, 2006 and members of the General Assembly first taking office on or after February 1, 2007 with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan's noncontributory premium.

Section 35.21 (c) and (d) of Session Law 2017-57 repeals retiree medical benefits for employees first hired January 1, 2021. The new legislation amends Article 3B of Chapter 135 of the General Statutes to require that retirees must earn contributory retirement service in TSERS (or in an allowed local system unit), CJRS, or LRS prior to January 1, 2021, and not withdraw that service, in order to be eligible for retiree medical benefits under the amended law. Consequently, members first hired on and after January 1, 2021 will not be eligible to receive retiree medical benefits.

RHBF's benefit and contribution provisions are established by Chapter 135-7, Article 1 and Chapter 135, Article 3B of the General Statutes and may be amended only by the North Carolina General Assembly. RHBF does not provide for automatic post-retirement benefit increases.

*Contributions.* By General Statute, accumulated contributions from employers to RHBF and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and their applicable beneficiaries. By statute, contributions to RHBF are irrevocable. Also by law, fund assets are dedicated to providing benefits to retired and disabled employees and their applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to RHBF. However, RHBF assets may be used for reasonable expenses to administer the RHBF, including costs to conduct required actuarial valuations of state-supported retired employees' health benefits. Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis are determined by the General Assembly in the Appropriations Bill. For the current fiscal year, the School contributed 6.05% of covered payroll which amounted to \$159,038.

At June 30, 2018, School reported a liability of \$4,599,680 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016. The total OPEB liability was then rolled forward to the measurement date of June 30, 2017 utilizing update procedures incorporating the actuarial assumptions. The School's proportion of the net OPEB liability was based on a projection of the School's present value of future salary, actuarially determined. At June 30, 2017, the School's proportion was 0.01403%.

\$159,038 reported as deferred outflows of resources related to OPEB resulting from School contributions subsequent to the measurement date will be recognized as a decrease of the net OPEB liability in the year ending June 30, 2019.

Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:

2019	(70,764)
2020	(70,764)
2021	(70,764)
2022	(70,764)
2023	(70,334)
Thereafter	-
	<u>(353,390)</u>

*Actuarial assumptions.* Common actuarial assumptions for both OPEB plans follow individual note disclosures for each OPEB plan.

Inflation	2.75%
Salary increases	3.50-8.10%, include 3.5% inflation and productivity factor
Investment rate of return	7.20%, net of OPEB plan investment expense, including inflation
Healthcare cost trend rate - medical	5.00-6.50%
Healthcare cost trend rate - prescription drug	5.00-7.25%
Healthcare cost trend rate - Medicare advantage	4.00-5.00%
Healthcare cost trend rate - administrative	3.00%

*Discount rate.* The discount rate used to measure the total OPEB liability for the RHBF was 3.58%. The projection of cash flow used to determine the discount rate assumed that contributions from employers would be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments of current plan members. As a result, a municipal bond rate of 3.58% was used as the discount rate used to measure the total OPEB liability. The 3.58% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2017.

*Sensitivity of the School's proportionate share of the net OPEB liability to changes in the discount rate.* The following presents the School's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.58 percent) or 1-percentage point higher (4.58 percent) than the current discount rate:

	Discount Rate		
	1% decrease (2.58%)	(3.58%)	1% Increase (4.58%)
Net OPEB liability	\$ 5,487,154	\$ 4,599,680	\$ 3,895,787

*Sensitivity of the School's proportionate share of the net OPEB liability to changes in the healthcare trend rates.* The following presents the School's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.58 percent) or 1-percentage point higher (4.58 percent) than the current discount rate:

	Healthcare Trend Rates		
	1% Decrease (Medical - 4.00-5.50%, Pharmacy - 4.00-6.25%, Medicare Advantage - 3.00-4.00%, Administrative - 2.00%)	(Medical -5.00-6.50%, Pharmacy - 5.00-7.25%, Medicare Advantage - 4.00-5.00%, Administrative - 3.00%)	1% increase (Medical -6.00-7.50%, Pharmacy - 6.00-8.25%, Medicare Advantage - 5.00-6.00%, Administrative - 4.00%)
Net OPEB liability	\$ 3,757,515	\$ 4,599,680	\$ 5,719,025

*OPEB plan fiduciary net position.* Detailed information about the OPEB plan's fiduciary net position is available in the separately issued CAFR for the State of North Carolina.

