

**THE CROSSNORE SCHOOL**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**YEAR ENDED SEPTEMBER 30, 2015**

**THE CROSSNORE SCHOOL  
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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
The Crossnore School  
Crossnore, North Carolina

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

We have audited the accompanying consolidated financial statements of The Crossnore School (a nonprofit organization), which comprise the consolidated statement of net position as of September 30, 2015, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the 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 audit. We conducted our audit 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.

***Basis for Qualified Opinion***

As more fully described in Note 2 to the consolidated financials statements, The Crossnore School's investment in a closely held company acquired via donation in a prior year is carried at \$2,819,180 in the consolidated statement of financial position at September 30, 2015. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of The Crossnore School's investment in this company as of September 30, 2015. In our opinion, accounting principles generally accepted in the United States of America require that this investment be recorded at fair value at the date of donation and accounted for under the cost basis of accounting. The effects of this departure from accounting principles generally accepted in the United States of America on the financial position of The Crossnore School have not been determined.

***Qualified Opinion***

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Crossnore School as of September 30, 2015, and the changes in its net assets and its cash flows for the year 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  
February 2, 2016

**THE CROSSNORE SCHOOL  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
SEPTEMBER 30, 2015**

**ASSETS**

**CURRENT ASSETS**

Cash	\$ 4,497,463
Unconditional Promises to Give, Current	751,800
Accounts Receivable, Net	298,912
Other Receivables	38,989
Prepaid Expenses	97,822
Investments	25,821,076
Inventory	471,537
Contributed Real Estate Held for Sale	132,000
Total Current Assets	32,109,599

**UNCONDITIONAL PROMISES TO GIVE, NON-CURRENT, NET**

1,598,993

**PROPERTY AND EQUIPMENT, NET**

16,235,947

Total Assets

\$ 49,944,539

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts Payable	\$ 479,989
Accrued Liabilities	289,923
Accrued Compensated Absences	33,248
Custodial Student Fund	21,057
Total Current Liabilities	824,217

**NET ASSETS**

Unrestricted	41,731,551
Unrestricted - Internally Designated	770,017
Temporarily Restricted	6,367,031
Permanently Restricted	251,723
Total Net Assets	49,120,322

Total Liabilities and Net Assets

\$ 49,944,539

*See accompanying Notes to Consolidated Financial Statements.*

**THE CROSSNORE SCHOOL**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**YEAR ENDED SEPTEMBER 30, 2015**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUE</b>				
Contributions	\$ 6,309,663	\$ 3,331,299	\$ 1,532	\$ 9,642,494
In-Kind Support	401,482	-	-	401,482
Room and Board	3,466,331	-	-	3,466,331
Investment Income	(815,548)	-	-	(815,548)
Supporting Business Activities	938,097	-	-	938,097
Other Income (Loss)	(2,940)	-	-	(2,940)
Total	<u>10,297,085</u>	<u>3,331,299</u>	<u>1,532</u>	<u>13,629,916</u>
Net Assets Released from Restrictions	674,074	(674,074)	-	-
Total Support and Revenue	<u>10,971,159</u>	<u>2,657,225</u>	<u>1,532</u>	<u>13,629,916</u>
<b>EXPENSES</b>				
Program Services:				
Residential Living/Cottages	4,889,228	-	-	4,889,228
Case Management	365,569	-	-	365,569
Clinical Services	446,854	-	-	446,854
Mother/Child Program	37,072	-	-	37,072
Recreation	238,652	-	-	238,652
Dietary	633,309	-	-	633,309
Academy/Education	97,203	-	-	97,203
Total Program Services	<u>6,707,887</u>	<u>-</u>	<u>-</u>	<u>6,707,887</u>
Supporting Services:				
Administrative	376,166	-	-	376,166
Investments and Interest Expense	158,721	-	-	158,721
Advancement	424,167	-	-	424,167
Fundraising	234,039	-	-	234,039
Total Supporting Services	<u>1,193,093</u>	<u>-</u>	<u>-</u>	<u>1,193,093</u>
Other Services	1,428,802	-	-	1,428,802
Total Expenses	<u>9,329,782</u>	<u>-</u>	<u>-</u>	<u>9,329,782</u>
<b>INCREASE IN NET ASSETS BEFORE OTHER GAINS</b>	1,641,377	2,657,225	1,532	4,300,134
Gains on Sale of Assets	<u>3,200</u>	<u>-</u>	<u>-</u>	<u>3,200</u>
<b>INCREASE IN NET ASSETS</b>	1,644,577	2,657,225	1,532	4,303,334
Net Assets - Beginning of Year	<u>40,856,991</u>	<u>3,709,806</u>	<u>250,191</u>	<u>44,816,988</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 42,501,568</u>	<u>\$ 6,367,031</u>	<u>\$ 251,723</u>	<u>\$ 49,120,322</u>

