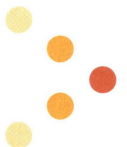


# **North Carolina Outward Bound School**

Asheville, North Carolina

Financial Statements and Supplementary Information  
Years Ended March 31, 2014 and 2013

and  
Independent Auditors' Report



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## Independent Auditors' Report

To the Board of Directors  
North Carolina Outward Bound School  
Asheville, North Carolina

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

We have audited the accompanying financial statements of North Carolina Outward Bound School (a nonprofit organization), which comprise the statements of financial position as of March 31, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Carolina Outward Bound School, as of March 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### **Other Information**

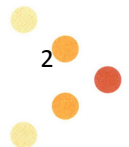
Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on pages 28–31 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2014, on our consideration of North Carolina Outward Bound School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering North Carolina Outward Bound School's internal control over financial reporting and compliance.

*Johnson Price Sprinkle PA*

September 29, 2014



# North Carolina Outward Bound School

## Statements of Financial Position

March 31,	2014	2013
<b>Assets</b>		
Cash and equivalents	\$ 882,055	\$ 757,940
Accounts receivable	286,586	107,522
Grants receivable	127,331	226,057
Contributions and pledges receivable, net	427,406	276,331
Inventories	12,312	7,627
Prepaid expenses	122,712	59,017
Property and equipment, net	1,509,423	1,546,952
Long-term investments	11,048,985	10,264,571
Long-term note receivable	75,000	100,000
Cash value of life insurance	30,560	35,789
<b>Total assets</b>	<b>\$ 14,522,370</b>	<b>\$ 13,381,806</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Line of credit payable	\$ 65,000	\$ -
Accounts payable	213,431	201,578
Accrued expenses	43,083	75,259
Deferred revenue	353,537	335,915
Notes payable	997,991	1,015,029
Capital leases	24,687	34,088
<b>Total liabilities</b>	<b>1,697,729</b>	<b>1,661,869</b>
<b>Net assets:</b>		
Unrestricted	572,574	1,062,288
Temporarily restricted	6,395,922	4,868,063
Permanently restricted	5,856,145	5,789,586
<b>Total net assets</b>	<b>12,824,641</b>	<b>11,719,937</b>
<b>Total liabilities and net assets</b>	<b>\$ 14,522,370</b>	<b>\$ 13,381,806</b>

The accompanying notes are an integral part of these financial statements.

# North Carolina Outward Bound School

## Statement of Activities

Year Ended March 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
<b>Support and revenue:</b>				
Tuition and scholarships	\$ 4,431,805	\$ 123,582	\$ -	\$ 4,555,387
Contributions	344,824	1,145,538	66,559	1,556,921
Federal and state grants	864,892	-	-	864,892
Interest and dividends, net	2,552	321,270	-	323,822
Net gains (losses) on investments	-	901,776	-	901,776
Gain (loss) on sale of equipment	4,057	-	-	4,057
Other revenue	487,412	-	-	487,412
Net assets released from restriction:				
Building acquisition restrictions	19,519	(19,519)	-	-
Program and support restrictions	1,305,803	(1,305,803)	-	-
<b>Total support and revenue</b>	<b>7,460,864</b>	<b>1,166,844</b>	<b>66,559</b>	<b>8,694,267</b>
<b>Expenses:</b>				
School program services:				
Program delivery	4,597,809	-	-	4,597,809
Atlanta programming	78,615	-	-	78,615
Program administrative	902,395	-	-	902,395
<b>Total school program services</b>	<b>5,578,819</b>	<b>-</b>	<b>-</b>	<b>5,578,819</b>
Supporting services:				
General and administrative	832,812	-	-	832,812
Marketing	391,886	-	-	391,886
Student services	442,517	-	-	442,517
Professional program sales	92,628	-	-	92,628
Development	250,901	-	-	250,901
<b>Total supporting services</b>	<b>2,010,744</b>	<b>-</b>	<b>-</b>	<b>2,010,744</b>
<b>Total expenses</b>	<b>7,589,563</b>	<b>-</b>	<b>-</b>	<b>7,589,563</b>
<b>Change in net assets</b>	<b>(128,699)</b>	<b>1,166,844</b>	<b>66,559</b>	<b>1,104,704</b>
<b>Net assets, beginning of year</b>	<b>1,062,288</b>	<b>4,868,063</b>	<b>5,789,586</b>	<b>11,719,937</b>
<b>Net assets reclassification</b>	<b>(361,015)</b>	<b>361,015</b>	<b>-</b>	<b>-</b>
<b>Net assets, end of year</b>	<b>\$ 572,574</b>	<b>\$ 6,395,922</b>	<b>\$ 5,856,145</b>	<b>\$ 12,824,641</b>

The accompanying notes are an integral part of these financial statements.

# North Carolina Outward Bound School

## Statement of Activities

Year Ended March 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
<b>Support and revenue:</b>				
Tuition and scholarships	\$ 4,022,863	\$ 129,878	\$ -	\$ 4,152,741
Contributions	401,301	794,473	2,014,240	3,210,014
Federal and state grants	912,273	-	-	912,273
Interest and dividends, net	101	296,562	-	296,663
Net gains (losses) on investments	908	957,433	-	958,341
Gain (loss) on sale of equipment	10,899	-	-	10,899
Other revenue	570,715	-	-	570,715
Net assets released from restriction:				
Building acquisition restrictions	34,813	(34,813)	-	-
Program and support restrictions	1,299,001	(1,299,001)	-	-
<b>Total support and revenue</b>	<b>7,252,874</b>	<b>844,532</b>	<b>2,014,240</b>	<b>10,111,646</b>
<b>Expenses:</b>				
School program services:				
Program delivery	4,251,773	-	-	4,251,773
Atlanta programming	131,762	-	-	131,762
Program administrative	847,219	-	-	847,219
<b>Total school program services</b>	<b>5,230,754</b>	<b>-</b>	<b>-</b>	<b>5,230,754</b>
Supporting services:				
General and administrative	773,024	-	-	773,024
Marketing	456,626	-	-	456,626
Student services	435,203	-	-	435,203
Professional program sales	94,194	-	-	94,194
Development	310,573	-	-	310,573
<b>Total supporting services</b>	<b>2,069,620</b>	<b>-</b>	<b>-</b>	<b>2,069,620</b>
<b>Total expenses</b>	<b>7,300,374</b>	<b>-</b>	<b>-</b>	<b>7,300,374</b>
<b>Change in net assets</b>	<b>(47,500)</b>	<b>844,532</b>	<b>2,014,240</b>	<b>2,811,272</b>
<b>Net assets, beginning of year</b>	<b>1,109,788</b>	<b>4,023,531</b>	<b>3,775,346</b>	<b>8,908,665</b>
<b>Net assets, end of year</b>	<b>\$ 1,062,288</b>	<b>\$ 4,868,063</b>	<b>\$ 5,789,586</b>	<b>\$ 11,719,937</b>

The accompanying notes are an integral part of these financial statements.

## North Carolina Outward Bound School

### Statements of Cash Flows

Years Ended March 31,	2014	2013
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 1,104,704	\$ 2,811,272
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
(Gain) loss on sale of equipment	(4,057)	(10,899)
Depreciation	196,317	223,516
Donated stock	(32,936)	(3,538)
Noncash contributions of property and equipment	-	(68,000)
Change in cash surrender value of life insurance	5,229	4,379
Increase (decrease) in discount on pledges receivable	11,768	(15,700)
Contributions restricted for long-term investment	(66,568)	(2,014,240)
Net realized (gain) loss on long-term investments	(372,455)	(436,301)
Net unrealized (gain) loss on long-term investments	(529,320)	(522,040)
Change in assets and liabilities:		
Accounts receivable	(179,064)	32,126
Grants receivable	98,726	(13,431)
Contributions and pledges receivable	(162,843)	(172,440)
Inventories	(4,685)	5,363
Prepaid expenses	(63,695)	8,061
Accounts payable	11,853	(37,501)
Accrued expenses	(32,176)	6,456
Deferred revenue	17,622	32,562
<b>Net cash provided by (used in) operating activities</b>	<b>(1,580)</b>	<b>(170,355)</b>
<b>Cash flows from investing activities:</b>		
Proceeds from long-term note receivable	25,000	25,822
Proceeds from sale of long-term investments	9,399,590	3,894,853
Acquisition of long-term investments	(9,249,293)	(5,900,650)
Acquisition of property and equipment	(158,788)	(56,569)
Proceeds from sale of property and equipment	4,057	10,899
<b>Net cash provided by (used in) investing activities</b>	<b>20,566</b>	<b>(2,025,645)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from contributions restricted for:		
Investment in endowment	66,568	2,014,240
Other financing activities:		
Proceeds from line of credit payable	130,000	50,000
Repayment of line of credit payable	(65,000)	(150,000)
Proceeds from notes payable	21,284	-
Repayment of notes payable	(38,321)	(33,522)
Repayment of capital leases	(9,402)	(9,872)
<b>Net cash provided by (used in) financing activities</b>	<b>105,129</b>	<b>1,870,846</b>
<b>Net increase (decrease) in cash and equivalents</b>	<b>124,115</b>	<b>(325,154)</b>
<b>Cash and equivalents, beginning of year</b>	<b>757,940</b>	<b>1,083,094</b>
<b>Cash and equivalents, end of year</b>	<b>\$ 882,055</b>	<b>\$ 757,940</b>
<b>Supplemental disclosures of cash flow information:</b>		
Cash payments for interest	\$ 53,096	\$ 55,007
Equipment purchased through capital lease	\$ -	\$ 42,945

The accompanying notes are an integral part of these financial statements.