## 2. Disability Benefits

*Plan description.* Short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to the eligible members of TSERS which includes employees of the State, the University of North Carolina System, community colleges, certain Local Education Agencies, and ORP.

Management of the plan is vested in the State Health Plan Board of Trustees, which consists of 13 members – eight appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer the State Superintendent and the Director of the Office of State Human Resources who serve as ex-officio members. Management of the plan is vested in the State Health Plan Board of Trustees, which consists of 13 members – eight appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer the State Superintendent and the Director of the Office of State Human Resources who serve as ex-officio members.

The financial statements and other required disclosures for the plan are presented in the State of North Carolina's CAFR, which can be found at <https://www.osc.nc.gov/public-information/reports>.

*Benefits Provided.* Long-term disability benefits are payable as an OPEB from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. An employee is eligible to receive long-term disability benefits provide the following requirements are met: (1) the employee has five or more years of contributing membership service in TSERS or ORP, earned within 96 months prior to the end of the short-term disability period or cessation of salary continuation payments, whichever is later; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the employee must not be eligible to receive an unreduced retirement benefit from TSERS after (1) reaching the age of 65 and completing 5 years of membership service, or (2) reaching the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of service at any age.

*Contributions.* Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases. Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the State fiscal year. For the fiscal year ended June 30, 2018, employers made a statutory contribution of 0.14% of covered payroll which was equal to the actuarially required contribution. School contributions to the plan were \$3,680 for the year ended June 30, 2018.

The contributions cannot be separated between the amounts that relate to other postemployment benefits and employment benefits for active employees. Those individuals who are receiving extended short-term disability benefit payments cannot be separated from the number of members currently eligible to receive disability benefits as an other postemployment benefit.

***OPEB Assets, OPEB Expense, and Deferred Outflows and Inflows of Resources of Related to OPEB***

At June 30, 2018, School reported an asset of \$8,758 for its proportionate share of the net OPEB asset. The net OPEB asset was measured as of June 30, 2017, and the total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2016. The total OPEB asset was then rolled forward to the measurement date of June 30, 2017 utilizing update procedures incorporating the actuarial assumptions. The School’s proportion of the net OPEB asset was based on a projection of the School’s present value of future salary, actuarially determined. At June 30, 2017, the School’s proportion was 0.01433%.

\$3,680 reported as deferred outflows of resources related to OPEB resulting from School contributions subsequent to the measurement date will be recognized as a decrease of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30		
2019	\$	271
2020		271
2021		270
2022		479
2023		-
Thereafter		-
	\$	<u>1,291</u>

*Actuarial assumptions.* Common actuarial assumptions for both OPEB plans follow individual note disclosures for each OPEB plan.

Inflation	3.00%
Salary increases	3.5%-8.10%, include 3.5% inflation and productivity factor
Investment rate of return	3.75%, net of OPEB plan expense, including inflation

*Sensitivity of the School's proportionate share of the net OPEB asset to changes in the discount rate.* The following presents the School's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.75percent) or 1-percentage point higher (4.75 percent) than the current discount rate:

	Discount Rate		
	1% Decrease (2.75%)	(3.75%)	1% Increase (4.75%)
Net OPEB asset	\$ 7,446	\$ 8,758	\$ 10,074

*Common actuarial assumptions for both OPEB plans.* The total OPEB liability was determined by an actuarial valuation performed as of December 31, 2016 using the following actuarial assumptions, applied to all periods in the measurement, unless otherwise specified. The total OPEB liability was calculated through the use of update procedures to roll forward from the actuarial valuation date to the measurement date of June 30, 2017. The update procedures incorporated the actuarial assumptions used in the valuation. The entry age normal cost method was utilized.

