

THE CROSSNORE SCHOOL & CHILDREN'S HOME

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

YEARS ENDED SEPTEMBER 30, 2017 AND 2016

**THE CROSSNORE SCHOOL & CHILDREN'S HOME
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
The Crossnore School & Children's Home
Crossnore, North Carolina

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The Crossnore School & Children's Home (a nonprofit organization), which comprise the consolidated statements of financial position as of September 30, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Crossnore School & Children's Home as of September 30, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Supplementary Information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from, and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



CliftonLarsonAllen LLP

Charlotte, North Carolina
January 19, 2018

THE CROSSNORE SCHOOL & CHILDREN'S HOME
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2017 AND 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,478,117	\$ 798,417
Unconditional Promises to Give, Current	478,089	348,578
Accounts Receivable, Net	693,867	353,793
Other Receivables	20,812	114,470
Prepaid Expenses	66,801	42,457
Investments	33,038,998	29,143,823
Inventory	543,924	536,163
Real Estate Held for Sale	132,000	132,000
Total Current Assets	36,452,608	31,469,701
UNCONDITIONAL PROMISES TO GIVE, NON-CURRENT, NET	496,601	1,100,050
BENEFICIAL INTERESTS IN PERPETUAL TRUSTS	3,486,371	-
BENEFICIAL INTERESTS IN TERM TRUST	107,461	-
PROPERTY AND EQUIPMENT, NET	26,171,099	19,422,043
Total Assets	\$ 66,714,140	\$ 51,991,794
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 758,997	\$ 527,597
Accrued Liabilities	494,804	400,087
Accrued Compensated Absences	74,516	39,204
Accrued Benefit Cost	410,520	-
Custodial Student Fund	17,552	15,943
Line of Credit	600,000	-
Total Current Liabilities	2,356,389	982,831
ENVIRONMENTAL REMEDIATION LIABILITY	83,625	-
NOTES PAYABLE	504,300	-
UNFUNDED PENSION OBLIGATION	116,998	-
Total Liabilities	3,061,312	982,831
NET ASSETS		
Unrestricted	53,314,449	46,352,136
Unrestricted - Internally Designated	783,265	777,786
Temporarily Restricted	5,121,592	3,251,118
Permanently Restricted	4,433,522	627,923
Total Net Assets	63,652,828	51,008,963
Total Liabilities and Net Assets	\$ 66,714,140	\$ 51,991,794

See accompanying Notes to Consolidated Financial Statements.

THE CROSSNORE SCHOOL & CHILDREN'S HOME
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE				
Contributions	\$ 3,942,583	\$ 1,832,636	\$ 29,200	\$ 5,804,419
In-Kind Support	330,969	-	-	330,969
Room and Board	5,130,877	-	-	5,130,877
Investment Income	3,315,986	-	30,059	3,346,045
Change in Beneficial Interests in Trusts	-	10,235	160,315	170,550
Supporting Business Activities	2,202,054	-	-	2,202,054
Other Income	195,014	-	-	195,014
Total	<u>15,117,483</u>	<u>1,842,871</u>	<u>219,574</u>	<u>17,179,928</u>
Net Assets Released from Restrictions	1,670,826	(1,670,826)	-	-
Total Support and Revenue	<u>16,788,309</u>	<u>172,045</u>	<u>219,574</u>	<u>17,179,928</u>
EXPENSES				
Program Services:				
Residential Living/Cottages	8,070,673	-	-	8,070,673
Case Management/Admissions	236,187	-	-	236,187
Intensive In Home / OP Therapy	1,406,110	-	-	1,406,110
Program Services Support	268,508	-	-	268,508
College Scholarships	110,684	-	-	110,684
Recreation	36,812	-	-	36,812
Dietary	859,980	-	-	859,980
Foster Care	639,042	-	-	639,042
Day Treatment	675,555	-	-	675,555
Academy/Education	148,815	-	-	148,815
Total Program Services	<u>12,452,366</u>	<u>-</u>	<u>-</u>	<u>12,452,366</u>
Supporting Services:				
Administrative	1,489,886	-	-	1,489,886
Advancement	905,098	-	-	905,098
Total Supporting Services	<u>2,394,984</u>	<u>-</u>	<u>-</u>	<u>2,394,984</u>
Other Services	1,523,358	-	-	1,523,358
Total Expenses	<u>16,370,708</u>	<u>-</u>	<u>-</u>	<u>16,370,708</u>
INCREASE IN NET ASSETS BEFORE OTHER GAINS	417,601	172,045	219,574	809,220
Contribution from Acquisition of The Children's Home	6,843,143	1,385,577	3,586,025	11,814,745
Other Reclassifications	(312,852)	312,852	-	-
Gains on Sale of Assets	19,900	-	-	19,900
INCREASE IN NET ASSETS	6,967,792	1,870,474	3,805,599	12,643,865
Net Assets - Beginning of Year	<u>47,129,922</u>	<u>3,251,118</u>	<u>627,923</u>	<u>51,008,963</u>
NET ASSETS - END OF YEAR	<u>\$ 54,097,714</u>	<u>\$ 5,121,592</u>	<u>\$ 4,433,522</u>	<u>\$ 63,652,828</u>

See accompanying Notes to Consolidated Financial Statements.

THE CROSSNORE SCHOOL & CHILDREN'S HOME
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Contributions	\$ 2,022,988	\$ 691,044	\$ 376,200	\$ 3,090,232
Donated Property	244,000	-	-	244,000
In-Kind Support	270,786	-	-	270,786
Room and Board	3,543,062	-	-	3,543,062
Investment Income	3,578,944	-	-	3,578,944
Supporting Business Activities	946,047	-	-	946,047
Other Income	86,356	-	-	86,356
Total	10,692,183	691,044	376,200	11,759,427
Net Assets Released from Restrictions	3,806,957	(3,806,957)	-	-
Total Support and Revenue	14,499,140	(3,115,913)	376,200	11,759,427
EXPENSES				
Program Services:				
Residential Living/Cottages	5,155,816	-	-	5,155,816
Case Management	339,123	-	-	339,123
Clinical Services	397,188	-	-	397,188
Program Services Support	264,492	-	-	264,492
College Scholarships	113,855	-	-	113,855
Recreation	195,829	-	-	195,829
Dietary	666,284	-	-	666,284
Academy/Education	56,102	-	-	56,102
Total Program Services	7,188,689	-	-	7,188,689
Supporting Services:				
Administrative	685,682	-	-	685,682
Advancement	608,410	-	-	608,410
Total Supporting Services	1,294,092	-	-	1,294,092
Other Services	1,108,157	-	-	1,108,157
Total Expenses	9,590,938	-	-	9,590,938
INCREASE (DECREASE) IN NET ASSETS BEFORE OTHER GAINS (LOSSES)	4,908,202	(3,115,913)	376,200	2,168,489
Loss on Sale of Assets	(279,848)	-	-	(279,848)
INCREASE (DECREASE) IN NET ASSETS	4,628,354	(3,115,913)	376,200	1,888,641
Net Assets - Beginning of Year	42,501,568	6,367,031	251,723	49,120,322
NET ASSETS - END OF YEAR	\$ 47,129,922	\$ 3,251,118	\$ 627,923	\$ 51,008,963

See accompanying Notes to Consolidated Financial Statements.