# North Carolina Outward Bound School

Notes to Financial Statements

March 31, 2014 and 2013

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## **Note A – Organization and summary of significant accounting policies:**

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### **Organization and nature of operations**

North Carolina Outward Bound School (the School) was founded to organize and operate an educational institution to inspire personal growth through a challenging, adventure-based learning experience. The School operates in North Carolina, Georgia and Florida, with mobile course offerings in Chile.

### **Basis of accounting**

The School prepares its financial statements in accordance with accounting principles generally accepted in the United States of America which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

### **Basis of presentation**

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the School and changes therein are classified and reported as follows:

*Unrestricted net assets* - Net assets that are not subject to donor-imposed stipulations.

*Temporarily restricted net assets* - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the School and/or through the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

*Permanently restricted net assets* - Net assets subject to donor-imposed stipulations that they be maintained permanently by the School. Generally, the donors of these assets permit the School to use all or part of the income earned on any related investments for general or specific purposes.

### **Use of estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### **Cash and equivalents**

For purposes of reporting the statement of cash flows, the School considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

## North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2014 and 2013

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### **Note A – Organization and summary of significant accounting policies – continued:**

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#### **Investments**

The School's investments are carried at fair value which is based on quoted market prices. Realized and unrealized gains and losses are reflected in the statement of activities.

#### **Fair value measurement**

The School has adopted FASB ASC 820-10, *Fair Value Measurements*. This statement defines fair value as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. Certain valuation techniques are used to measure fair value. Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the School has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

#### **Accounts receivable**

The School provides for the possible inability to collect accounts receivable by booking an allowance for doubtful accounts. The School writes off an account when it is considered to be uncollectible. The amount of the allowance for doubtful accounts is \$-0- as of March 31, 2014 and 2013.

#### **Pledges receivable**

Unconditional pledges are recorded in the period the pledge is received subject to an allowance as considered necessary by the School, and discounted to present value using an assumed rate of 4.74%. The amount of the allowance for uncollectible pledges receivable is \$-0- as of March 31, 2014 and 2013.

#### **Inventories**

Inventories are stated at the lower of cost on a first-in, first-out basis, or market.

#### **Property and equipment**

If purchased, property and equipment is stated at cost less accumulated depreciation. Contributed property and equipment is stated at appraised or market value at the date of contribution. The School's capitalization policy requires individual assets to be capitalized if the minimum useful life exceeds three years. Minimum cost for capitalization is \$1,000. Depreciation is computed on a straight-line basis for all depreciable assets over estimated useful lives as follows:

## North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2014 and 2013

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### **Note A – Organization and summary of significant accounting policies – continued:**

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#### **Property and equipment – continued:**

Buildings and site improvements	5–30 years
Furniture, fixtures and equipment	5 years
Vehicles and boats	5 years
Computer software	3 years

#### **Deferred revenue**

Under its current procedures, the School records as deferred revenue monies which are received as advance payment for courses not yet started.

#### **Contributions**

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of donor restrictions.

The School reports contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets.

The School reports contributions of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Contributions of long-lived assets with explicit restrictions that specify how the assets are to be used and contributions of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long these assets must be maintained, the School reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Pledges for support of current operations are recorded as unrestricted support. Pledges for support of future operations and property and equipment acquisitions are recorded as temporarily restricted support.

#### **Endowments**

FASB ASC 958-205 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). FASB ASC 958-205 also improves disclosures about an organization's endowment funds (both donor restricted endowment funds and board designated endowment funds).

The State of North Carolina adopted UPMIFA effective March 19, 2009. The School has adopted UPMIFA and FASB ASC 958-205. The School is governed subject to the School's adopted policies.

## North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2014 and 2013

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### **Note A – Organization and summary of significant accounting policies – continued:**

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#### **Endowments – continued**

The School's endowments consist of approximately 30 individual funds established in perpetuity mostly for the benefit of scholarships, staff development and unrestricted operating funds. The endowment assets consist only of donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions as well as the School's adopted endowment policy.

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 while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are managed by an investment advisor who reports to the School's finance committee. 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).

The School targets a diversified asset allocation with 50 percent to 75 percent of the fund being invested in equities and equity equivalents at all times to achieve its long-term return objectives within prudent risk constraints.

The School expects its endowment funds, over time, to provide an average current yield of approximately 5 percent annually. Actual returns in any given year may vary from this amount. The School's policy is to appropriate the current yield for distribution each year. In establishing this policy, the School considered the long-term expected return on its endowment. The current spending policy is consistent with the School's objective to maintain the purchasing power for the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and capital return.

#### **Income taxes**

The School is an organization exempt from federal and North Carolina income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified by the Internal Revenue Service as other than a private foundation. It is the School's policy to evaluate all tax positions to identify any that may be considered uncertain. All identified material tax positions are assessed and measured by a "more-likely-than-not" threshold to determine if the tax position is uncertain, and what, if any effect the uncertain tax position may have on the financial statements. No material uncertain tax positions were identified for tax years 2014 and 2013. Currently, the statute of limitations remains open subsequent to and including tax year 2011; however, no examinations are in process or anticipated. Any changes in the amount of a tax position will be recognized in the period the change occurs.

## North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2014 and 2013

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### Note B – Cash and equivalents:

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Cash and equivalents as of March 31 are classified as follows:

	2014	2013
Unrestricted operating	\$ 68,970	\$ 218,865
Unrestricted grant programs	4,429	14,504
Unrestricted base camps checking	2,897	3,399
Unrestricted petty cash	3,228	5,424
Total unrestricted cash	79,524	242,192
Temporarily restricted cash	802,531	515,748
	\$ 882,055	\$ 757,940

---

### Note C – Contributions and pledges receivable, net:

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Contributions and pledges receivable, net as of March 31 are as follows:

	2014	2013
Receivable in less than one year	\$ 362,169	\$ 255,540
Receivable in one to three years	80,214	24,000
Total uncollected contributions and pledges	442,383	279,540
Discount to net present value (4.74%)	(14,977)	(3,209)
	\$ 427,406	\$ 276,331

---

Donors have made pledges to the School for various purposes including operations and scholarships. Contributions and pledges receivable, net are classified as follows as of March 31:

	2014	2013
Unrestricted	\$ 10,250	\$ -
Temporarily restricted	417,156	276,331
	\$ 427,406	\$ 276,331

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## North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2014 and 2013

### Note D – Long-term investments:

The costs, including reinvested dividends, and market value of long-term investments as of March 31, 2014 are as follows:

	Cost	Market Value
Money market funds	\$ 2,545	\$ 2,545
Corporate fixed income instruments	4,390,659	4,415,833
Stocks	6,513,219	6,630,607
<b>Total long-term investments</b>	<b>\$ 10,906,423</b>	<b>\$ 11,048,985</b>

The costs, including reinvested dividends, and market value of long-term investments as of March 31, 2013 are as follows:

	Cost	Market Value
Money market funds	\$ 661,852	\$ 661,852
Corporate fixed income instruments	1,827,202	1,986,017
Stocks	6,346,102	7,616,702
<b>Total long-term investments</b>	<b>\$ 8,835,156</b>	<b>\$ 10,264,571</b>

These investments are classified as follows as of March 31:

	2014	2013
Unrestricted	\$ (1,156)	\$ 363,399
Temporarily restricted	5,260,553	4,111,586
Permanently restricted	5,789,588	5,789,586
<b>Total</b>	<b>\$ 11,048,985</b>	<b>\$ 10,264,571</b>

## North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2014 and 2013

### Note D – Long-term investments – continued:

Investment return for the year ended March 31, 2014 is summarized as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 2,552	\$ 321,270	\$ -	\$ 323,822
Realized gains (losses)	-	372,455	-	372,455
Unrealized gains (losses)	-	529,321	-	529,321
	\$ 2,552	\$ 1,223,046	\$ -	\$ 1,225,598

Interest and dividends is net of brokerage fees and bank charges of \$32,249.