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer), and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions were based on the results of an actuarial experience review for the period January 1, 2010 through December 31, 2014.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29%	1.4%
Global Equity	42%	5.3%
Real Estate	8%	4.3%
Alternatives	8%	8.9%
Opportunistic Fixed Income	7%	6.0%
Inflation Sensitive	6%	4.0%
Total	100%	

***Total OPEB Expense, OPEB Liabilities (Assets), and Deferred Outflows and Inflows of Resources of Related to OPEB***

Following is information related to the proportionate share and pension expense:

	RHBF	DIPNC	Total
OPEB Expense	\$ 477,018	\$ 3,643	\$ 480,661
OPEB Liability (Asset)	4,599,680	(8,758)	4,590,922
Proportionate share of the net OPEB liability (asset)	0.01403%	0.01433%	
<b>Deferred of Outflows of Resources</b>			
Differences between expected and actual experience	-	2,401	2,401
Changes of assumptions	-	-	-
Net difference between projected and actual earnings on plan investments	-	1,920	1,920
Changes in proportion and differences between Board contributions and proportionate share of contributions	1,244,855	-	1,244,855
Board contributions subsequent to the measurement date	159,038	3,680	162,718
<b>Deferred of Inflows of Resources</b>			
Differences between expected and actual experience	329,805	-	329,805
Changes of assumptions	1,266,731	-	1,266,731
Net difference between projected and actual earnings on plan investments	1,709	-	1,709
Changes in proportion and differences between Board contributions and proportionate share of contributions	-	3,030	3,030

**2. Risk Management**

The School is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School maintains general liability and errors and omissions insurance coverage of \$1 million per occurrence with a commercial carrier. The School does not have flood insurance.

As authorized by G.S. 115C-218.90(a)(4), 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. The School pays \$498.68 for employees enrolled in the Comprehensive Major Medical Plan. The employee pays an additional amount of \$25 to \$110 depending on the plan chosen by the employee.

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.

**3. Claims and Judgments**

At June 30, 2018, the School was not involved in any legal proceedings.

#### 4. Note Payable

##### Changes in Note Payable

During the 2015-16 year the School obtained a loan for \$935,000 to purchase the existing site the School operates from. The loan is payable \$5,828.11 per month including interest at 4.25%. Payments began February 10, 2015. At December 30, 2020 the interest rate may change.

During the 2015-2016 year, the School obtained a construction loan for \$13,000,000 from local banks. The payments will be interest only until January 15, 2018 when the facility is expected to be completed and the Certificate of Occupancy is issued. The School has a commitment from the USDA for permanent financing and that will be used to pay off the construction loan at that time.

In November of 2017 the School received the certificate of occupancy referred to above and the USDA funded a loan to pay off the construction loan. The loan is payable in annual installments of \$608,790 including interest at 3.75% for 40 years. The school is also required to deposit 1/10<sup>th</sup> of the annual installment into a restricted bank account until one annual payment is accumulated. The money will be released to the school when the loan is paid in full.

The following is a summary of changes in the School's notes payable for the year ended June 30, 2018:

	Balance			Balance	Current
Governmental activities:	July 1, 2017	Increases	Decreases	June 30, 2018	Portion
Note Payable-Alliance	\$ 893,015	\$ -	\$ 32,109	\$ 860,906	\$ 34,052
Construction Loan	9,304,163	2,664,308	11,968,471	-	-
Note payable-USDA	-	13,000,000	-	13,000,000	146,419
<b>Total</b>	<b>\$ 10,197,178</b>	<b>\$ 15,664,308</b>	<b>\$ 12,000,580</b>	<b>\$ 13,860,906</b>	<b>\$ 180,471</b>

The future debt payments are as follows:

	Principal	Interest	Total
June 30:			
2019	\$ 180,471	\$ 498,257	\$ 678,728
2020	187,154	494,463	681,617
2021	194,087	484,640	678,727
2022	201,278	477,449	678,727
2023	208,738	469,989	678,727
2024-2028	1,165,695	2,227,940	3,393,635
2029-2033	1,398,689	1,994,950	3,393,639
2034-2038	1,488,654	1,724,878	3,213,532
2039-2043	1,406,319	1,462,631	2,868,950
2044-2048	1,883,261	1,160,689	3,043,950
2049-2053	2,242,858	801,092	3,043,950
2054-2058	2,671,115	372,836	3,043,951
2059-2060	632,587	16,328	648,915
	<b>\$ 13,860,906</b>	<b>\$ 12,186,142</b>	<b>\$ 26,047,048</b>

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>	\$ 2,886,156
Less:	
Prepaid Items	20,079
Restricted for Construction/debt service	71,764
Appropriated Fund Balance in 2019 Budget	-
Remaining Fund Balance	\$ 2,094,313

D. Net Investment in Capital Assets

	Governmental Activities
Cash restricted to construction	821,770
Accounts Payable, construction	(100,006)
Capital Assets, net of depreciation	12,866,039
Debt	(13,860,906)
	-
Net Investment in Capital Assets	<u>(273,103)</u>

E. Restricted Cash

	Governmental Activities
Unspent Construction Funds	821,770
Restricted for debt service	50,000
	-
Net Investment in Capital Assets	<u>871,770</u>

The school is required to deposit 1/10<sup>th</sup> of the annual USDA loan installment into a restricted bank account until one annual payment is accumulated. The money will be released to the school when the loan is paid in full.