**THE CROSSNORE SCHOOL & CHILDREN'S HOME
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 12,643,865	\$ 1,888,641
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	2,198,656	1,391,504
Discount Amortization	5,888	-
Contribution from Acquisition of The Children's Home	(11,814,745)	-
Cash Received from The Children's Home	1,118,967	-
(Gain) Loss on Disposal or Sale of Property and Equipment	(19,900)	279,848
Unrealized Gain on Investments	(2,076,001)	(1,982,043)
Realized Gain on Investments	(753,241)	(1,193,920)
Investment Income	(10,864)	(211,392)
(Increase) Decrease in:		
Accounts Receivable	61,713	(54,881)
Promises to Give	473,938	902,165
Other Receivables	93,658	(75,481)
Prepaid Expenses	(24,344)	55,365
Inventory	(7,761)	(64,626)
Increase (Decrease) in:		
Accounts Payable	(610,385)	(97,818)
Custodial Student Funds	1,609	(5,114)
Accrued Liabilities and Compensated Absence	62,833	116,120
Unfunded Pension Liability	110,437	-
Net Cash Provided by Operating Activities	1,454,323	948,368
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(1,001,274)	(1,894,321)
Sale of Investments	1,815,536	1,958,929
Proceeds from Sale of Property and Equipment	19,900	77,486
Purchases of Plant, Property and Equipment	(2,208,785)	(4,789,508)
Net Cash Used in Investing Activities	(1,374,623)	(4,647,414)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Line of Credit	600,000	-
NET INCREASE (DECREASE) IN CASH	679,700	(3,699,046)
Cash - Beginning of Year	798,417	4,497,463
CASH - END OF YEAR	\$ 1,478,117	\$ 798,417
SUPPLEMENTAL SCHEDULE OF NON-CASH ACTIVITIES		
Noncash Investing and Financing Activities from Acquisition:		
Acquisition of Fixed Assets	\$ 6,130,000	\$ -
Acquisition of Beneficial Interests in Trusts	3,423,283	-
Acquisition of Notes Payable	498,412	-
Acquisition of Unfunded Pension Obligation	417,081	-
	\$ 10,468,776	\$ -
Purchases of Capital Assets in Accounts Payable	\$ 608,927	\$ 145,426
Cash Payments for Interest	\$ 6,984	\$ -

**THE CROSSNORE SCHOOL & CHILDREN'S HOME
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Crossnore School is a North Carolina non-profit organization whose purpose is to provide a stable environment for children from families in crisis. Their support comes primarily from charitable contributions and government funding.

Effective January 1, 2017, the Crossnore School entered into an Agreement of Merger with The Children's Home (the Home), another North Carolina non-profit organization whose purpose was to provide a stable environment for children from families in crisis, to expand its operations into the triad region of North Carolina (See Note 16). Under this agreement, all rights, powers and franchises of the Home vested with the Crossnore School and the Home ceased to exist as a separate legal entity in accordance with North Carolina general statutes. As a result of this Agreement of Merger, the organization's name was changed to The Crossnore School & Children's Home. There are campuses in Crossnore and Winston-Salem, North Carolina. The revenue and expense activity reflected in the consolidated financial statements for the Winston campus represent activity for the nine-month period ended September 30, 2017.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of The Crossnore School & Children's Home and its controlled affiliate, The Crossnore School Children's Foundation (the Foundation). Collectively, they are referred to as the "School." The Foundation was founded on October 1, 2012, to solicit, manage, invest and distribute assets for the benefit of The Crossnore School & Children's Home. The Crossnore School & Children's Home elected to transfer its investments into the Foundation, and the Foundation manages those assets and makes periodic distributions to The Crossnore School & Children's Home, in accordance with the Foundation's spending policy, in support of The Crossnore School & Children's Home's charitable and educational activities. All intercompany balances and transactions have been eliminated in consolidation.

Basis of Presentation

The accompanying consolidated financial statements of the School have been prepared on the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations.

Use of Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

THE CROSSNORE SCHOOL & CHILDREN'S HOME
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Classification of Net Assets

Contributions received are recorded as an increase in unrestricted, temporarily restricted or permanently restricted support, depending on the existence or nature of any donor restrictions, net assets of the School and changes therein are classified and reported as follows:

Unrestricted net assets consist of all resources of the School which have no donor-imposed restrictions. Unrestricted net assets consist of assets (including land, buildings, and equipment) and public support and revenue available and used for current operations and expenditures for current programs, equipment replacement, or other specific purposes. The School's governing board may, at their discretion, designate unrestricted net assets for a specified purpose.

Temporarily restricted net assets consist of contributions received whose use by the School is limited by donor-imposed stipulations that expire by passage of time or can be fulfilled by actions of the School. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as assets released from restrictions.

Permanently restricted net assets consist of contributions received from donors whose use by the School is restricted to investment in perpetuity. Income from the investment of permanently restricted net assets is classified as unrestricted or temporarily restricted.

Basis of Accounting

Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations. Support restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the same reporting period in which the contribution is recognized.

Cash and Cash Equivalents

The School considers money market accounts and highly liquid investments with an original maturity of three months or less to be cash equivalents, except those cash amounts maintained as part of the investment portfolio.

THE CROSSNORE SCHOOL & CHILDREN'S HOME
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Accounts Receivable

Receivables consist of contributions and other program receivables and are stated at cost less an allowance for doubtful accounts, where applicable. Unconditional promises receivable that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Amortization of the discounts is included in contribution revenue. At September 30, 2017 and 2016, management determined no allowance for uncollectible accounts was necessary.

Investments

Investments in marketable securities with readily determinable fair values are valued in the consolidated statements of financial position at their fair value. Fair value is determined by reference to exchange or dealer-quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar investment securities. Interest and dividend income and gains or losses on investments (including realized gains on sale of investments and gains on the change in fair value of investments) are included in support and revenue.

Donated investments are recorded at fair value at the date of receipt.

Inventories

Inventories are stated at the lower of cost or market. Donations of inventory items are recorded at estimated fair market value.

Real Estate Held for Sale

Generally accepted accounting principles require that long-lived assets to be sold be classified as "held for sale" in the period in which certain criteria are met, such as the estimated timeframe in which the assets are expected to be sold. As a result, depreciation is not recorded on an asset once it is deemed to be held for sale, and it is recorded in the consolidated financial statements at the lower of its carrying value or fair value less cost to sell.

Property and Equipment

The School capitalizes expenditures for property and equipment in excess of \$1,000 that have a useful life of more than one year. Property and equipment are recorded at cost or, if donated, at the estimated fair market value as of the date of donation. Depreciation is calculated on the straight-line method over the estimated useful life of the asset. Maintenance and repair costs are charged to expense as incurred. Gains and losses on disposal are reflected in its own line in the consolidated statements of activities.

Long-lived assets held and used by the School are reviewed for impairment whenever changes in circumstances indicate the carrying value of an asset may not be recoverable.