Investment return for the year ended March 31, 2013 is summarized as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 101	\$ 296,562	\$ -	\$ 296,663
Realized gains (losses)	-	436,301	-	436,301
Unrealized gains (losses)	908	521,132	-	522,040
	\$ 1,009	\$ 1,253,995	\$ -	\$ 1,255,004

Interest and dividends is net of brokerage fees and bank charges of \$39,997.

### Note E – Inventories:

Inventories as of March 31 consist of the following:

	2014	2013
Field food	\$ 10,575	\$ 6,127
Kitchen food	1,737	1,500
	\$ 12,312	\$ 7,627

## North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2014 and 2013

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### Note F – Property and equipment, net:

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Property and equipment, net as of March 31, is as follows:

	2014	2013
Land	\$ 269,806	\$ 269,806
Site improvements	572,030	500,497
Buildings	4,085,339	4,116,502
Furniture, fixtures and equipment	1,226,038	1,217,378
Vehicles and boats	1,154,701	1,125,022
Construction in progress	10,377	-
	7,318,291	7,229,205
Less accumulated depreciation	5,808,868	5,682,253
	\$ 1,509,423	\$ 1,546,952

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### Note G – Accounts payable:

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Accounts payable as of March 31 are classified as follows:

	2014	2013
Unrestricted	\$ 213,431	\$ 189,649
Temporarily restricted	-	11,929
	\$ 213,431	\$ 201,578

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## North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2014 and 2013

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### Note H – Notes payable:

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The School has a term mortgage loan with a bank secured by Cedar Rock Base Camp, including land and structures, with a carrying value of \$27,804 and \$7,195 as of March 31, 2014 and 2013, respectively.

The obligation under the bank note payable is for monthly payments of \$6,723, including interest at 4.5%, with a balloon payment of the remaining balance due December 21, 2021. The balance as of March 31, 2014 and 2013 is \$979,945 and \$1,015,029, respectively.

The school has a vehicle note payable with a vehicle credit company. The obligation under the vehicle note payable is for monthly payments of \$494, including interest at 5.24% with the final payment due July 23, 2017. The balance as of March 31, 2014 and 2013 is \$18,046 and \$0-, respectively.

Maturities of the notes payable are as follows:

<u>Year ending March 31,</u>		
2015	\$	42,507
2016		44,499
2017		46,585
2018		44,702
2019		44,771
Thereafter		774,927
<hr/>		
Total principal	\$	997,991

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The note payable with the bank contains various covenants requiring the School to have a minimum tangible net worth of not less than \$2,000,000 and to provide financial statements to the bank as soon as available and not more than 120 days after the end of each fiscal year. For the years ended March 31, 2014 and 2013, the School was in violation of the debt covenant related to providing financial statements not more than 120 days after year-end. Breach of any loan covenant can be an event of default and provide the lender rights for any actions or remedies it deems reasonable under the terms of the loan, including demand for payment. A waiver for the event of default was granted by the bank for the year ended March 31, 2014 and 2013.

## North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2014 and 2013

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### Note I – Line of credit payable:

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During the years ended March 31, 2014 and 2013, the School maintained a \$560,000 line of credit, secured by investments, which is due and payable in full on demand. Interest is payable monthly and is charged at the corresponding Portfolio Loan Account Index Rate plus 3.5% which is subject to changes in money market conditions. There were no advances outstanding under this line of credit at March 31, 2014 and 2013.

During the years ended March 31, 2014 and 2013, the School obtained a \$500,000 line of credit, secured by Cedar Rock Base Camp, including land and structures, which is due and payable on December 20, 2015. Interest is payable monthly and is charged at the Bank's Prime Rate less .5%. The interest rate as of March 31, 2014 was 2.75%. Advances outstanding under this line of credit as of March 31, 2014 and 2013 were \$65,000 and \$-0-, respectively.

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### Note J – Temporarily restricted net assets:

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As of March 31, temporarily restricted net assets are available for the following purposes:

	2014	2013
Scholarships	\$ 591,103	\$ 476,269
Atlanta scholarships	11,627	81,183
Veterans scholarships	220,626	92,545
Unity projects	122,613	119,409
Educators initiative project	-	26,881
Experiential educators project	-	17,382
Asheville race series project	-	10,771
Charlotte race series project	36,592	72,947
Summer scholars internship project	-	30,993
Women of Courage project	-	1,347
Florida At Risk program	12,340	-
Florida Key Largo programs	8,200	200
Florida Scottsmeer programs	720	5,142
Florida grants	4,584	-
Florida other programs	690	-
Memorials	45,486	80,211
Old Sam Trail maintenance	-	5,123
Cedar Rock facility	482	482
Table Rock facility	-	19,519
Atlanta grants	360,317	-
Atlanta operating	3,080	-
Charlotte operating	61	-

## North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2014 and 2013

### Note J – Temporarily restricted net assets – continued:

	2014	2013
Restricted operating	51,180	19,364
Endowment reserves	3,376,661	2,696,208
Time restricted investment	1,549,560	1,112,087
	\$ 6,395,922	\$ 4,868,063

### Note K – Permanently restricted net assets:

Permanently restricted net assets as of March 31 are restricted to investments in perpetuity, the income from which is expendable to support:

	2014	2013
General operations	\$ 361,623	\$ 361,623
Staff salary enhancement	351,519	351,519
Scholarships and special projects	5,143,003	5,076,444
	\$ 5,856,145	\$ 5,789,586

### Note L – Endowment net assets:

Changes in endowment net assets for the year ended March 31, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets (deficit), beginning of year	\$ (1,382)	\$ 3,102,219	\$ 5,789,586	\$ 8,890,423
Interest and dividends, net of investment expense	-	277,769	-	277,769
Net capital appreciation (depreciation), realized and unrealized	226	748,852	-	749,078
Contributions	-	68,108	66,559	134,667
Amounts appropriated for expenditure	-	(421,160)	-	(421,160)

## North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2014 and 2013

### Note L – Endowment net assets – continued:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets (deficit), end of year	\$ (1,156)	\$ 3,775,788	\$ 5,856,145	\$ 9,630,777

Changes in endowment net assets for the year ended March 31, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets (deficit), beginning of year	\$ (2,064)	\$ 2,227,997	\$ 3,775,346	\$ 6,001,279
Interest and dividends, net of investment expense	-	246,048	-	246,048
Net capital appreciation (depreciation), realized and unrealized	682	777,290	-	777,972
Contributions	-	-	2,014,240	2,014,240
Amounts appropriated for expenditure	-	(149,116)	-	(149,116)
Endowment net assets (deficit), end of year	\$ (1,382)	\$ 3,102,219	\$ 5,789,586	\$ 8,890,423

Endowment net asset composition by type of fund as of March 31, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor designated endowment funds	\$ (1,156)	\$ 3,775,788	\$ 5,856,145	\$ 9,630,777

## North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2014 and 2013

### Note L – Endowment net assets – continued:

Endowment net asset composition by type of fund as of March 31, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor designated endowment funds	\$ (1,382)	\$ 3,102,219	\$ 5,789,586	\$ 8,890,423

As of March 31, 2014 and 2013, the portion of perpetual endowment funds classified as permanently restricted net assets required by explicit donor stipulation and the School's endowment policy is \$5,856,145 and \$5,789,586, respectively. In addition, as of March 31, 2014 and 2013, the portion of perpetual endowment funds classified as temporarily restricted net assets subject to time with purpose restrictions is \$3,726,178 and \$3,067,421, respectively, and subject to time without purpose restrictions is \$49,610 and \$34,798, respectively. As of March 31, 2014 and 2013, the deficit of \$1,156 and \$1,382, respectively, in unrestricted net assets represents the amounts by which the fair value of certain donor-restricted endowment funds were below the amount required to be retained permanently.