#### **IV. Related Party Transactions**

The brother of the Chair owns a construction company that completed the set-up for the modular units and is overseeing maintenance for the grounds, building, and modular units. Total payments to the company were \$65,413 for the year.

The School also paid \$4,154 to a company owned by the board vice-chair for printing services. The company also is a donor to the school and does printing at cost for the School.

#### **V. Summary Disclosure of Significant Contingencies**

##### **Federal and State Assisted Programs**

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

#### **VI. Change in Accounting Principles/Restatement**

The School implemented Governmental Accounting Standards Board (GASB) statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the fiscal year ending June 30, 2018. The implementation of the statement required the School to record beginning total OPEB liability and asset and the effects on net position of benefit payments and administrative expenses paid by the School related to OPEB during the measurement period (fiscal year ending June 30, 2017). Beginning deferred outflows and inflows of resources associated with implementation were excluded from the restatement. As a result, net position for the governmental activities decreased by \$4,462,359.

## **Required Supplemental Financial Data**

- **Schedule of Proportionate Share of Net Pension Liability for Teachers' and State Employees' Retirement System**
- **Schedule of School Contributions to Teachers' and State Employees' Retirement System**
- **Schedule of the Proportionate Share of the Net OPEB Liability for Retiree Health Benefit Fund**
- **Schedule of School Contributions to Retiree Health Benefit Fund**
- **Schedule of the Proportionate Share of the Net OPEB Asset for Disability Income Plan of North Carolina**
- **Schedule of School Contributions to Disability Income Plan of North Carolina**

Pinnacle Classical Academy  
Schedules of Required Supplementary Information  
SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
Teachers' and State Employees' Retirement System  
Last Five Fiscal Years\*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
School's proportion of the net pension liability (asset)	0.01556%	0.01199%	0.00867%	0.00644%	0.00000%
School's proportion of the net pension liability (asset)	\$ 1,234,599	\$ 1,102,005	\$ 319,507	\$ 75,504	\$ -
School's covered-employee payroll	\$ 1,774,593	\$ 1,307,853	\$ 1,012,623	\$ 767,897	\$ -
School's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	69.57%	84.26%	31.55%	9.83%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	89.51%	87.32%	94.64%	98.24%	90.60%

\* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

Pinnacle Classical Academy  
 Schedule of School Contributions  
 Teachers' and State Employees' Retirement System  
 Last Five Fiscal Years

	2018	2017	2016	2015	2014
Contractually required contribution	\$ 283,376	\$ 177,104	\$ 119,669	\$ 92,655	\$ 66,730
Contributions in relation to the contractually required contribution	283,376	177,104	119,669	92,655	66,730
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 2,628,722	\$ 1,774,593	\$ 1,307,853	\$ 1,012,623	\$ 767,897
Contributions as a percentage of covered-employee payroll	10.78%	9.98%	9.15%	9.15%	8.69%

Pinnacle Classical Academy  
Schedules of Required Supplementary Information  
**SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF NET OPEB LIABILITY**  
Retiree Health Benefit Fund  
Last Two Fiscal Years\*

	<b>2018</b>	<b>2017</b>
School's proportion of the net OPEB liability (asset)	0.01403%	0.01053%
School's proportionate share of the net OPEB liability (asset)	\$ 4,599,680	\$ 4,579,289
School's covered payroll	\$ 1,774,593	\$ 1,307,853
School's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	259.20%	350.14%
Plan fiduciary net position as a percentage of the total OPEB liability	3.52%	2.41%

\* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

Pinnacle Classical Academy  
 Schedule of School Contributions  
 Retiree Health Benefit Fund  
 Last Two Fiscal Years