THE CROSSNORE SCHOOL & CHILDREN'S HOME
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Beneficial Interest in Term and Perpetual Trusts

The School holds a beneficial interest in several term and perpetual trusts. These trusts are administered by independent trustees and generally consist of cash and cash equivalents, mutual funds, and debt and equity securities, which are carried at fair value. Under the terms of the trusts, the donors have established and funded the trusts with specified distributions to be made to the School. Under the terms of perpetual trusts, distributions of income are to be made in perpetuity. Because the trusts are perpetual, these trusts are reported as a perpetual trust and are included in permanently restricted net assets. Under the terms of term trusts, the principal of the trust is to be distributed 25 years after the death of their surviving spouse. Due to this restriction, this fund is reported as a term trust and is included in temporarily restricted net assets.

Income distributions from these trusts are recorded as investment income in the consolidated statement of activities, while any appreciation (depreciation) in the trust value is recorded as a change in value of the term and perpetual trusts.

In-Kind Contributions

Donated materials and equipment are reflected as contributions in the accompanying consolidated financial statements at their estimated fair market value at date of receipt.

The School generally pays for services requiring specific expertise but does receive certain professional services at no cost. The School recognizes the value of contributed services that enhance non-financial assets. If the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by persons who possess those skills, and would otherwise be purchased by the School, a contribution is recorded at the fair value of the services.

Fair Value Measurements and Disclosures

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy. The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the School has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

THE CROSSNORE SCHOOL & CHILDREN'S HOME
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Fair Value Measurements and Disclosures (Continued)

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The Fair Value Option for Financial Assets and Liabilities allows entities the irrevocable option to elect fair value measurement for certain financial assets and liabilities that are not required to be reported at fair value, on an instrument-by-instrument basis. The School has not elected to measure any existing financial instruments at fair value at September 30, 2017 or 2016 under this standard. However, the School may elect to measure newly acquired financial instruments at fair value in the future.

Uniform Prudent Management of Institutional Funds Act

During fiscal year 2009, the Uniform Prudent Management of Institutional Funds Act (UPMIFA) became effective in the state of North Carolina. In August 2008, the FASB released the not-for-profit accounting standard for reporting of endowment funds (the UPMIFA Standard), which is intended to improve the quality and consistency of financial reporting of endowments held by not-for-profit organizations. Under UPMIFA, all unappropriated endowment funds are considered restricted.

Tax-Exempt Status

The Crossnore School & Children's Home is exempt from income taxes as a not-for-profit corporation under Internal Revenue Service Code Section 501(c)(3), and is not a private foundation. The Foundation is also exempt from income taxes as a not-for-profit corporation under Internal Revenue Service Code Section 501(c)(3). Accordingly, the consolidated financial statements do not reflect a provision for income taxes. The School is subject to a tax on income from any unrelated business.

The School follows guidance in the income tax standard regarding the recognition and measurement of uncertain tax positions. The guidance has had no impact on the School's consolidated financial statements.

Advertising

Advertising costs are expensed as incurred. Advertising expenses for the years ended September 30, 2017 and 2016 were \$116,571 and \$73,271, respectively.

**THE CROSSNORE SCHOOL & CHILDREN'S HOME
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Allocation of Functional Expenses

The School allocates functional expenses among programs and other departments. A time study was performed to assess the amount of time employees were spending among various departments and the School allocates costs based on these amounts.

Reclassifications

Certain amounts in the 2016 consolidated financial statements have been reclassified to conform to the 2017 presentation. These reclassifications had no effect on previously reported net assets or change in net assets.

Subsequent Events

The School has evaluated subsequent events through January 19, 2018, which is the date the consolidated financial statements were available to be issued.

NOTE 2 INVESTMENTS

As of September 30, 2017 and 2016, investments consisted of the following:

	2017	2016
Investments:		
Cash and Cash Equivalents	\$ 424,660	\$ 3,390,977
Fixed Income Investments	6,899,156	5,661,768
Mutual Funds	1,526,036	-
Equity Investments	23,143,029	18,996,627
Limited Partnership	1,041,468	1,094,451
Real Assets	4,649	-
Total Investments	\$ 33,038,998	\$ 29,143,823

THE CROSSNORE SCHOOL & CHILDREN'S HOME
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 2 INVESTMENTS (CONTINUED)

Unrestricted investment income consisted of the following for the years ended September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Interest Income	\$ 642,559	\$ 531,344
Investment Fees	(125,756)	(128,363)
Unrealized Gain, Net	2,076,001	1,982,043
Realized Gain, Net	753,241	1,193,920
Total Investment Income	<u>\$ 3,346,045</u>	<u>\$ 3,578,944</u>

NOTE 3 PROMISES TO GIVE

Promises to give consisted of the following at September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Due in Less than One Year	\$ 478,089	\$ 348,578
Due in Two to Five Years	500,791	1,114,791
	978,880	1,463,369
Less: Present Value Discount	(4,190)	(14,741)
Promises to Give, Net	<u>\$ 974,690</u>	<u>\$ 1,448,628</u>

The rate used to calculate the present value discount was 0.31%. At September 30, 2017, approximately \$23,000 of the outstanding promises to give are past due. Based on management's evaluation, they believe no allowance is necessary as of September 30, 2017 and 2016. However, management will continue to evaluate collectability of these amounts on a regular basis.

NOTE 4 PROPERTY AND EQUIPMENT, NET

Following is a summary of property and equipment and accumulated depreciation at September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Land and Land Improvements	\$ 8,442,686	\$ 2,225,943
Buildings and Improvements	28,570,437	22,549,739
Furniture and Equipment	3,619,559	2,573,418
Vehicles	1,072,871	899,153
Construction in Progress	343,924	4,853,512
Total	42,049,477	33,101,765
Less: Accumulated Depreciation	15,878,378	13,679,722
Net Property and Equipment	<u>\$ 26,171,099</u>	<u>\$ 19,422,043</u>

Depreciation expense totaled \$2,198,656 and \$1,391,504 for the years ended September 30, 2017 and 2016, respectively. Construction in progress at September 30, 2017 relates to general renovations to both campuses. Construction in progress at September 30, 2016 includes amounts related to the new Children's Village and renovations to the gym and fitness center on the Crossnore campus.

**THE CROSSNORE SCHOOL & CHILDREN'S HOME
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

NOTE 5 LINE OF CREDIT

The School has a line of credit with a financial institution which is renewable each year with a maximum borrowing limit of \$1,500,000 and an interest rate of the Prime Rate plus .5. The line of credit is secured by the property located at 100 DAR Drive, Crossnore, North Carolina. There were \$600,000 and \$0 in outstanding borrowings at September 30, 2017 and 2016, respectively, and is listed as a current liability as the loan matures on June 16, 2018.

NOTE 6 NOTES PAYABLE

As part of the merger discussed in Note 16, the School assumed the liability related to the Home's notes payable effective January 1, 2017. Notes payable consisted of the following at September 30, 2017:

Interest-free construction loan from a governmental agency, collateralized by a deed of trust, maturing on September 24, 2030, with a face amount of \$300,000. Constructed property must be used for its intended purpose.	\$ 300,000
Interest-free loan from a non-profit organization, collateralized by a deed of trust, maturing on September 14, 2040, net of unamortized discount of \$295,700 at September 30, 2017 (effective interest rate of 4%), with a face amount of \$500,000.	<u>204,300</u>
Total	<u><u>\$ 504,300</u></u>

Amortization of the discount is reported in the consolidated statement of activities as interest expense. The School recognized approximately \$6,000 as interest expense related to the interest free loans for the nine months ended September 30, 2017. The School has no regularly required scheduled payments associated with these notes.