Endowment net asset reconciliation to long-term investments as of March 31, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, end of year	\$ (1,156)	\$ 3,775,788	\$ 5,856,145	\$ 9,630,777
Endowment funds held in cash	-	-	(66,557)	(66,557)
Non-endowment funds held in long-term investments	-	1,484,765	-	1,484,765
Long-term investments	\$ (1,156)	\$ 5,260,553	\$ 5,789,588	\$11,048,985

## North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2014 and 2013

### Note L – Endowment net assets – continued:

Endowment net asset reconciliation to long-term investments as of March 31, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, end of year	\$ (1,382)	\$ 3,102,219	\$ 5,789,586	\$ 8,890,423
Endowment funds held in cash	-	(122,503)	-	(122,503)
Non-endowment funds held in long-term investments	364,781	1,131,870	-	1,496,651
Long-term investments	\$ 363,399	\$ 4,111,586	\$ 5,789,586	\$10,264,571

### Note M – Net assets released from restriction:

Net assets were released from donor restrictions by incurring expenses satisfying restricted purposes as follows for the years ended March 31:

	2014	2013
Table Rock facility	\$ 19,519	\$ 34,813
Building acquisition restrictions	\$ 19,519	\$ 34,813
Scholarships	\$ 476,614	\$ 376,955
Atlanta scholarships	8,400	60,544
Atlanta grants	140,326	-
Atlanta operating	11,500	-
Veterans scholarships	302,114	373,118
Unity projects	23,035	36,030
Educators initiative project	26,881	120,307
Charlotte educators project	1,884	6,280
Charlotte race series project	56,682	48,484
Asheville race series project	32,043	15,800
Diversity training	21,854	8,721
Florida other programs	13,932	14,500
Charlotte operating	16,805	78,482
Restricted operating	54,001	41,718

## North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2014 and 2013

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### Note M – Net assets released from restriction – continued:

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	2014	2013
Staff salary enhancement	119,732	118,062
Program and support restrictions	\$ 1,305,803	\$ 1,299,001

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### Note N – Capital leases:

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As of March 31, 2014 and 2013, the School leases two vehicles under capital leases expiring in July and August 2016. The assets and liabilities under capital leases are recorded at the lower of the present value of minimum lease payments or the fair value of the assets. The assets are amortized over the lower of their related lease terms or their estimated useful lives. Amortization of assets under capital leases is included in depreciation expense for the years ended March 31, 2014 and 2013.

Following is a summary of vehicles held under capital leases as of March 31:

	2014	2013
Vehicles	\$ 42,945	\$ 42,945
Less accumulated amortization	18,258	14,315
	\$ 24,687	\$ 28,630

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Minimum future lease payments under capital leases as of March 31, 2014 are approximated as follows:

<u>Year ending March 31,</u>		
2015		\$ 11,193
2016		11,193
2017		4,161
Total minimum payments		26,547
Less amount attributable to interest		1,860
Present value of minimum lease payments		\$ 24,687

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## North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2014 and 2013

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### Note O – Operating leases:

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The School maintains a lease with the United States Forestry Service for land located at Table Rock. The annual charge is \$6,000. Also, the Forestry Service, in a separate contract, has agreed to maintain the access road to the property at no cost. The lease with the Forestry Service requires the School to restore the property to its original condition at the termination of the lease. The lease will not be extended or renewed if the Government designates the area under lease for a higher use. At present, the lease will expire on December 31, 2018.

The School also pays user fees to the United States Forestry Service for utilization of other Government lands by School personnel on an "as utilized" basis under an agreement expiring December 31, 2018.

The School also has leases with two base camp facilities, Key Largo and Scottsmoor. For the Key Largo property, the annual charges for 2013, 2014 and 2015 will be \$44,640, \$46,200, and \$47,820, respectively. At present, the Key Largo lease will expire on December 31, 2015. For the Scottsmoor property, the annual charge for 2013 was \$29,099, and will increase by 5% in 2014 and 2015, by 4% in 2016, and by 3.5% in 2017 and 2018. At present, the Scottsmoor lease will expire on December 31, 2018.

The total rental expense and user fees included in the financial statements for the year ended March 31, 2014 are \$119,354 and \$96,892, respectively. The total rental expense and user fees included in the financial statements for the year ended March 31, 2013 are \$116,203 and \$91,856, respectively.

Minimum future lease payments consist of the following:

<u>Year ending March 31,</u>		
2015	\$	83,541
2016		74,268
2017		39,657
2018		39,335
2019		26,806
	\$	263,607

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## North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2014 and 2013

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### Note P – Retirement plan:

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All employees of the School may contribute to a 403(b)(7) retirement plan. Permanent staff who have been credited with one year of service are eligible for a matching contribution from the School. The School's contribution is based on the discretion of the Board of Trustees. The School made a matching contribution of \$19,370 and \$33,046 to the Plan for the years ended March 31, 2014 and 2013, respectively. Employee contributions to the Plan for the years ended March 31, 2014 and 2013 were \$47,286 and \$48,753, respectively.

### Note Q – Related party transactions:

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As of March 31, 2014 and 2013, the School has a long-term note receivable of \$75,000 and \$100,000, respectively, from Outward Bound USA (National OBS). The note is unsecured and has a seven year term with a graduated interest payment schedule of 0% the first year, 2.5% for the second year, and 5% for years three through seven. The unpaid principal and interest balance is due in full December 2015.

As of March 31, 2014 and 2013, the School owed Outward Bound USA (National OBS) \$20,244 and \$38,978, respectively, for charter expenses, marketing fees, and IT fees.

During the years ended March 31, the School had the following (income) expenses with Outward Bound USA (National OBS):

	2014	2013
Charter expense	\$ 39,550	\$ 52,706

Outward Bound Services Group (OBSG), formerly the National Programs Service Association, is a newly formed Organization that is now the National call center for all Outward Bound charters. The School is a member of OBSG and also shares some of its personnel and facilities with OBSG. During the years ended March 31, 2014 and 2013, the School invoiced OBSG \$50,979 and \$53,568, respectively, for rent and payroll reimbursements. As of March 31, 2014 and 2013, OBSG owed the School \$23,714 and \$-0-, respectively. During the years ended March 31, 2014 and 2013, the School incurred marketing fees of \$273,583 and \$284,874, respectively, to OBSG. As of March 31, 2014 and 2013, the School owed OBSG \$19,335 and \$-0-, respectively.

The School receives a significant amount of contributions from members of the Board of Directors. The total amount of contributions received from the members for the years ended March 31, 2014 and 2013 was \$141,483 and \$163,128, respectively, which represented 9% and 5% of total contributions received during each year.

## North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2014 and 2013

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### Note R – Concentrations of credit risk:

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The School maintains its cash balances in bank deposit accounts with three financial institutions, which, at times, may exceed federally insured limits. The School has not experienced any losses in such accounts. As of March 31, 2014 and 2013, the School's uninsured cash balance totaled approximately \$578,804 and \$371,900, respectively.

### Note S – Intentions to give:

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Periodically, the School receives notification of donors' intentions to give through bequests included in wills and charitable remainder trusts. According to the criteria for revenue recognition under FASB ASC 958-605, intentions to give are not recorded until they are legally enforceable. Intentions to give for the years ended March 31, 2014 and 2013 total approximately \$3,190,000. The School received notification of one donor's intention to give through a bequest in a will. The amount for the additional intention to give is undetermined at this point in time.

### Note T – Commitments:

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North Carolina Outward Bound School has an employment services agreement with Tensaw Wilderness School dba Alabama Outward Bound School (AOBS). Under this agreement, North Carolina Outward Bound School contracts out its at-risk field staff employees to AOBS to deliver its at-risk programs. North Carolina Outward Bound School is also responsible for the administration of scheduling all seasonal at-risk staff and payment of all payroll and payroll taxes customarily performed by an employer for its employees. During 2014, AOBS was dissolved.