	2018	2017
Contractually required contribution	\$ 159,038	\$ 103,237
Contributions in relation to the contractually required contribution	159,038	103,237
Contribution deficiency (excess)	\$ -	\$ -
School's covered payroll	\$ 2,628,722	\$ 1,774,593
Contributions as a percentage of the covered payroll	6.05%	5.82%

Pinnacle Classical Academy  
Schedules of Required Supplementary Information  
**SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF NET OPEB ASSET**  
Disability Income Plan of North Carolina  
Last Two Fiscal Years\*

	<u>2018</u>	<u>2017</u>
School's proportion of the net OPEB asset	0.01433%	0.01119%
School's proportionate share of the net OPEB asset	\$ 8,758	\$ 6,949
School's covered payroll	\$ 1,774,593	\$ 1,307,853
School's proportionate share of the net OPEB asset as a percentage of its covered payroll	0.49%	0.53%
Plan fiduciary net position as a percentage of the total OPEB asset	116.23%	116.06%

\* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

Pinnacle Classical Academy  
Schedule of School Contributions  
Disability Income Plan of North Carolina  
Last Two Fiscal Years

	2018	2017
Contractually required contribution	\$ 3,680	\$ 6,744
Contributions in relation to the contractually required contribution	3,680	6,744
Contribution deficiency (excess)	\$ -	\$ -
School's covered payroll	\$ 2,628,722	\$ 1,774,593
Contributions as a percentage of covered payroll	0.14%	0.38%



**Pinnacle Classical Academy, North Carolina**  
**All Fund Types**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
**For the Year Ended June 30, 2018**

	2018		
	Final Budget	Actual	Favorable (Unfavorable) Variance
<b>Revenues:</b>			
State of North Carolina Board(s) of Education:	\$ 4,332,844	\$ 4,322,185	\$ (10,659)
Cleveland County	1,014,000	1,013,870	(130)
Gaston County	33,000	32,582	(418)
Rutherford County	10,000	9,087	(913)
Fines and Forfeitures	2,600	2,062	(538)
U.S. Government	252,622	213,800	(38,822)
Donations	77,950	57,092	(20,858)
Grants	4,000	8,618	4,618
Others	521,212	377,770	(143,442)
<b>Total</b>	<u>6,248,228</u>	<u>6,037,066</u>	<u>(211,162)</u>
<b>Expenditures:</b>			
<b>Current:</b>			
<b>Instructional services:</b>			
Regular curricular services	3,718,256	3,448,487	(269,769)
Special populations services	371,377	369,144	(2,233)
Alternative programs and services	32,779	23,550	(9,229)
School leadership services	578,325	569,200	(9,125)
Co-curricular services	54,850	23,739	(31,111)
School-based support services	215,002	214,172	(830)
<b>Total instructional programs</b>	<u>4,970,589</u>	<u>4,648,292</u>	<u>322,297</u>
<b>System-wide support services:</b>			
Support and development services	-	-	-
Special population support and development services	-	-	-
Technology support services	65,000	62,145	2,855
Operational support services	336,646	458,298	(121,652)
Financial and human resource services	97,900	97,746	154
Policy, leadership and public relations services	49,500	49,568	(68)
Ancillary services	2,000	1,700	300
<b>Total support services</b>	<u>551,046</u>	<u>669,457</u>	<u>(118,411)</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 Year Ended June 30, 2018

	2018		Favorable (Unfavorable) Variance
	Final Budget	Actual	
Capital outlay	1,254,832	1,127,986	126,846
Debt service:			
Principal	35,000	12,000,579	-
Interest and other charges	167,725	495,861	-
Total debt service	202,725	12,496,440	-
 Total expenditures	 6,979,192	 18,942,175	 (11,962,983)
Other financing sources (uses):			
Loan Proceeds	3,638,347	15,664,308	12,025,961
Transfer in	-	-	-
Transfer out	-	-	-
Total other financing sources and (uses)	3,638,347	15,664,308	12,025,961
 Excess of revenue over expenditures	 \$ 2,907,383	 \$ 2,759,199	 \$ (148,184)

**COMPLIANCE SECTION**

**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

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 and each major fund, of Pinnacle Classical Academy, Shelby, North Carolina, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Pinnacle Classical Academy, Shelby, North Carolina's basic financial statements and have issued our report thereon dated November 26, 2018.