See accompanying Notes to Consolidated Financial Statements.

**THE CROSSNORE SCHOOL  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEAR ENDED SEPTEMBER 30, 2015**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in Net Assets	\$ 4,303,334
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation and Amortization	1,459,427
Unrealized Losses on Investments	1,543,971
Loss on Sale of Real Estate Investments	111,135
(Increase) Decrease in:	
Accounts Receivable	1,116
Promises to Give	(855,980)
Other Receivables	122
Prepaid Expenses	(69,856)
Inventory	2,818
Increase (Decrease) in:	
Accounts Payable	9,237
Custodial Student Funds	19,050
Accrued Liabilities and Compensated Absence	(55,038)
Net Cash Provided by Operating Activities	6,469,336

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sale of Real Estate Investments	373,865
Purchase of Investments	(3,095,236)
Sale of Investments	3,396,048
Investment Income	(454,406)
Proceeds from Sale of Property and Equipment	3,200
Purchases of Plant, Property and Equipment	(2,593,843)
Net Cash Used in Investing Activities	(2,370,372)

**CASH FLOWS FROM FINANCING ACTIVITIES**

Repayment of Debt	(1,617,804)
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**NET INCREASE IN CASH**

2,481,160

Cash - Beginning of Year

2,016,303

**CASH - END OF YEAR**

\$ 4,497,463

**SUPPLEMENTAL SCHEDULE OF NON-CASH ACTIVITIES**

Purchases of Capital Assets in Accounts Payable	\$ 290,217
Cash Payments for Interest	\$ 46,794

*See accompanying Notes to Consolidated Financial Statements.*

**THE CROSSNORE SCHOOL**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015**

**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. The Crossnore School's support comes primarily from charitable contributions and government funding.

**Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of The Crossnore School 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. The Crossnore School elected to transfer its investments into the Foundation, and the Foundation manages those assets and makes periodic distributions to The Crossnore School, in accordance with the Foundation's spending policy, in support of The Crossnore School'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 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.

**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. Accordingly, 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.



**THE CROSSNORE SCHOOL**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015**

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

**Basis of Accounting**

*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 statement 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.

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.

**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, 2015 management determined no allowance for uncollectible accounts was necessary.

**Investments**

Investments in marketable securities with readily determinable fair values are valued in the consolidated statement 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.

**THE CROSSNORE SCHOOL**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015**

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

**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. During the year ended September 30, 2015, the School sold real estate for a loss of \$111,135 included in Other Income (Loss) in the consolidated statement of activities.

**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 statement of financial position.

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.

**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 CROSSNORE SCHOOL**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015**

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

**Fair Value Measurements and Disclosures (Continued)**

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.

*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, 2015 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 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 CROSSNORE SCHOOL**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015**

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

**Tax-Exempt Status (Continued)**

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 expense for the year ended September 30, 2015 was \$2,883.

**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.

**Subsequent Events**

The School has evaluated subsequent events through February 2, 2016, which is the date the consolidated financial statements were available to be issued. During the period from the end of the fiscal year and through this date, no circumstances occurred that require recognition or disclosure in these consolidated financial statements.