NOTE 7 ACCRUED COMPENSATED ABSENCES

The School provides vacation and sick leave benefits to its employees and allows for the carryover of certain vacation leave from year to year. At September 30, 2017 and 2016, the School was liable for benefits to its employees of approximately \$76,000 and \$39,000, respectively.

THE CROSSNORE SCHOOL & CHILDREN'S HOME
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 8 RETIREMENT PLAN

As part of the transaction discussed in Note 16, the School assumed the liability related to the Home's noncontributory defined benefit pension plan (the Plan) which covered substantially all of its employees. The School's policy is to fund pension cost as recommended by the Plan's actuary. Contributions to the Plan comply with the funding requirements of the Employee Retirement Income Security Act. Assets of the Plan are invested in shares of the registered investment companies, including debt and equity mutual funds. The School uses a September 30 measurement date for its Plan. During 2006, the Board of Trustees of the Home froze the Plan's participation and limited it to employees hired on or before December 31, 2006.

The following sets forth changes in the benefit obligation, changes in Plan assets, and components of net periodic pension costs:

Change in Benefit Obligation	
Benefit Obligation - Beginning of Year	\$ 2,040,843
Interest Cost	90,968
Actuarial Gain	155,256
Benefits Paid	<u>(121,256)</u>
Benefit Obligation - End of Year	2,165,811
Change in Plan Assets	
Fair Value of Plan Assets, Beginning of Year	1,623,762
Actual Return on Plan Assets	135,787
Employer Contributions	-
Benefits Paid	<u>(121,256)</u>
Fair Value of Plan Assets, End of Year	<u>1,638,293</u>
Funded Status of Plan (Under-Funded)	<u><u>\$ (527,518)</u></u>
Amounts Recognized in Statement of Financial Position	
Accrued Benefit Cost	\$ 410,520
Unfunded Pension Obligation	<u>116,998</u>
	<u><u>\$ 527,518</u></u>
Components of Net Periodic Benefit Cost	
Interest Cost	\$ 90,968
Expected Return on Plan Assets	<u>(97,529)</u>
Net Periodic Pension Cost	<u><u>\$ (6,561)</u></u>
Amounts Recognized in Unrestricted Net Assets	
Unrecognized Net Prior Service Costs	\$ -
Unrecognized Net Loss	<u>116,998</u>
Net Amount	<u><u>\$ 116,998</u></u>

THE CROSSNORE SCHOOL & CHILDREN'S HOME
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 8 RETIREMENT PLAN (CONTINUED)

The School's accumulated benefit obligation at September 30, 2017 was \$2,165,811.

Assumptions

Weighted average assumptions used to determine the benefit obligation are as follows:

Discount Rate	5.60%
Rate of Compensation Increase	n/a

Weighted average assumptions used to determine the net benefit cost are as follows:

Discount Rate	5.60%
Expected Long-Term Return on Plan Assets	8.00%

The expected long-term rate of return for the Plan's total assets is based on an analysis of anticipated returns for equity and fixed income investments for the portfolio allocation.

Plan Assets

The Plan's assets are invested in various commingled equity and fixed income investment funds offered by Stanley Benefits. The Trustees of the Plan have in place an Investment Policy Statement that outlines objectives, policies, and guidelines for the Plan's investments. The targeted, long-term investment asset mix is 60%-70% equity funds and 30%-40% fixed income funds. The Plan's investment return objective is to provide an annual rate of return over a period of 5-10 years that meets or exceeds the Plan's actuarial expected rate of return of 8.0% annually.

The Plan weighted average asset allocations at September 30, by asset category are as follows:

Asset Category	
Cash and Cash Equivalents	2%
Equity Securities	50%
Debt Securities	48%
Total	100%

The School uses fair value measurements to record fair value adjustments to Plan assets and to determine fair value disclosures. For additional information on how the Home measures fair value refer to Note 1 – Organization and Summary of Significant Accounting Policies. The following tables set forth by level, within the fair value hierarchy, the Plan's assets at fair value as of September 30, 2017:

	Level 1	Level 2	Level 3	Total
Investments:				
Stock Mutual Funds	\$ 817,015	\$ -	\$ -	\$ 817,015
Bond Mutual Funds	373,989	-	-	373,989
Government Bonds	414,480	-	-	414,480
Total Investments	\$ 1,605,484	\$ -	\$ -	\$ 1,605,484

Plan assets included cash and cash equivalents of approximately \$33,000 as of September 30, 2017, which are not included in the fair value hierarchy tables above.

**THE CROSSNORE SCHOOL & CHILDREN'S HOME
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

NOTE 8 RETIREMENT PLAN (CONTINUED)

Future Contributions

The School expects to contribute approximately \$100,000 to the Plan during the year ending September 30, 2018.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

<u>Year Ending September 30,</u>	<u>Pension Benefits</u>
2018	\$ 60,000
2019	70,000
2020	80,000
2021	80,000
2022	80,000
2023 through 2026	680,000

Profit-Sharing Plan

The School maintains a profit-sharing plan with a 401(k) employee contribution option. All contributions by the School are discretionary and require Board approval. The School could match up to 50% of the first 8% deferred by eligible employees. The School also makes a 4% contribution for each eligible employee, upon board approval. The School made contributions to the 401(k) plan of \$336,373 and \$196,599 for the years ended September 30, 2017 and 2016, respectively.

NOTE 9 CONCENTRATIONS

The School banks with institutions that are insured by the Federal Deposit Insurance Corporation (FDIC), up to \$250,000. At times during the year, the School deposits may exceed the FDIC insured limits, especially during periods of high cash flows. Management believes there is no significant risk with respect to these deposits.

NOTE 10 CUSTODIAL SAVINGS ACCOUNT

The School maintains a custodial savings account for the benefit of the children of The Crossnore School & Children's Home. The savings account contains funds which are owned by the children; however, the School has discretion regarding when the funds are distributed. The account is recorded as an asset in the School's consolidated financial statements. An offsetting liability has also been recorded to reflect the children's interests in this account.

THE CROSSNORE SCHOOL & CHILDREN'S HOME
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 11 NET ASSETS

Unrestricted – Internally Designated

Unrestricted – internal designated net assets are available for the following purposes at September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Residential Scholarships	\$ 112,193	\$ 112,088
Endowment Fund	671,072	665,698
Total	<u>\$ 783,265</u>	<u>\$ 777,786</u>

Funds designated for the endowment relate to investments held to secure the long-term future of the School and support the School and its efforts to further its mission.

Temporarily Restricted

Temporarily restricted net assets consisted of the following at September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Restricted for Time:		
Beneficial Interest	\$ 107,461	\$ -
Loan Forgiveness	295,700	-
Restricted for Purpose:		
Building Projects	871,406	142,530
Classroom Without Walls	821,025	750,000
Residential Scholarships	651,704	618,769
College Scholarships	1,774,282	1,209,516
Other	600,014	530,303
Total	<u>\$ 5,121,592</u>	<u>\$ 3,251,118</u>

During the years ended September 30, 2017 and 2016, net assets were released from donor restrictions by expenditures on construction projects and incurring expenses satisfying the restricted purposes totaling \$1,670,826 and \$3,806,957, respectively.