### Note U – Fair value of financial instruments:

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As required by FASB ASC 820-10, as of March 31, 2014, the School's fair value measurements for investments that are measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall are as follows:

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Assets:				
Pledges receivable	\$ -	\$ -	\$ 427,406	\$ 427,406
Long-term investments:				
Money market funds	2,545	-	-	2,545
Corporate fixed income instruments	-	4,415,833	-	4,415,833
Stocks	6,630,607	-	-	6,630,607

## North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2014 and 2013

### Note U – Fair value of financial instruments – continued:

Cash surrender value of life insurance	-	30,560	-	30,560
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Total assets measured at fair value	\$ 6,633,152	\$ 4,446,393	\$ 427,406	\$11,506,951
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The reconciliation of significant unobservable inputs (level 3) for pledges receivable is as follows:

Beginning balance, April 1, 2013	\$ 276,331
Additional contributions	464,553
Less increase in discount on pledges receivable	11,768
Less payments	301,710

Ending balance, March 31, 2014	\$ 427,406
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As required by FASB ASC 820-10, as of March 31, 2013, the School's fair value measurements for investments that are measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall are as follows:

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Assets:				
Pledges receivable	\$ -	\$ -	\$ 276,331	\$ 276,331
Long-term investments:				
Money market funds	661,852	-	-	661,582
Corporate fixed income instruments	-	1,986,017	-	1,986,017
Stocks	7,616,702	-	-	7,616,702
Cash surrender value of life insurance	-	35,789	-	35,789
Total assets measured at fair value	\$ 8,278,554	\$ 2,021,806	\$ 276,331	\$10,576,691

## North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2014 and 2013

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### **Note U – Fair value of financial instruments – continued:**

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The reconciliation of significant unobservable inputs (level 3) for pledges receivable is as follows:

Beginning balance, April 1, 2012	\$	88,191
Additional contributions		276,331
Decrease in discount on pledges receivable		15,700
Less payments		103,891
<hr/>		
Ending balance, March 31, 2013	\$	276,331

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Valuation techniques: Fair values for pledges receivable are based on a discounted interest rate to net present value. Fair values for long-term investments are based on quoted market prices in active and inactive markets. Fair values for cash surrender value of life insurance are based on the School's share of the cash surrender value of the respective life insurance policies as presented by the insurance companies.

Change in valuation techniques: None.

### **Note V – Net assets reclassification:**

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During the year ended March 31, 2014, the School reclassified net assets in the amount of \$361,015 related to an amount collateralizing a line of credit with an investment brokerage firm that has been paid off and had been previously reported as unrestricted net assets to temporarily restricted net assets. This reclassification is reported on the statement of activities.

### **Note W – Subsequent events:**

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The School's investments are subject to various risks, including interest risk, credit risk and overall market volatility. No adjustment has been made in the accompanying financial statements for such market changes attributable to the period of volatility subsequent to March 31, 2014.

The School has evaluated events that have occurred after March 31, 2014 and prior to September 29, 2014 (the date of issuance) for potential recognition or disclosure in the financial statements.

## **Supplementary Information**

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## North Carolina Outward Bound School

### Schedule of Functional Expenses

Year Ended March 31, 2014

	School Program Services			Total School Program Services
	Program Delivery	Atlanta Programming	Program Administrative	
Salaries and wages	\$ 1,795,028	\$ 24,874	\$ 536,299	\$ 2,356,201
Benefits and payroll taxes	242,628	21,166	79,168	342,962
<b>Total</b>	<b>2,037,656</b>	<b>46,040</b>	<b>615,467</b>	<b>2,699,163</b>
Bad debt expense	-	-	33,756	33,756
Bank and brokerage fees	1,012	-	-	1,012
Board meetings	-	-	-	-
Charter and other fees	-	6,804	17,157	23,961
Consulting	-	-	40,075	40,075
Contract instruction	46,638	-	975	47,613
Dues and subscriptions	405	18	180	603
Education and training	11,614	-	11,521	23,135
Food and kitchen supplies	243,522	244	-	243,766
Gifts and awards	-	-	3,677	3,677
Insurance	330,529	10,846	1,667	343,042
Interest	4,278	-	10,788	15,066
Lease and equipment rental	105,283	1,800	1,298	108,381
Marketing and advertising	-	-	1,629	1,629
Miscellaneous	30,577	102	4,320	34,999
Postage and freight	2,751	91	673	3,515
Printing, photography and production	680	535	3,812	5,027
Professional fees	9,525	-	7,537	17,062
Recons and program development	-	-	465	465
Repairs and maintenance	55,448	2,417	7,779	65,644
Special programs	-	-	1,312	1,312
Supplies	129,054	794	5,639	135,487
Taxes	11,725	-	-	11,725
Travel and vehicle	299,602	6,110	25,391	331,103
User fees	96,892	-	-	96,892
Utilities	136,438	2,167	14,645	153,250
<b>Total expenses before scholarships and depreciation</b>	<b>3,553,629</b>	<b>77,968</b>	<b>809,763</b>	<b>4,441,360</b>
Scholarships	985,719	-	-	985,719
<b>Total expenses before depreciation</b>	<b>4,539,348</b>	<b>77,968</b>	<b>809,763</b>	<b>5,427,079</b>
Depreciation	58,461	647	92,632	151,740
<b>Total expenses</b>	<b>\$ 4,597,809</b>	<b>\$ 78,615</b>	<b>\$ 902,395</b>	<b>\$ 5,578,819</b>

Supporting Services							
General and Administrative	Marketing	Student Services	Professional Program Sales	Development	Total Supporting Services	Totals	
\$ 405,204	\$ 14,277	\$ 269,100	\$ 60,558	\$ 109,249	\$ 858,388	\$ 3,214,589	
77,689	5,600	50,614	11,940	20,749	166,592	509,554	
482,893	19,877	319,714	72,498	129,998	1,024,980	3,724,143	
-	-	-	-	-	-	33,756	
11,857	-	47,189	-	67	59,113	60,125	
11,546	-	-	-	-	11,546	11,546	
15,589	273,581	-	-	-	289,170	313,131	
-	-	-	-	45,433	45,433	85,508	
-	-	1,200	-	-	1,200	48,813	
3,240	-	-	-	-	3,240	3,843	
903	-	-	373	-	1,276	24,411	
-	-	-	-	-	-	243,766	
66,108	-	-	-	780	66,888	70,565	
41,467	1,052	4,884	1,166	4,599	53,168	396,210	
15,990	-	10,699	2,782	8,559	38,030	53,096	
1,553	553	7,397	362	1,108	10,973	119,354	
-	21,058	-	-	-	21,058	22,687	
10,153	2	384	1,011	7,326	18,876	53,875	
10,639	1,477	2,270	56	3,788	18,230	21,745	
-	15,431	934	-	20,302	36,667	41,694	
54,991	6,006	-	-	-	60,997	78,059	
-	889	-	-	-	889	1,354	
25,303	3,311	8,270	2,150	6,619	45,653	111,297	
-	38,537	4,933	-	-	43,470	44,782	
33,380	6	4,328	4,187	1,145	43,046	178,533	
-	-	-	-	-	-	11,725	
18,994	982	2,625	1,516	2,493	26,610	357,713	
-	-	-	-	-	-	96,892	
14,246	4,147	15,244	3,295	8,722	45,654	198,904	
818,852	386,909	430,071	89,396	240,939	1,966,167	6,407,527	
-	-	-	-	-	-	985,719	
818,852	386,909	430,071	89,396	240,939	1,966,167	7,393,246	
13,960	4,977	12,446	3,232	9,962	44,577	196,317	
\$ 832,812	\$ 391,886	\$ 442,517	\$ 92,628	\$ 250,901	\$ 2,010,744	\$ 7,589,563	