**NOTE 2 INVESTMENTS**

As of September 30, 2015, investments consisted of the following:

Investments:	
Cash and Cash Equivalents	\$ (47,088)
Fixed Income Investments	5,173,278
Equity Investments	16,908,985
Public Real Estate	966,721
Alternative Investments	2,819,180
Total Investments	<u>\$ 25,821,076</u>

Alternative investments include 91,000 shares in a closely held company acquired via donation in a prior year, representing an ownership interest of approximately 2.2%. The carrying value of this investment has been adjusted various years since its donation, and has not been recorded in accordance with the cost basis of accounting.

**THE CROSSNORE SCHOOL**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015**

**NOTE 2 INVESTMENTS (CONTINUED)**

Unrestricted investment income consisted of the following for the year ended September 30, 2015:

Interest Income	\$ 845,463
Investment Fees	(117,040)
Unrealized Losses, Net	<u>(1,543,971)</u>
Total Investment Income	<u><u>\$ (815,548)</u></u>

**NOTE 3 PROMISES TO GIVE**

Promises to give consisted of the following at September 30, 2015:

Due in Less than One Year	\$ 785,827
Due in Two to Five Years	<u>1,590,594</u>
	2,376,421
Less: Present Value Discount	<u>(25,628)</u>
Promises to Give, Net	<u><u>\$ 2,350,793</u></u>

The rate used to calculate the present value discount was 0.31%. At September 30, 2015 there was no amount recorded as an allowance for uncollectible promises to give.

**NOTE 4 PROPERTY AND EQUIPMENT, NET**

Following is a summary of property and equipment and accumulated depreciation at September 30, 2015:

Land	\$ 3,232,357
Buildings and Improvements	24,045,931
Furniture and Equipment	5,631,164
Vehicles	933,043
Construction in Progress	<u>994,537</u>
Total	34,837,032
Less: Accumulated Depreciation	<u>18,601,085</u>
Net Property and Equipment	<u><u>\$ 16,235,947</u></u>

Depreciation expense totaled \$1,459,427 for the year ended September 30, 2015. Construction in progress at September 30, 2015 includes amounts related to the new Children's Village and renovations to the gym and fitness center.

**THE CROSSNORE SCHOOL**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015**

**NOTE 5 LINE OF CREDIT**

The School has a \$925,000 line of credit with Brown Brothers Harriman to be drawn upon as needed with an interest rate of 2.5%. As of September 30, 2015 there was no balance. The line of credit is secured by the School's investments held with Brown Brothers Harriman and is listed as a current liability as the terms state that the line is due on demand.

The School also 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 4%. The line of credit is secured by the property located at 100 DAR Drive, Crossnore, North Carolina. There were no outstanding borrowings at September 30, 2015.

**NOTE 6 NOTES PAYABLE**

The School had a note payable to the United States Department of Agriculture, due in annual installments of \$43,750 at an annual rate of 4.125%, secured by real property on the school grounds and assignment of income. The balance on the note at September 30, 2014 was \$781,123. The note was repaid in full during the year ended September 30, 2015.

Interest expense for the year ended September 30, 2015 was \$33,368.

**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, 2015 the School was liable for benefits to its employees of approximately \$33,248.

**NOTE 8 RETIREMENT 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 \$202,992 for the year ended September 30, 2015.

**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. As of September 30, 2015 balances in accounts at these institutions did not exceed the FDIC limit.

**THE CROSSNORE SCHOOL  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015**

**NOTE 10 CUSTODIAL SAVINGS ACCOUNT**

The School maintains a custodial savings account for the benefit of the children of The Crossnore School. 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.

**NOTE 11 NET ASSETS**

**Unrestricted – Internally Designated**

Unrestricted – internal designated net assets are available for the following purposes at September 30, 2015:

Residential Scholarships	\$ 112,059
Endowment Fund	657,958
Total	\$ 770,017

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 are available for the following purposes at September 30, 2015:

Building Projects	\$ 3,370,763
Classroom Without Walls	750,000
Residential Scholarships	599,339
College Scholarships	1,122,146
Other	524,783
Total	\$ 6,367,031

During the year ended September 30, 2015, net assets were released from donor restrictions by expenditures on construction projects and incurring expenses satisfying the restricted purposes totaling \$674,074.