THE CROSSNORE SCHOOL & CHILDREN'S HOME
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 11 NET ASSETS (CONTINUED)

Permanently Restricted

Permanently restricted net assets consisted of the following at September 30, 2017 and 2016:

	2017	2016
Beneficial Interests in Perpetual Trusts	\$ 3,486,371	\$ -
Residential Scholarships	113,224	113,224
College Scholarships	432,400	244,699
Other	401,527	270,000
Total	\$ 4,433,522	\$ 627,923

Endowment Funds

The School has several endowment funds, the income of which may be expended for specific purposes. Effective October 1, 2008, the School adopted the provisions of the financial accounting standard for endowments of not-for-profit organizations (the "UPMIFA Standard") with respect to the accounting for the corpus and income recognition on endowment funds as follows:

Corpus

Endowment funds include: (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the endowment. The School consults with legal counsel on the interpretation of UPMIFA with regard to preserving the fair value of original gifts as of the gift date of donor-restricted endowment funds, absent explicit donor stipulations to the contrary.

Income

Income earned on endowment funds that is not required by the donor to be added to the corpus of the endowment is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the School in a manner consistent with the standard of prudence prescribed in UPMIFA. Income earned on endowment funds which is expended within the same year as received is reflected as unrestricted investment income in the accompanying consolidated statements of activities. The School considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the School and the donor restricted endowment fund
- General economic conditions
- The expected total return from income and the appreciation of investments
- Other resources of the School
- The investment policy of the School

**THE CROSSNORE SCHOOL & CHILDREN'S HOME
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

NOTE 11 NET ASSETS (CONTINUED)

Permanently Restricted (Continued)

Investment Objectives and Strategies

The School has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets include those assets of donor-restricted funds that the School must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to preserve and grow capital, strive for consistent absolute returns, preserve purchasing power by striving for long-term returns which either match or exceed the set payout, fees and inflation without putting the principal value at imprudent risk, and diversify investments consistent with commonly accepted industry standard to minimize the risk of large losses.

To satisfy its long-term rate of return objectives, the School relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Management targets a diversified asset allocation that meets the School's long-term rate-of-return objectives while avoiding undue risk from imprudent concentration in any single asset class or investment vehicle.

Appropriation Policy

The School's spending policy is consistent with its objective to preserve the fair value of the original gift of the endowment assets held in perpetuity as well, as to provide additional real growth through new gifts and investment return.

Deficiencies

From time to time, the fair value of the assets in endowment funds may fall below the required level stipulated by the donor. In accordance with UPMIFA Standard, deficiencies of this nature are reported in unrestricted net assets. If future investments do not alleviate the deficit, the School may be required to contribute additional amounts to the fund. There were no deficiencies at September 30, 2017 and 2016.

The following table summarized endowment fund activity, including contributions, income earned and appropriations for the years ended September 30, 2017 and 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets, Year Ended September 30, 2015	\$ -	\$ -	\$ 251,723	\$ 251,723
Contributions	-	-	376,200	376,200
Investment Income	-	-	-	-
Appropriations for Expenditures	-	-	-	-
Net Assets, Year Ended September 30, 2016	-	-	627,923	627,923
Contributions	-	-	29,200	29,200
Transferred from the Children's Home	-	-	259,969	259,969
Net Gain of Securities	-	-	30,059	30,059
Net Assets, Year Ended September 30, 2017	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 947,151</u>	<u>\$ 947,151</u>

THE CROSSNORE SCHOOL & CHILDREN'S HOME
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 12 FAIR VALUE MEASUREMENTS

The School uses fair value measurements to record fair value adjustments to certain assets to determine fair value disclosures. All assets have been valued using a market approach, except for Level 3 beneficial interest in trusts. Beneficial interests are valued based on the present value of expected future cash flows. For additional information on how the School measures fair value refer to Note 1 – Organization and Summary of Significant Accounting Policies.

The following table presents the fair value hierarchy for the balances of the assets of the School measured at fair value on a recurring basis as of September 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed Income	\$ -	\$ 6,899,156	\$ -	\$ 6,899,156
Mutual Funds	1,526,036	-	-	1,526,036
Equity Investments	23,143,029	-	-	23,143,029
Limited Partnerships	-	-	1,041,468	1,041,468
Real Assets	-	4,649	-	4,649
Beneficial Interest in Trusts	-	-	3,593,832	3,593,832
Total Assets at Fair Value	<u>\$ 24,669,065</u>	<u>\$ 6,903,805</u>	<u>\$ 4,635,300</u>	<u>\$ 36,208,170</u>

The following table presents the fair value hierarchy for the balances of the assets of the School measured at fair value on a recurring basis as of September 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed Income	\$ -	\$ 5,661,768	\$ -	\$ 5,661,768
Equity Investments	18,996,627	-	-	18,996,627
Limited Partnership	-	-	1,094,451	1,094,451
Total Assets at Fair Value	<u>\$ 18,996,627</u>	<u>\$ 5,661,768</u>	<u>\$ 1,094,451</u>	<u>\$ 25,752,846</u>

The following table illustrates the activity of Level 3 assets measured at fair value on a recurring basis from September 30, 2015 to September 30, 2017:

Fair Value - September 30, 2015	\$ 3,785,901
Unrealized Gains on Investments	127,730
Sale of Assets	<u>(2,819,180)</u>
Fair Value - September 30, 2016	1,094,451
Transferred from the Children's Home	3,423,283
Unrealized Gains on Investments	<u>117,566</u>
Fair Value - September 30, 2017	<u>\$ 4,635,300</u>

**THE CROSSNORE SCHOOL & CHILDREN'S HOME
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

NOTE 13 RESERVE FOR SELF-INSURANCE

The School maintains a health care plan for its' employees which is partially self-insured, subsidizing up to \$2,500 of the first \$5,000 in medical expenses per employee per year for the years ended September 30, 2017 and 2016. The School accrues a reserve for self-insurance, which is classified as a current liability. As of September 30, 2017 and 2016, the balances in the reserve account were \$284,086 and \$134,233, respectively.

NOTE 14 RELATED PARTY TRANSACTIONS

The School pays for some expenses on behalf of The Crossnore Academy, such as facilities, maintenance and utilities. The School charges only \$1 per year to The Crossnore Academy for those amenities. Expenses for items paid for by the School on behalf of The Crossnore Academy totaled \$109,511 and \$56,102 for the years ended September 30, 2017 and 2016, respectively.

The School's Board Chair is the President of Linville Resorts, Inc., which owns Chestnut Construction Co. During the years ended September 30, 2017 and 2016, the School contracted with Chestnut Construction Co. to construct some of the School's large capital projects. Costs incurred with Chestnut Construction Co. during 2016 was \$4,193.