## North Carolina Outward Bound School

### Schedule of Functional Expenses

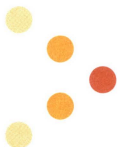
Year Ended March 31, 2013

	School Program Services			Total School Program Services
	Program Delivery	Atlanta Programming	Program Administrative	
Salaries and wages	\$ 1,789,940	\$ 43,870	\$ 519,815	\$ 2,353,625
Benefits and payroll taxes	276,061	33,100	74,431	383,592
<b>Total</b>	<b>2,066,001</b>	<b>76,970</b>	<b>594,246</b>	<b>2,737,217</b>
Bank and brokerage fees	1,824	210	-	2,034
Board meetings	-	-	-	-
Charter and other fees	-	6,804	18,999	25,803
Consulting	-	-	37,850	37,850
Contract instruction	29,322	(400)	90	29,012
Dues and subscriptions	490	18	-	508
Education and training	10,363	-	11,680	22,043
Food and kitchen supplies	233,675	283	-	233,958
Gifts and awards	-	557	1,748	2,305
Insurance	276,357	32,799	555	309,711
Interest	356	-	823	1,179
Lease and equipment rental	104,402	1,800	1,380	107,582
Marketing and advertising	-	-	6,583	6,583
Miscellaneous	1,108	52	11,663	12,823
Postage and freight	2,901	23	820	3,744
Printing, photography and production	710	3	2,187	2,900
Professional fees	1,093	375	8,851	10,319
Recons and program development	-	-	218	218
Repairs and maintenance	103,061	2,768	7,708	113,537
Special programs	-	-	1,275	1,275
Supplies	101,321	824	7,992	110,137
Taxes	10,495	-	-	10,495
Travel and vehicle	310,047	5,248	22,260	337,555
User fees	91,856	-	-	91,856
Utilities	117,864	2,771	12,606	133,241
<b>Total expenses before scholarships and depreciation</b>	<b>3,463,246</b>	<b>131,105</b>	<b>749,534</b>	<b>4,343,885</b>
Scholarships	710,688	-	-	710,688
<b>Total expenses before depreciation</b>	<b>4,173,934</b>	<b>131,105</b>	<b>749,534</b>	<b>5,054,573</b>
Depreciation	77,839	657	97,685	176,181
<b>Total expenses</b>	<b>\$ 4,251,773</b>	<b>\$ 131,762</b>	<b>\$ 847,219</b>	<b>\$ 5,230,754</b>

Supporting Services							
General and Administrative	Marketing	Student Services	Professional Program Sales	Development	Total Supporting Services	Totals	
\$ 341,556	\$ 51,304	\$ 251,700	\$ 62,465	\$ 176,987	\$ 884,012	\$ 3,237,637	
45,773	9,014	51,982	13,518	29,584	149,871	533,463	
387,329	60,318	303,682	75,983	206,571	1,033,883	3,771,100	
5,736	-	44,831	-	16	50,583	52,617	
5,292	-	-	-	-	5,292	5,292	
26,903	284,868	-	-	-	311,771	337,574	
-	-	-	-	4,238	4,238	42,088	
-	-	5,200	-	-	5,200	34,212	
2,802	-	-	-	6,526	9,328	9,836	
-	-	-	281	358	639	22,682	
-	-	-	-	-	-	233,958	
36,515	-	-	-	329	36,844	39,149	
75,097	509	1,682	2,361	1,333	80,982	390,693	
52,026	-	875	227	700	53,828	55,007	
1,278	555	5,210	364	1,214	8,621	116,203	
-	29,155	-	-	-	29,155	35,738	
27,801	6	150	1,804	9,571	39,332	52,155	
6,336	1,852	1,423	48	9,310	18,969	22,713	
-	24,787	640	-	33,101	58,528	61,428	
44,527	2,322	-	-	-	46,849	57,168	
-	4,179	-	-	-	4,179	4,397	
26,867	3,084	7,705	2,002	5,881	45,539	159,076	
-	25,841	34,252	-	-	60,093	61,368	
24,994	136	1,580	2,347	2,536	31,593	141,730	
-	-	-	-	-	-	10,495	
14,916	10,023	2,193	2,704	11,101	40,937	378,492	
-	-	-	-	-	-	91,856	
20,184	3,523	12,116	2,521	7,558	45,902	179,143	
758,603	451,158	421,539	90,642	300,343	2,022,285	6,366,170	
-	-	-	-	-	-	710,688	
758,603	451,158	421,539	90,642	300,343	2,022,285	7,076,858	
14,421	5,468	13,664	3,552	10,230	47,335	223,516	
\$ 773,024	\$ 456,626	\$ 435,203	\$ 94,194	\$ 310,573	\$ 2,069,620	\$ 7,300,374	

**North Carolina Outward Bound School**  
Asheville, North Carolina

Compliance Reports  
Year Ended March 31, 2014



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
North Carolina Outward Bound School  
Asheville, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of North Carolina Outward Bound School (a nonprofit organization), which comprise the statement of financial position as of March 31, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 29, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered North Carolina Outward Bound School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of North Carolina Outward Bound School's internal control. Accordingly, we do not express an opinion on the effectiveness of North Carolina Outward Bound School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in

**Johnson Price Sprinkle PA**

internal control, described in the accompanying schedule of findings and questioned costs as 2014-1 that we consider to be a significant deficiency.

### **Compliance and Other Matters**

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

We noted certain matters that we reported to management of North Carolina Outward Bound School, in a separate letter dated September 29, 2014.

### **North Carolina Outward Bound School's Response to Findings**

North Carolina Outward Bound School's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. North Carolina Outward Bound School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

*Johnson Price Sprinkle PA*

September 29, 2014



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
FOR EACH MAJOR STATE PROJECT AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE *FLORIDA SINGLE AUDIT ACT***

To the Board of Directors  
North Carolina Outward Bound School  
Asheville, North Carolina

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

We have audited North Carolina Outward Bound School's compliance with the types of compliance requirements described in the *Florida Single Audit Act*, Section 215.97 of the Florida Statutes that could have a direct and material effect on each of North Carolina Outward Bound School's major state projects for the year ended March 31, 2014. North Carolina Outward Bound School's major state projects are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state projects.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of North Carolina Outward Bound School's major state projects based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Florida Single Audit Act*, Section 215.97 of the Florida Statutes. Those standards and the *Florida Single Audit Act*, Section 215.97 of the Florida Statutes require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state project occurred. An audit includes examining, on a test basis, evidence about North Carolina Outward Bound School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state project. However, our audit does not provide a legal determination of North Carolina Outward Bound School's compliance.

**Johnson Price Sprinkle PA**

**Basis for Qualified Opinion on the Department of Juvenile Justice – Children and Families in Need of Services Grant**

As described in the accompanying schedule of findings and questioned costs, North Carolina Outward Bound School did not comply with requirements regarding CSFA 80.005 Children and Families in Need of Services grant as described in finding number 2014-2 for Criteria for Participation. Compliance with such requirements is necessary, in our opinion, for North Carolina Outward Bound School to comply with the requirements applicable to that project.

**Qualified Opinion on the Department of Juvenile Justice – Children and Families in Need of Services Grant**

In our opinion, except for the noncompliance described in the “Basis for Qualified Opinion” paragraph, North Carolina Outward Bound School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Children and Families in Need of Services grant for the year ended March 31, 2014.

**Other Matters**

The results of our auditing procedures disclosed no instances of noncompliance, which are required to be reported in accordance with the *Florida Single Audit Act*, Section 215.97 of the Florida Statutes.

North Carolina Outward Bound School’s response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. North Carolina Outward Bound School’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**Report on Internal Control Over Compliance**

Management of North Carolina Outward Bound School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered North Carolina Outward Bound School’s internal control over compliance with the types of requirements that could have a direct and material effect on each major state project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state project and to test and report on internal control over compliance in accordance with the *Florida Single Audit Act*, Section 215.97 of the Florida Statutes, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of North Carolina Outward Bound School’s internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.



*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state project on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state project will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-2 and 2014-3 to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-4 to be a significant deficiency.

North Carolina Outward Bound School's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. North Carolina Outward Bound School's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

#### **Schedule of Expenditures of Federal and State Awards**

We have audited the financial statements of North Carolina Outward Bound School as of and for the year ended March 31, 2014, and have issued our report thereon dated September 29, 2014. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise North Carolina Outward Bound School's financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by the *Florida Single Audit Act* and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional audit 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 financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *Florida Single Audit Act*, Section 215.97 of the Florida Statutes. Accordingly, this report is not suitable for any other purpose.

*Johnson Price Sprinkle PA*

September 29, 2014

# North Carolina Outward Bound School

Schedule of Findings and Questioned Costs

Year Ended March 31, 2014

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## Section I Summary of Auditors' Results

### Financial Statements

Type of auditor's report issued: Unmodified

### Internal control over financial reporting

Material weakness(es) identified?  Yes  No

Significant deficiency(ies) identified that are not considered to be material weaknesses?  Yes  No

Noncompliance material to financial statements noted?  Yes  No

### State awards

### Internal control over major projects

Material weakness(es) identified?  Yes  No

Significant deficiency(ies) identified that are not considered to be material weaknesses?  Yes  No

Types of auditors' report issued on compliance for major projects: Qualified

Any audit findings disclosed that are required to be reported in accordance with the *Florida Single Audit Act*, Section 215.97 of the Florida Statutes?  Yes  No

Projects tested as major were:  
CSFA 80.005 Department of Juvenile Justice –  
Children and Families in Need of Services

The threshold for distinguishing Type A and Type B programs was \$259,468.