**Internal Control Over Financial Reporting**

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

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 Pinnacle Classical Academy, Shelby, 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.

*Darrell L Keller, CPA, PA*

Darrell L. Keller, CPA, PA  
Kings Mountain, North Carolina  
November 26, 2018

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL 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  
Pinnacle Classical Academy  
Shelby, North Carolina

**Report on Compliance for Each Major Federal program**

We have audited Pinnacle Classical Academy, Shelby, North Carolina's compliance with the types of compliance requirements described in the OMB *Compliance Supplement* and 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 federal programs for the year ended June 30, 2018. Pinnacle Classical Academy, Shelby, North Carolina's major federal 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 Federal and State statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Pinnacle Classical Academy, Shelby, North Carolina's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the State Single Audit Implementation Act. Those standards, the 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 federal 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 we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Pinnacle Classical Academy, Shelby, North Carolina's compliance.

***Opinion on Each Major Federal program***

In our 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 federal programs for the year ended June 30, 2018.

**Report on Internal Control Over Compliance**

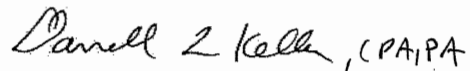
Management of Pinnacle Classical Academy, Shelby, North Carolina, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Pinnacle Classical Academy, Shelby, North Carolina's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal 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 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 federal 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 federal 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 federal 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Darrell L. Keller, CPA, PA  
Kings Mountain, North Carolina  
November 26, 2018

**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  
Pinnacle Classical Academy  
Shelby, North Carolina

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

We 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 year ended June 30, 2018. 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 state statutes, regulations, and the terms and conditions of its state awards applicable to its state programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Pinnacle Classical Academy, Shelby, 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 Pinnacle Classical Academy, Shelby, 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 Pinnacle Classical Academy, Shelby, North Carolina's compliance.

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

In our 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 year ended June 30, 2018.

**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 our audit of compliance, we 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 a major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for

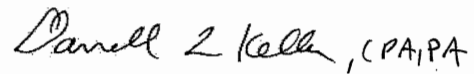


the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Pinnacle Classical Academy, Shelby, North Carolina's internal control over compliance.

*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.

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  
November 26, 2018

PINNACLE CLASSICAL ACADEMY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 YEAR ENDED JUNE 30, 2018

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 noted  Yes  No

Federal Awards

Internal control over major Federal 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 Federal programs: Unmodified for all federal programs.

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?  Yes  No

Identification of major Federal programs:

<u>CFDA No.</u>	<u>Program Name</u>
10.766	Community Facilities Loans and Grants

Dollar threshold used to distinguish between Type A and Type B Programs \$ 750,000

Auditee qualified as low risk auditee?  Yes  No

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:

<u>Program Name</u>
State Public School Fund

PINNACLE CLASSICAL ACADEMY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018

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

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 YEAR ENDED JUNE 30, 2018

	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	\$ 99,620
Total Federal Assistance			\$ 99,620
<u>U S Department of Education</u>			
<u>Direct Federal Assistance</u>			
Small Rural School Achievement Program	84.358		\$ 114,180
<u>U S Department of Agriculture</u>			
<u>Direct Federal Assistance</u>			
Community Facilities Loans and Grant	10.766		\$ 13,000,000
Total Federal Assistance			\$ 13,213,800
State Grants:			
Cash Assistance:			
<u>N.C. Department of Public Instruction:</u>			
State Public School Fund (Charter Schools)			\$ 4,322,185
Total State Assistance			\$ 4,322,185
TOTAL FEDERAL AND STATE ASSISTANCE			\$ 17,535,985

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) includes the federal and State grant activity of Pinnacle Classical Academy under the programs of the federal government and the State of North Carolina for the year ended June 30, 2018. The information in this SEFSA is presented in accordance with the requirements of Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the Operations of Pinnacle Classical Academy, it is not intended to and does not present the financial position, changes in net position, or cash flows of Pinnacle 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 as to reimbursement.
  
3. Indirect Cost Rate  
Pinnacle Classical Academy has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.
  
4. USDA Loans  
The amount of federal awards expended for the year under CFDA number 10.766 includes loan advances expended during the fiscal year of \$13,000,000. The ending outstanding balance as of June 30, 2018 of the USDA Direct Loan: USDA Community Facilities Loan and Grant was \$13,000,000.