NOTE 15 FUNCTIONAL EXPENSES

The following schedule details functional expense as compared to total expense:

	<u>2017</u>	<u>2016</u>
Program Activities	\$ 12,452,366	\$ 7,188,689
General and Administrative	3,266,020	2,250,049
Fundraising	652,322	152,200
	<u>\$ 16,370,708</u>	<u>\$ 9,590,938</u>

**THE CROSSNORE SCHOOL & CHILDREN'S HOME
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

NOTE 16 BUSINESS COMBINATION

As noted in Note 1, effective January 1, 2017, The Crossnore School entered into an Agreement of Merger with The Children's Home. As no consideration was paid for this transaction it resulted in contribution from acquisition of The Children's Home of \$11,814,745. The Crossnore School assumed control of the following assets and liabilities as a result of this transaction:

Cash	\$ 1,118,967
Receivables	401,790
Investments	2,039,877
Beneficial Interest in Term Trust	97,226
Beneficial Interests in Perpetual Trusts	3,326,057
Fixed Assets	6,130,000
Accounts Payable	(232,858)
Accrued Expenses	(67,196)
Notes Payable	(498,412)
Unfunded Pension Obligation	(417,081)
Environmental Remediation Liability	(83,625)
Contribution from Acquisition of The Children's Home	<u>\$ 11,814,745</u>

THE CROSSNORE SCHOOL & CHILDREN'S HOME
CONSOLIDATED SCHEDULES OF SUPPORT AND REVENUE
YEAR ENDED SEPTEMBER 30, 2017
(WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2016)
(SEE INDEPENDENT AUDITORS' REPORT)

	2017						2016	
	Crossnore Campus			Winston Campus			Total	Comparative Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted		
SUPPORT								
Contributions:								
Individuals	\$ 1,311,897	\$ 800,094	\$ 29,200	\$ 494,155	\$ 1,032,543	\$ -	\$ 3,667,889	\$ 2,489,897
Legacies and Bequests	406,063	-	-	642,530	-	-	1,048,593	314,901
Foundations	268,149	-	-	-	-	-	268,149	89,439
Trusts	706,816	-	-	79,651	-	-	786,467	234,134
Special Events	33,321	-	-	-	-	-	33,321	(38,139)
Total Contributions	<u>2,726,246</u>	<u>800,094</u>	<u>29,200</u>	<u>1,216,336</u>	<u>1,032,543</u>	<u>-</u>	<u>5,804,419</u>	<u>3,090,232</u>
DONATED PROPERTY	-	-	-	-	-	-	-	244,000
IN-KIND SUPPORT - SALES STORE	330,969	-	-	-	-	-	330,969	270,786
REVENUE								
Room and Board:								
Foster Care Funds	4,320,086	-	-	627,431	-	-	4,947,517	3,377,199
Academy Contract	105,972	-	-	-	-	-	105,972	90,730
School Food Programs	70,900	-	-	-	-	-	70,900	52,301
Relatives	3,655	-	-	2,833	-	-	6,488	22,832
Total Room and Board	<u>4,500,613</u>	<u>-</u>	<u>-</u>	<u>630,264</u>	<u>-</u>	<u>-</u>	<u>5,130,877</u>	<u>3,543,062</u>
INVESTMENT INCOME								
Interest and Dividends	618,618	-	-	23,941	-	-	642,559	531,344
Investment Fees	(125,173)	-	-	(583)	-	-	(125,756)	(128,363)
Investment Gains	2,479,285	-	-	319,898	-	30,059	2,829,242	3,175,963
Total Investment Income	<u>2,972,730</u>	<u>-</u>	<u>-</u>	<u>343,256</u>	<u>-</u>	<u>30,059</u>	<u>3,346,045</u>	<u>3,578,944</u>
CHANGE IN BENEFICIAL INTEREST IN TRUSTS	-	-	-	-	10,235	160,315	170,550	-
SUPPORTING BUSINESS ACTIVITIES								
Blair Fraley Sales Store	244,089	-	-	-	-	-	244,089	256,666
Crossnore Weavers and Gallery	483,563	-	-	-	-	-	483,563	453,016
Miracle Grounds Coffee Shop	117,188	-	-	-	-	-	117,188	108,100
Farm Sales	-	-	-	95,475	-	-	95,475	-
Behavioral Health:								
Mental and Medical Services	68,740	-	-	820,669	-	-	889,409	250
Foster Care and Adoptions	20,420	-	-	351,910	-	-	372,330	128,015
Total Supporting Business Activities	<u>934,000</u>	<u>-</u>	<u>-</u>	<u>1,268,054</u>	<u>-</u>	<u>-</u>	<u>2,202,054</u>	<u>946,047</u>
OTHER INCOME								
Rents and Royalties	108,447	-	-	-	-	-	108,447	79,071
Other Revenue	3,258	-	-	83,309	-	-	86,567	7,285
Total Other Income	<u>111,705</u>	<u>-</u>	<u>-</u>	<u>83,309</u>	<u>-</u>	<u>-</u>	<u>195,014</u>	<u>86,356</u>
Total Support and Revenue	<u>\$ 11,576,263</u>	<u>\$ 800,094</u>	<u>\$ 29,200</u>	<u>\$ 3,541,219</u>	<u>\$ 1,042,778</u>	<u>\$ 190,374</u>	<u>\$ 17,179,928</u>	<u>\$ 11,759,427</u>

THE CROSSNORE SCHOOL & CHILDREN'S HOME
CONSOLIDATED SCHEDULES OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2017
(WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2016)
(SEE INDEPENDENT AUDITORS' REPORT)

	2017			2017			Total	Comparative Total
	Crossnore Campus			Winston Campus				
	Program Services	Supporting Services	Other Services	Program Services	Supporting Services	Other Services		
Salaries	\$ 3,368,422	\$ 491,229	\$ 268,965	\$ 2,044,112	\$ 476,265	\$ 86,192	\$ 6,735,185	\$ 3,802,122
Payroll Taxes	267,653	35,515	23,532	160,087	35,757	6,994	529,538	326,040
Employee Benefits	652,510	101,430	39,100	400,730	188,630	20,268	1,402,668	707,185
Insurance	294,973	1,732	7,438	127,191	777	5,962	438,073	353,953
Supplies	141,777	8,969	9,943	36,708	14,667	5,000	217,064	165,593
Utilities	321,554	32,102	23,943	162,678	34,625	9,612	584,514	362,171
Student Special Needs	105,685	-	-	13,493	-	-	119,178	127,489
Student Scholarships	110,684	-	-	-	-	-	110,684	113,855
Student Allowances	58,011	-	-	9,897	-	-	67,908	54,070
Staff Expenses	43,237	15,619	6,382	41,672	9,823	974	117,707	52,545
Food and Beverage	453,368	1,362	1,022	34,282	713	24	490,771	336,435
First Aid	41,796	-	37	7,031	-	26	48,890	41,535
Recreation	98,000	2,980	-	32,196	1,047	-	134,223	115,040
Equipment Rental	10,733	6,409	3	8,026	5,805	4	30,980	27,605
Freight and Postage	2,536	23,166	93	1,104	20,465	1,680	49,044	32,457
Professional Services	64,841	69,515	59	272,770	85,481	34,119	526,785	115,082
Maintenance, Repairs and Contract Labor	245,898	32,409	6,343	159,591	47,276	97,835	589,352	205,238
Advertising	3,636	43,994	540	1,140	37,303	4,857	91,470	73,271
Dues and Subscriptions	4,959	8,392	156	2,921	3,214	104	19,746	18,450
Classrooms Without Walls	92,909	-	-	-	-	-	92,909	79,479
Pet and Equine Therapy	24,848	-	-	-	-	-	24,848	15,425
Holiday Gifts	41,350	-	-	-	-	-	41,350	41,867
Printing, Publishing and Solicitation	4,669	69,349	-	1,049	55,478	4,537	135,082	79,877
Property Taxes	1,174	-	6,962	-	-	-	8,136	9,766
Auto Expense	68,587	9,414	9,846	17,396	15,048	7,721	128,012	69,931
Student Work Programs	45,070	-	-	-	-	-	45,070	18,536
Travel	35,387	36,047	3,779	24,610	20,933	1,103	121,859	85,866
Cost of Goods Sold	-	-	678,300	-	-	12,003	690,303	596,266
Special Programs	40,605	-	-	4,756	630	27,979	73,970	-
Bank Service Charges	-	11,027	21,161	-	8,315	-	40,503	35,956
Trust Management Fees	-	97,801	-	-	33,184	-	130,985	130,702
Interest Expense	-	10,547	-	-	9,404	-	19,951	-
Bad Debt Expense	21,352	-	-	252,550	-	-	273,902	-
Miscellaneous	15,315	74	9,219	15,451	1,333	-	41,392	5,627
Total Expenses before Depreciation	6,681,539	1,109,082	1,116,823	3,831,441	1,106,173	326,994	14,172,052	8,199,434
Depreciation	1,883,379	145,900	71,612	56,007	33,829	7,929	2,198,656	1,391,504
Total Expenses	<u>\$ 8,564,918</u>	<u>\$ 1,254,982</u>	<u>\$ 1,188,435</u>	<u>\$ 3,887,448</u>	<u>\$ 1,140,002</u>	<u>\$ 334,923</u>	<u>\$ 16,370,708</u>	<u>\$ 9,590,938</u>