North Carolina Outward Bound School was not determined to be a low-risk auditee.

# North Carolina Outward Bound School

Schedule of Findings and Questioned Costs – continued

Year Ended March 31, 2014

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## Section II Financial Statement Findings

Finding: 2014-1 Journal Entries

### SIGNIFICANT DEFICIENCY

Criteria: The design or operation of internal controls should allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

Condition: There is no formal process for the approval and review of journal entries.

Effect: The possibility exists that a misstatement of the School's financial statements would not be prevented, or detected and corrected on a timely basis by management or employees.

Cause: A lack of formal review exists for journal entries. There is no internal control procedure in place to identify differences in a timely manner.

Recommendation: Management should consider developing and implementing procedures to determine that transactions are posted correctly and in a timely manner through a formal review.

Views of responsible officials and planned

corrective actions: Management of North Carolina Outward Bound School agrees with this finding and is taking the following corrective action steps:

- A formal policy and procedure will be created for review and approval of journal entries
- A whistle blower policy and procedure will be written with the following components:
  - Clear statement that employees have a responsibility to disclose possible wrongdoing
  - Designated complaint recipients outside the chain of command
  - A guarantee that employees who disclose in good faith will be protected from employment consequences
  - A process for fair and impartial investigation of complaints

Management of North Carolina Outward Bound School feels that this corrective action will help strengthen the existing preventive and detective controls that are already in place to ensure that transactions are posted correctly. These include but are not limited to:

- Formal review of general ledger transaction accounts by program and department staff
- Formal budget to variance analysis conducted by the Chief Financial Officer and Associate School Director
- Monthly bank reconciliation which requires review of all items posted to accounts payable journal

# North Carolina Outward Bound School

Schedule of Findings and Questioned Costs – continued

Year Ended March 31, 2014

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## Section II Financial Statement Findings – continued

- Monthly reconciliation of key accounts which involve review of individual transactions – prepaid items, recurring journal entries and contract entries
- Standard policies and procedures for all month end and year end journal entries
- Formal processes for periodic reconciliation of high volume accounts

## Section III State Award Findings

### **Department of Juvenile Justice**

Program Name: Children and Families in Need of Services

CSFA #: 80.005

Finding: 2014-2 Criteria for Participation

MATERIAL WEAKNESS

MATERIAL NONCOMPLIANCE

### Eligibility

Criteria: In accordance with Section C of the State of Florida, Department of Juvenile Justice contract, participation requirements must be met before children and families are accepted into the program.

Condition: During the eligibility sample selection, a student was selected from course F414. None of the files for this course were able to be located due to the files being taken offsite by a course instructor.

Effect: The School was in violation of the requirement to maintain adequate eligibility records limited to the appropriate parties.

Cause: There were no internal control procedures in place to prevent this violation from occurring.

Questioned cost: \$29,308

Context: Amount of questioned costs is the number of students participating in course F414 multiplied by twenty wilderness expedition days and \$81.41 for each youth for each expedition day not completed. The above factors were also applied to the twenty day follow up period.

Recommendation: Management should consider developing and implementing formal policies and procedures to maintain adequate eligibility records limited to appropriate parties based on the requirements of this contract that are maintained in a secure location. Management should also review eligibility files and course records on a regular basis.

Views of responsible officials and planned

corrective actions: Management of North Carolina Outward Bound School agrees with this finding and is taking the following corrective action steps:

- A formal policy and procedure will be developed for the maintenance and retention of student files onsite

# North Carolina Outward Bound School

Schedule of Findings and Questioned Costs – continued

Year Ended March 31, 2014

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## Section III State Award Findings – continued

- The policy will include a re-statement of contract requirements and guidelines for access
- Files will be maintained electronically where possible
- The procedure will include:
  - Directions for file storage and use
  - Limits on access to files to the appropriate parties

Finding: 2014-3 Accounting for Grant Transactions

### MATERIAL WEAKNESS

**Criteria:** Grant expenditures should be recorded in separate general ledger accounts to facilitate tracking of allowable costs and as appropriate accounting for grant transactions.

**Condition:** Grant transactions are co-mingled with other Florida program transactions in expense general ledger accounts. There is a separate bank account in which grant proceeds are deposited.

**Effect:** Not separately maintaining the expenditures of the Children and Families in Needs of Services grant prevents the grantee from being able to monitor and identify program activities without additional analysis. While there is a separate bank account the amounts deposited there are immediately transferred to an operating account and funds are expended from that account.

**Cause:** The School took over this grant from Outward Bound USA in January of 2012. This is the second full year of the grant. Management did not implement appropriate accounting for the grant transactions.

**Recommendation:** Management should consider developing separate general ledger accounts for the grant transactions. In addition, grant expenditures could be made from the bank account that is already set up.

Views of responsible officials and planned

**corrective actions:** Management of North Carolina Outward Bound School implemented a process last year for the separate accounting of grant expenditures. The requirements were met by the design of an allocation methodology for all expenditures related to the grant.

The process has not yet been formalized due to changes in the contract for 2015. The new contract stipulates similar separation of expenditures and it was cleared with the grant administrators that the allocation methodology would be sufficient to meet the standards in the new contract.

Implementation of the allocation methodology includes:

- Creation of a sub-ledger tracking system for the grant
- Calculation of the allocation percentages for all indirect grant expense

# North Carolina Outward Bound School

Schedule of Findings and Questioned Costs – continued

Year Ended March 31, 2014

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## Section III State Award Findings – continued

- Quarterly reconciliation of allocations

Finding: 2014-4 Criteria for Participation

### SIGNIFICANT DEFICIENCY

Criteria: In accordance with Section C of the State of Florida, Department of Juvenile Justice contract, participation requirements must be met before children and families are accepted into the program.

Condition: During the eligibility testing, two students were accepted into the program that did not meet the criteria for participation noted in Section C of the contract.

Effect: The School was in violation of providing services to children and families in need that do not meet the criteria for participation in accordance with Section C of the contract.

Cause: The intake evaluation forms used by the School do not match the criteria for participation in Section C of the contract.

Recommendation: Management should consider developing and implementing an intake evaluation form that corresponds to the criteria for participation in Section C of the contract. Management should also review eligibility files and course records on a regular basis.

Views of responsible officials and planned

corrective actions: Management of North Carolina Outward Bound School agrees with this finding and is taking the following corrective action steps:

- Intake evaluation forms used by the school will be changed to match the grant criteria for participation
- Intake staff will be trained on the grant criteria for participation
- Staff will periodically review samples of intake forms to ensure that all criteria are met for eligibility

# North Carolina Outward Bound School

Corrective Action Plan

Year Ended March 31, 2014

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## **Section II Financial Statement Findings**

Finding: 2014-1 Journal Entries

Name of contact person: Elizabeth Whitten, Chief Financial Officer  
Corrective action: Management agrees with the finding. A formal policy and procedure will be developed for journal entry review and a formal whistleblower policy will be developed.  
Proposed completion date: February 2015

## **Section III State Award Findings**

Finding: 2014-2 Criteria for Participation

Name of contact person: Elizabeth Whitten, Chief Financial Officer  
Corrective action: Management agrees with the finding. A formal policy and procedure will be developed for the maintenance and retention of student files.  
Proposed completion date: Immediately

Finding: 2014-3 Accounting for Grant Transactions

Name of contact person: Elizabeth Whitten, Chief Financial Officer  
Corrective action: Management agrees with the finding. A formal policy and procedure will be established for the allocation of grant expenditures.  
Proposed completion date: December 2014

Finding: 2014-4 Criteria for Participation

Name of contact person: Elizabeth Whitten, Chief Financial Officer  
Corrective action: Management agrees with the finding. A formal policy and procedure will be developed for student intake evaluation.  
Proposed completion date: Immediately



## North Carolina Outward Bound School

### Summary Schedule of Prior Year Audit Findings

Year Ended March 31, 2014

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Finding: 2013-1

Status: An enterprise wide policy and procedure was established for documenting and recording of pledges, donations and gifts that ensures proper documentation and acknowledgement of the gift at the time it is received. All relevant staff were trained.

Finding: 2013-2

Status: A Florida Programs Business office policy and procedure was established for submission of invoices related to contract terms and statute requirements.