**THE CROSSNORE SCHOOL**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015**

**NOTE 11 NET ASSETS (CONTINUED)**

**Permanently Restricted**

Permanently restricted net assets consisted of the following at September 30, 2015:

Residential Scholarships	\$ 130,089
College Scholarships	101,634
Other	<u>20,000</u>
Total	<u><u>\$ 251,723</u></u>

**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. 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  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015**

**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, 2015.

The following table summarized endowment fund activity, including contributions, income earned and appropriations for the year ended September 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Net Assets, Year Ended September 30, 2014</b>	\$ -	\$ -	\$ 250,191	\$ 250,191
Contributions	-	-	1,532	1,532
Investment Income	-	-	-	-
Appropriations for Expenditures	-	-	-	-
<b>Net Assets, Year Ended September 30, 2015</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 251,723</b>	<b>\$ 251,723</b>

**THE CROSSNORE SCHOOL**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015**

**NOTE 12 FAIR VALUE MEASUREMENTS**

The School uses fair value measurements to record fair value adjustments to certain assets to determine fair value disclosures. 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, 2015:

	Level 1	Level 2	Level 3	Total
Investments:				
Fixed Income	\$ 5,173,278	\$ -	\$ -	\$ 5,173,278
Equity Investments	16,908,985	-	-	16,908,985
Real Assets	-	966,721	-	966,721
Alternative Investments	-	-	2,819,180	2,819,180
Total Investments	\$ 22,082,263	\$ 966,721	\$ 2,819,180	\$ 25,868,164

As described in Note 2, there has been no change in the fair value of alternative investments for the year ended September 30, 2015.

**NOTE 13 RESERVE FOR SELF-INSURANCE**

The School maintains a health care plan for its' employees which is partially self-insured, subsidizing up to \$2,950 of the first \$5,000 in medical expenses per employee per year for the year ended September 30, 2015. The School accrues a reserve for self-insurance, which is classified as a current liability. As of September 30, 2015, the balance in the reserve account was \$50,000.

**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 those items totaled \$87,698 for the year ended September 30, 2015.

The School's Board Chair is the President of Linville Resorts, Inc., which owns Chestnut Construction Co. During the year ended September 30, 2015, the School contracted with Chestnut Construction Co. to construct some of the School's large capital projects. Costs incurred with Chestnut Construction Co. during 2015 were \$201,483.

**THE CROSSNORE SCHOOL**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015**

**NOTE 15 PRIOR PERIOD ADJUSTMENT**

During the current year, management determined that net assets at September 30, 2014 were improperly classified. The beginning net assets as of September 30, 2014 have been restated to reflect these reclassifications, as shown in the table below:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Net Assets, Beginning of Year, as Originally Reported</b>	\$ 37,122,337	\$ 7,694,651	\$ -	\$ 44,816,988
Prior Period Adjustment	3,734,654	(3,984,845)	250,191	-
<b>Net Assets, Beginning of Year, as Restated</b>	<u>\$ 40,856,991</u>	<u>\$ 3,709,806</u>	<u>\$ 250,191</u>	<u>\$ 44,816,988</u>