THE CROSSNORE SCHOOL & CHILDREN'S HOME
CONSOLIDATED SCHEDULES OF PROGRAM SERVICES EXPENSES – CROSSNORE CAMPUS
YEAR ENDED SEPTEMBER 30, 2017
(WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2016)
(SEE INDEPENDENT AUDITORS' REPORT)

	2017								2016	
	<u>Crossnore Campus</u>									
	Residential Living/ Cottages	Case Management	OP Therapy	Program Services Support	College Scholarships	Recreation	Dietary	Academy/ Education	Total	Comparative Total
Salaries	\$ 2,711,380	\$ 59,931	\$ 277,913	\$ 86,808	\$ -	\$ -	\$ 193,008	\$ 39,382	\$ 3,368,422	\$ 2,970,438
Payroll Taxes	214,633	4,693	22,106	7,433	-	-	15,737	3,051	267,653	254,795
Employee Benefits	536,020	8,273	45,457	15,026	-	-	39,886	7,848	652,510	585,155
Insurance	288,592	4,756	1,167	71	-	-	301	86	294,973	339,312
Supplies	105,727	1,069	2,861	894	-	-	29,010	2,216	141,777	131,217
Utilities	235,391	3,037	11,037	1,728	-	-	28,604	41,757	321,554	322,522
Student Special Needs	105,685	-	-	-	-	-	-	-	105,685	127,489
Student Scholarships	-	-	-	-	110,684	-	-	-	110,684	113,855
Student Allowances	58,011	-	-	-	-	-	-	-	58,011	54,070
Staff Expenses	14,541	363	3,611	22,305	-	-	2,034	383	43,237	35,352
Food and Beverage	99,497	16	523	8	-	-	353,324	-	453,368	306,990
First Aid	41,796	-	-	-	-	-	-	-	41,796	40,774
Recreation	61,188	-	-	-	-	36,812	-	-	98,000	115,040
Equipment Rental	5,380	7	210	1	-	-	3,632	1,503	10,733	11,931
Freight and Postage	2,536	-	-	-	-	-	-	-	2,536	4,569
Professional Services	31,318	118	33,047	33	-	-	180	145	64,841	70,635
Maintenance, Repairs and Contract Labor	195,773	3,517	2,942	1,793	-	-	22,899	18,974	245,898	194,809
Advertising	3,636	-	-	-	-	-	-	-	3,636	2,198
Dues and Subscriptions	4,275	57	372	19	-	-	156	80	4,959	6,539
Classrooms Without Walls	63,217	-	-	-	-	-	-	29,692	92,909	79,479
Pet and Equine Therapy	12,153	-	12,695	-	-	-	-	-	24,848	15,425
Holiday Gifts	41,350	-	-	-	-	-	-	-	41,350	41,867
Printing, Publishing and Solicitation	4,669	-	-	-	-	-	-	-	4,669	9,363
Property Taxes	1,174	-	-	-	-	-	-	-	1,174	3,464
Auto Expense	62,557	1,498	276	285	-	-	827	3,144	68,587	54,063
Student Work Programs	45,070	-	-	-	-	-	-	-	45,070	18,536
Travel	28,163	998	2,288	1,113	-	-	2,271	554	35,387	19,142
Special Programs	40,434	-	171	-	-	-	-	-	40,605	-
Bad Debt Expense	-	-	21,352	-	-	-	-	-	21,352	-
Miscellaneous	15,315	-	-	-	-	-	-	-	15,315	6,572
Total Expenses before Depreciation	<u>5,029,481</u>	<u>88,333</u>	<u>438,028</u>	<u>137,517</u>	<u>110,684</u>	<u>36,812</u>	<u>691,869</u>	<u>148,815</u>	<u>6,681,539</u>	<u>5,935,601</u>
Depreciation	1,692,060	53,749	11,054	358	-	-	126,158	-	1,883,379	1,253,088
Total Expenses	<u>\$ 6,721,541</u>	<u>\$ 142,082</u>	<u>\$ 449,082</u>	<u>\$ 137,875</u>	<u>\$ 110,684</u>	<u>\$ 36,812</u>	<u>\$ 818,027</u>	<u>\$ 148,815</u>	<u>\$ 8,564,918</u>	<u>\$ 7,188,689</u>

THE CROSSNORE SCHOOL & CHILDREN'S HOME
CONSOLIDATED SCHEDULES OF PROGRAM SERVICES EXPENSES – WINSTON CAMPUS
YEAR ENDED SEPTEMBER 30, 2017
(SEE INDEPENDENT AUDITORS' REPORT)

	2017							
	Winston Campus							
	Residential Living/ Cottages	Admissions	Intensive In Home / OP Therapy	Program Services Support	Foster Care	Dietary	Day Treatment	Total
Salaries	\$ 673,632	\$ 57,809	\$ 479,760	\$ 52,947	\$ 314,009	\$ 11,938	\$ 454,017	\$ 2,044,112
Payroll Taxes	52,486	4,642	37,462	4,135	24,576	920	35,866	160,087
Employee Benefits	134,142	13,367	88,466	10,195	75,175	5,769	73,616	400,730
Insurance	55,750	1,911	25,703	46	18,441	14	25,326	127,191
Supplies	17,894	1,429	1,342	1,497	3,701	7,625	3,220	36,708
Utilities	93,580	1,252	14,882	21,091	6,448	779	24,646	162,678
Student Special Needs	12,780	389	-	-	-	-	324	13,493
Student Allowances	9,897	-	-	-	-	-	-	9,897
Staff Expenses	6,936	572	9,131	16,184	4,415	181	4,253	41,672
Food and Beverage	17,491	56	693	136	1,227	9,812	4,867	34,282
First Aid	7,031	-	-	-	-	-	-	7,031
Recreation	32,196	-	-	-	-	-	-	32,196
Equipment Rental	2,931	-	1,630	689	605	531	1,640	8,026
Freight and Postage	802	-	1	2	116	180	3	1,104
Professional Services	53,014	2,597	27,733	6,869	161,877	1,791	18,889	272,770
Maintenance, Repairs and Contract Labor	119,174	3,396	5,776	11,288	1,661	948	17,348	159,591
Advertising	766	-	-	-	374	-	-	1,140
Dues and Subscriptions	1,966	-	567	-	32	24	332	2,921
Printing, Publishing and Solicitation	699	-	-	-	349	1	-	1,049
Auto Expense	8,322	2,503	1,528	1,422	1,198	611	1,812	17,396
Travel	8,142	601	8,532	349	4,252	405	2,329	24,610
Special Programs	98	-	135	-	518	-	4,005	4,756
Bad Debt Expense	-	-	252,550	-	-	-	-	252,550
Miscellaneous	1,323	-	-	-	14,128	-	-	15,451
Total Expenses before Depreciation	<u>1,311,052</u>	<u>90,524</u>	<u>955,891</u>	<u>126,850</u>	<u>633,102</u>	<u>41,529</u>	<u>672,493</u>	<u>3,831,441</u>
Depreciation	38,080	3,581	1,137	3,783	5,940	424	3,062	56,007
Total Expenses	<u>\$ 1,349,132</u>	<u>\$ 94,105</u>	<u>\$ 957,028</u>	<u>\$ 130,633</u>	<u>\$ 639,042</u>	<u>\$ 41,953</u>	<u>\$ 675,555</u>	<u>\$ 3,887,448</u>

THE CROSSNORE SCHOOL & CHILDREN'S HOME
CONSOLIDATED SCHEDULES OF SUPPORTING SERVICES EXPENSES
YEAR ENDED SEPTEMBER 30, 2017
(WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2016)
(SEE INDEPENDENT AUDITORS' REPORT)

	2017				2016	
	Crossnore Campus		Winston Campus		Total	Comparative Total
	Administrative	Advancement	Administrative	Advancement		
Salaries	\$ 277,416	\$ 213,813	\$ 293,068	\$ 183,197	\$ 967,494	\$ 549,019
Payroll Taxes	18,372	17,143	21,973	13,784	71,272	45,604
Employee Benefits	56,117	45,313	153,220	35,410	290,060	86,014
Insurance	1,165	567	393	384	2,509	5,654
Supplies	5,731	3,238	12,083	2,584	23,636	8,476
Utilities	26,290	5,812	31,488	3,137	66,727	16,559
Staff Expenses	11,873	3,746	7,469	2,354	25,442	14,373
Food and Beverage	1,126	236	652	61	2,075	29,360
First Aid	-	-	-	-	-	761
Recreation	-	2,980	-	1,047	4,027	-
Equipment Rental	3,819	2,590	3,478	2,327	12,214	15,674
Freight and Postage	2,897	20,269	6,340	14,125	43,631	27,140
Professional Services	49,294	20,221	70,472	15,009	154,996	44,339
Maintenance, Repairs and Contract Labor	17,434	14,975	38,169	9,107	79,685	5,684
Advertising	150	43,844	2,440	34,863	81,297	68,290
Dues and Subscriptions	6,893	1,499	1,775	1,439	11,606	11,735
Printing, Publishing and Solicitation	4,669	64,680	3,754	51,724	124,827	70,514
Auto Expense	5,766	3,648	13,777	1,271	24,462	6,606
Travel	14,943	21,104	7,529	13,404	56,980	64,906
Special Programs	-	-	-	630	630	-
Bank Service Charges	11,027	-	8,315	-	19,342	19,304
Trust Management Fees	97,801	-	33,184	-	130,985	130,702
Interest Expense	10,547	-	9,404	-	19,951	-
Miscellaneous	74	-	1,333	-	1,407	906
Total Expenses before Depreciation	<u>623,404</u>	<u>485,678</u>	<u>720,316</u>	<u>385,857</u>	<u>2,215,255</u>	<u>1,221,620</u>
Depreciation	127,042	18,858	19,124	14,705	179,729	72,472
Total Expenses	<u>\$ 750,446</u>	<u>\$ 504,536</u>	<u>\$ 739,440</u>	<u>\$ 400,562</u>	<u>\$ 2,394,984</u>	<u>\$ 1,294,092</u>

THE CROSSNORE SCHOOL & CHILDREN'S HOME
CONSOLIDATED SCHEDULES OF OTHER SERVICES EXPENSES
YEAR ENDED SEPTEMBER 30, 2017
(WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2016)
(SEE INDEPENDENT AUDITORS' REPORT)

	2017							2016
	Crossnore Campus				Winston Campus			Comparative Total
	Blair Fraley Sales Store	Weavers and Gallery	Miracle Grounds Coffee Shop	Crossnore Clinic	Farm	Medical Clinic	Total	
Salaries	\$ 141,015	\$ 38,333	\$ 51,641	\$ 37,976	\$ 58,695	\$ 27,497	\$ 355,157	\$ 282,665
Payroll Taxes	12,166	3,332	4,317	3,717	4,861	2,133	30,526	25,641
Employee Benefits	13,711	11,035	8,275	6,079	15,692	4,576	59,368	36,016
Insurance	151	4,112	(490)	3,665	4,417	1,545	13,400	8,987
Supplies	1,543	4,799	1,926	1,675	4,462	538	14,943	25,900
Utilities	13,644	3,721	4,296	2,282	9,395	217	33,555	23,090
Staff Expenses	1,334	4,155	375	518	450	524	7,356	2,820
Food and Beverage	230	478	298	16	23	1	1,046	85
First Aid	-	-	-	37	-	26	63	-
Equipment Rental	-	-	-	3	-	4	7	-
Freight and Postage	-	93	-	-	1,680	-	1,773	748
Professional Services	-	-	-	59	4,955	29,164	34,178	108
Maintenance, Repairs and Contract Labor	1,899	424	1,798	2,222	97,192	643	104,178	4,745
Advertising	-	-	540	-	4,857	-	5,397	2,783
Dues and Subscriptions	-	124	-	32	98	6	260	176
Printing, Publishing and Solicitation	-	-	-	-	4,537	-	4,537	-
Property Taxes	5,662	1,300	-	-	-	-	6,962	6,302
Auto Expense	8,678	185	-	983	7,478	243	17,567	9,262
Travel	885	1,712	212	970	915	188	4,882	1,818
Cost of Goods Sold	312,025	335,445	30,830	-	12,003	-	690,303	596,266
Special Programs	-	-	-	-	27,979	-	27,979	-
Bank Service Charges	2,919	10,452	7,790	-	-	-	21,161	16,652
Miscellaneous	-	9,219	-	-	-	-	9,219	(1,851)
Total Expenses before Depreciation	<u>515,862</u>	<u>428,919</u>	<u>111,808</u>	<u>60,234</u>	<u>259,689</u>	<u>67,305</u>	<u>1,443,817</u>	<u>1,042,213</u>
Depreciation	35,702	30,102	5,369	439	7,740	189	79,541	65,944
Total Expenses	<u>\$ 551,564</u>	<u>\$ 459,021</u>	<u>\$ 117,177</u>	<u>\$ 60,673</u>	<u>\$ 267,429</u>	<u>\$ 67,494</u>	<u>\$ 1,523,358</u>	<u>\$ 1,108,157</u>