**THE CROSSNORE SCHOOL  
CONSOLIDATED SCHEDULE OF SUPPORT AND REVENUE  
YEAR ENDED SEPTEMBER 30, 2015**

	Unrestricted		Temporarily Restricted	Permanently Restricted	Total	
	General	Blair Fraley Sales Store				Crossnore Weavers and Gallery
<b>SUPPORT</b>						
Contributions:						
Individuals	\$ 4,401,951	\$ -	\$ 8,460	\$ 3,331,299	\$ 1,532	\$ 7,743,242
Legacies and Bequests	1,564,773	-	-	-	-	1,564,773
Foundations	93,895	-	-	-	-	93,895
Trusts	201,098	-	-	-	-	201,098
Special Events	39,486	-	-	-	-	39,486
Total Contributions	<u>6,301,203</u>	<u>-</u>	<u>8,460</u>	<u>3,331,299</u>	<u>1,532</u>	<u>9,642,494</u>
<b>IN-KIND SUPPORT</b>	-	401,482	-	-	-	401,482
<b>REVENUE</b>						
Room and Board:						
Foster Care Funds	3,323,020	-	-	-	-	3,323,020
Academy Contract	82,532	-	-	-	-	82,532
School Food Programs	50,499	-	-	-	-	50,499
Relatives	10,280	-	-	-	-	10,280
Total Room and Board	<u>3,466,331</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,466,331</u>
<b>INVESTMENT INCOME</b>						
Interest and Dividends	845,463	-	-	-	-	845,463
Investment Fees	(117,040)	-	-	-	-	(117,040)
Investment Gains (Losses)	(1,543,971)	-	-	-	-	(1,543,971)
Total Investment Income	<u>(815,548)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(815,548)</u>
<b>SUPPORTING BUSINESS ACTIVITIES</b>						
Blair Fraley Sales Store	-	260,642	-	-	-	260,642
Crossnore Weavers and Gallery	-	-	439,301	-	-	439,301
Miracle Grounds Coffee Shop	100,200	-	-	-	-	100,200
Outpatient Therapy Services	137,954	-	-	-	-	137,954
Total Supporting Business Activities	<u>238,154</u>	<u>260,642</u>	<u>439,301</u>	<u>-</u>	<u>-</u>	<u>938,097</u>
<b>OTHER INCOME</b>						
Rents and Royalties	84,338	-	-	-	-	84,338
Other Revenue (Loss)	(87,278)	-	-	-	-	(87,278)
Total Other Income	<u>(2,940)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,940)</u>
Total Support and Revenue	<u>\$ 9,187,200</u>	<u>\$ 662,124</u>	<u>\$ 447,761</u>	<u>\$ 3,331,299</u>	<u>\$ 1,532</u>	<u>\$ 13,629,916</u>

**THE CROSSNORE SCHOOL  
CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES  
YEAR ENDED SEPTEMBER 30, 2015**

	Program Services	Supporting Services	Other Services	Total
Salaries	\$ 2,713,783	\$ 426,940	\$ 320,619	\$ 3,461,342
Payroll Taxes	247,420	37,145	29,873	314,438
Employee Benefits	492,134	67,762	45,157	605,053
Insurance	309,794	2,719	10,702	323,215
Supplies	154,925	10,687	19,948	185,560
Utilities	342,099	17,818	29,054	388,971
Student Special Needs	59,031	-	-	59,031
Student Scholarships	-	-	83,719	83,719
Student Allowances	54,787	-	-	54,787
Staff Expenses	28,237	35,674	847	64,758
Food	337,368	27,933	677	365,978
First Aid	42,182	-	-	42,182
Recreation	88,051	-	-	88,051
Equipment Rental	15,072	22,252	81	37,405
Freight and Postage	4,325	26,312	1,580	32,217
Professional Services	50,156	21,610	438	72,204
Maintenance, Repairs and Contract Labor	182,406	2,832	4,258	189,496
Advertising	6,387	50,559	2,738	59,684
Dues and Subscriptions	10,691	5,568	190	16,449
Classrooms Without Walls	131,556	-	-	131,556
Pet and Equine Therapy	19,524	-	-	19,524
Holiday Gifts	25,602	-	-	25,602
Printing, Publishing and Solicitation	8,463	73,543	-	82,006
Property Taxes	3,381	-	6,081	9,462
Auto Expense	58,746	3,930	9,469	72,145
Student Work Programs	21,856	-	-	21,856
Travel	44,786	112,831	4,858	162,475
Cost of Goods Sold	-	-	719,861	719,861
Bank Service Charges	-	-	13,595	13,595
Trust Management Fees	-	133,706	-	133,706
Interest Expense	-	33,368	-	33,368
Miscellaneous	413	-	246	659
Total Expenses before Depreciation	<u>5,453,175</u>	<u>1,113,189</u>	<u>1,303,991</u>	<u>7,870,355</u>
Depreciation	<u>1,254,712</u>	<u>79,904</u>	<u>124,811</u>	<u>1,459,427</u>
Total Expenses	<u><u>\$ 6,707,887</u></u>	<u><u>\$ 1,193,093</u></u>	<u><u>\$ 1,428,802</u></u>	<u><u>\$ 9,329,782</u></u>

**THE CROSSNORE SCHOOL  
CONSOLIDATED SCHEDULE OF PROGRAM SERVICES EXPENSES  
YEAR ENDED SEPTEMBER 30, 2015**

	Residential Living/ Cottages	Case Management	Clinical Services	Mother/ Child Program	Recreation	Dietary	Academy/ Education	Total
Salaries	\$ 2,027,592	\$ 232,967	\$ 253,622	\$ 3,802	\$ 32,855	\$ 137,017	\$ 25,928	\$ 2,713,783
Payroll Taxes	185,713	21,005	22,582	391	3,028	12,479	2,222	247,420
Employee Benefits	374,899	42,189	41,283	-	4,104	27,583	2,076	492,134
Insurance	303,238	2,912	3,004	-	-	448	192	309,794
Supplies	91,830	5,575	12,403	1,585	18,969	22,417	2,146	154,925
Utilities	224,278	6,411	12,936	9,283	25,644	32,628	30,919	342,099
Student Special Needs	59,011	20	-	-	-	-	-	59,031
Student Allowances	54,787	-	-	-	-	-	-	54,787
Staff Expenses	16,488	4,603	5,418	-	426	954	348	28,237
Food	68,412	170	217	-	417	268,152	-	337,368
First Aid	42,182	-	-	-	-	-	-	42,182
Recreation	37,999	435	-	-	49,617	-	-	88,051
Equipment Rental	8,119	3,262	912	-	388	2,358	33	15,072
Freight and Postage	4,094	158	55	-	-	18	-	4,325
Professional Services	15,829	2,995	28,462	-	570	2,300	-	50,156
Maintenance, Repairs and Contract Labor	127,510	961	4,192	6,550	8,819	10,603	23,771	182,406
Advertising	6,367	20	-	-	-	-	-	6,387
Dues and Subscriptions	7,640	2,266	644	-	-	141	-	10,691
Classrooms Without Walls	45,281	-	-	-	77,275	-	9,000	131,556
Pet and Equine Therapy	7,846	-	11,678	-	-	-	-	19,524
Holiday Gifts	25,602	-	-	-	-	-	-	25,602
Printing, Publishing and Solicitation	8,463	-	-	-	-	-	-	8,463
Property Taxes	3,381	-	-	-	-	-	-	3,381
Auto Expense	54,040	2,389	1,055	-	294	400	568	58,746
Student Work Programs	21,856	-	-	-	-	-	-	21,856
Travel	27,270	5,327	10,292	-	812	1,085	-	44,786
Miscellaneous	413	-	-	-	-	-	-	413
Total Expenses before Depreciation	<u>3,850,140</u>	<u>333,665</u>	<u>408,755</u>	<u>21,611</u>	<u>223,218</u>	<u>518,583</u>	<u>97,203</u>	<u>5,453,175</u>
Depreciation	1,039,088	31,904	38,099	15,461	15,434	114,726	-	1,254,712
Total Expenses	<u>\$ 4,889,228</u>	<u>\$ 365,569</u>	<u>\$ 446,854</u>	<u>\$ 37,072</u>	<u>\$ 238,652</u>	<u>\$ 633,309</u>	<u>\$ 97,203</u>	<u>\$ 6,707,887</u>

**THE CROSSNORE SCHOOL**  
**CONSOLIDATED SCHEDULE OF SUPPORTING SERVICES EXPENSES**  
**YEAR ENDED SEPTEMBER 30, 2015**

	Administrative	Investments and Interest Expense	Advancement	Fundraising	Total
Salaries	\$ 162,763	\$ -	\$ 167,760	\$ 96,417	\$ 426,940
Payroll Taxes	13,763	-	14,794	8,588	37,145
Employee Benefits	31,920	-	21,733	14,109	67,762
Insurance	1,370	-	829	520	2,719
Supplies	3,229	-	5,478	1,980	10,687
Utilities	5,579	-	10,542	1,697	17,818
Staff Expenses	32,238	-	2,064	1,372	35,674
Food	2,892	-	24,966	75	27,933
Equipment Rental	3,934	-	10,653	7,665	22,252
Freight and Postage	3,067	-	13,368	9,877	26,312
Professional Services	9,205	-	7,252	5,153	21,610
Maintenance, Repairs and Contract Labor	987	-	1,845	-	2,832
Advertising	5,113	-	45,446	-	50,559
Dues and Subscriptions	3,410	-	1,266	892	5,568
Printing, Publishing and Solicitation	-	-	45,661	27,882	73,543
Auto Expense	828	-	2,355	747	3,930
Travel	57,252	-	11,378	44,201	112,831
Trust Management Fees	-	127,021	-	6,685	133,706
Interest Expense	-	31,700	-	1,668	33,368
Total Expenses before Depreciation	<u>337,550</u>	<u>158,721</u>	<u>387,390</u>	<u>229,528</u>	<u>1,062,630</u>
Depreciation	38,616	-	36,777	4,511	79,904
Total Expenses	<u>\$ 376,166</u>	<u>\$ 158,721</u>	<u>\$ 424,167</u>	<u>\$ 234,039</u>	<u>\$ 1,193,093</u>

**THE CROSSNORE SCHOOL  
CONSOLIDATED SCHEDULE OF OTHER SERVICES EXPENSES  
YEAR ENDED SEPTEMBER 30, 2015**

	Blair Fraley Sales Store	Weavers and Gallery	Miracle Grounds Coffee Shop	Crossnore Clinic	College Scholarships	Total
Salaries	\$ 144,560	\$ 48,456	\$ 82,042	\$ 45,561	\$ -	\$ 320,619
Payroll Taxes	13,784	4,090	7,736	4,263	-	29,873
Employee Benefits	19,641	11,843	9,011	4,662	-	45,157
Insurance	358	6,853	225	3,266	-	10,702
Supplies	2,634	6,324	3,224	7,766	-	19,948
Utilities	12,882	4,761	7,429	3,982	-	29,054
Student Scholarships	-	-	-	-	83,719	83,719
Staff Expenses	154	332	219	142	-	847
Food	239	432	6	-	-	677
Equipment Rental	-	-	-	81	-	81
Freight and Postage	12	1,538	12	18	-	1,580
Professional Services	-	-	-	438	-	438
Maintenance, Repairs and Contract Labor	875	816	1,457	1,110	-	4,258
Advertising	66	2,544	128	-	-	2,738
Dues and Subscriptions	-	190	-	-	-	190
Property Taxes	4,968	1,113	-	-	-	6,081
Auto Expense	6,776	2,424	230	39	-	9,469
Travel	1,584	2,646	375	253	-	4,858
Cost of Goods Sold	372,191	301,129	46,541	-	-	719,861
Bank Service Charges	3,352	8,661	1,582	-	-	13,595
Miscellaneous	168	-	78	-	-	246
Total Expenses before Depreciation	<u>584,244</u>	<u>404,152</u>	<u>160,295</u>	<u>71,581</u>	<u>83,719</u>	<u>1,303,991</u>
Depreciation	52,433	39,862	27,958	4,558	-	124,811
Total Expenses	<u>\$ 636,677</u>	<u>\$ 444,014</u>	<u>\$ 188,253</u>	<u>\$ 76,139</u>	<u>\$ 83,719</u>	<u>\$ 1,428,802</u>