Finding: 2013-3

Status: This finding is repeated again as 2014-3.

Finding: 2013-4

Status: Training on North Carolina Outward Bound's established procedures for approval of expenses was provided to Florida Programs staff.

No findings were reported for the years ended March 31, 2012 or 2011.

The Children and Families in Need of Services project was transitioned to North Carolina Outward Bound on January 1, 2012 as a result of a disaffiliation agreement of Outward Bound, Inc. with its Affiliating Organizations.

## North Carolina Outward Bound School

### Schedule of Expenditures of Federal and State Awards

Year Ended March 31, 2014

Federal/State Agency, Pass-through Entity, Federal Programs/State Project	CFDA/CSFA Number	Contract/ Grant No.	Expenditures
<b>FEDERAL AWARDS</b>			
<b>U.S. Department of Health and Human Services</b>			
Pass-Through State of Florida Department of Juvenile Justice, Social Services Block Grant	93.667/ 80.005	X1452	\$ 356,434
<b>Total U.S. Department of Health and Human Services</b>			<b>356,434</b>
<b>U.S. Department of Agriculture</b>			
Pass-Through State of Florida Department of Education National School Lunch Program	10.555		19,834
<b>Total U.S. Department of Agriculture</b>			<b>19,834</b>
<b>Total Expenditures of Federal Awards</b>			<b>376,268</b>
<b>STATE AWARDS</b>			
<b>Department of Juvenile Justice</b>			
Children and Families in Need of Services	80.005	X1452	508,458
<b>Total Department of Juvenile Justice</b>			<b>508,458</b>
<b>Total Expenditures of State Awards</b>			<b>508,458</b>
<b>Total Expenditures of Federal and State Awards</b>			<b>\$ 884,726</b>

#### **Note 1 - Basis of Presentation**

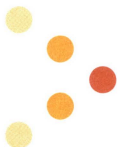
The accompanying schedule of expenditures of federal and state awards includes the federal grant activity and state projects of North Carolina Outward Bound School and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Chapter 691-5, Rules of the Florida Department of Banking and Finance, Florida Administration Code, *Schedule of Expenditures of State Financial Assistance*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

# **North Carolina Outward Bound School**

Asheville, North Carolina

## **Auditor Communications**

Years Ended March 31, 2014 and 2013



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## Communications With Those Charged With Governance

To the Audit Committee  
North Carolina Outward Bound School  
Asheville, North Carolina

We have audited the financial statements of North Carolina Outward Bound School for the year ended March 31, 2014, and have issued our report thereon dated September 29, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and the *Florida Single Audit Act*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated February 10, 2014. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by North Carolina Outward Bound School are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended March 31, 2014. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the useful life for property and equipment is based on historical evidence of the actual useful life. Management's estimate of the fair value of investments is based on fair value market amounts. Management's estimate of the allocation of expenses by function is based on an analysis of the number of employees worked in each department. We evaluated the key factors and assumptions used to develop the above described estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Johnson Price Sprinkle PA

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure regarding bank notes payable in Note H of the financial statements, the disclosure regarding line of credit payable in Note I, and disclosures regarding net asset designations and restrictions, endowments and release of those restrictions in Notes J, K, L, and M. We evaluated the key factors for these disclosures in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of the audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

#### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Several internal control matters are reported as part of the compliance requirements under *Government Auditing Standards* and have not been separately reported in this communication. Those matters should be considered through your evaluation of the compliance reports.

### Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Audit Committee, Board of Directors and management of North Carolina Outward Bound School and is not intended to be and should not be used by anyone other than these specified parties.

*Johnson Price Sprinkle PA*

September 29, 2014

Client: **06227 - North Carolina Outward Bound School**  
 Engagement: **06227 - North Carolina Outward Bound School**  
 Trial Balance: **TB**  
 Workpaper: **3700.10 - Passed Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
<b>Passed Journal Entries JE # 8</b>		<b>3700.25</b>		
To record prior period adjustment for cost/basis differences in MS.				
02-4971-110-101	UNREALIZED GAIN/LOSS - BUCKLEY		6,394.15	
02-4972-110-101	UNREALIZED GAIN/LOSS - RDIII		1,434.88	
02-4973-110-101	UNREALIZED GAIN/LOSS - JAMES		6,685.27	
02-4975-110-101	UNREALIZED GAIN/LOSS - BLANK		12,057.22	
02-3200-110-000	NET ASSETS			10,007.58
02-4931-110-101	Unrealized Gain / Loss - Endowments			13,718.35
02-4974-110-101	UNREALIZED GAIN/LOSS - STETSON			1,640.80
02-4976-110-101	UNREALIZED GAIN/LOSS - SSEE			1,204.79
<b>Total</b>			<b><u>26,571.52</u></b>	<b><u>26,571.52</u></b>
<b>Passed Journal Entries JE # 12</b>		<b>3700.35</b>		
To record prior period adjustment for prior year revenue/expenses.				
01-3100-110-000	UNRESTRICTED NET ASSETS		9,386.97	
01-4108-126-125	ATLANTA COMM BASED SCHOL - Atlanta Ropes Course		1,190.00	
01-5135-126-101	RETIREMENT PLAN - ATL		630.22	
01-5465-110-101	MISCELLANEOUS		14,365.81	
02-5991-110-101	NARR RESTRICTED OPERATING		5,000.00	
02-5991-110-101	NARR RESTRICTED OPERATING		15,920.00	
01-4991-110-101	NARR - OPERATING			2,000.00
01-4991-110-101	NARR - OPERATING			15,920.00
01-5465-110-101	MISCELLANEOUS			7,653.00
02-3200-110-000	NET ASSETS			17,920.00
02-5991-110-101	NARR RESTRICTED OPERATING			3,000.00
<b>Total</b>			<b><u>46,493.00</u></b>	<b><u>46,493.00</u></b>



To the Board of Directors  
North Carolina Outward Bound School  
Asheville, North Carolina

In planning and performing our audit of the financial statements of North Carolina Outward Bound School as of and for the year ended March 31, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered North Carolina Outward Bound School's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

However, during our audit we became aware of a number of matters that are opportunities for strengthening internal controls and operating efficiency. This letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated September 29, 2014 on the financial statements of North Carolina Outward Bound School.

#### Accounting Policies

At the present time, the Organization has minimal formal accounting policies. We have previously discussed with the Organization the need for formal adoption of accounting policies. During the current year, we noted that the capitalization policy had been updated and that a gift acceptance policy had been adopted and implemented. We commend the Board and management for adopting and implementing these policies as well as attempting to better document internal accounting procedures. With the significant changes in personnel that have taken place and as a means to mitigate risk, we feel the Organization would benefit from developing and implementing additional formal accounting policies that would succeed any such personnel changes. We also recommend that as a part of this process, that the Board and management consider adopting and implementing policies regarding endowment accounting activity and review of investment activity by the Finance Committee to assess compliance with donor imposed restrictions and to mitigate the risk of fraud.

#### Formal Review and Approval

During the audit we noted that there is no formal review or approval of bank reconciliations or payroll reports. While these documents are informally reviewed, we recommend that the Board and management consider some type of formal sign off or indication that these reports have been reviewed. Adoption of a formal accounting policy as mentioned above would assist with the implementation of this process.

Johnson Price Sprinkle PA

### Inadequate Segregation of Duties

Since the change in accounting personnel, we noted that the Chief Financial Officer has the ability to post to the accounting records, to set up vendors, initiate cash disbursements, review the cash requirements report, and sign checks. We also noted that there are several Program Directors and the Director of At Risk Programs that have the ability to set up new vendors and approve cash disbursements. We recommend that the Board and management have the Executive Director or another key member of management review the bank reconciliations to mitigate the risk of fraud related to management override of controls and lack of segregation of duties with regard to cash disbursements. As an alternative, the Board and management might consider removing the Chief Financial Officer's ability to post to accounting records and setting up new vendors and remove the Program Directors' and the Director of At Risk Programs' ability to either set up new vendors or approve cash disbursements.

### Board Meeting Minutes

While Board meetings occurred during the year, we noted that subsequent to July 2013 the Board approved actions that occurred during those meetings were not formally documented in the form of Board meeting minutes. We recommend that Board meeting minutes be kept and maintained for each Board meeting so that any formal actions taken by the Board are documented.

### Immaterial Noncompliance

With regard to report testing for the State of Florida Department of Juvenile Justice grant, we noted that there are several reports listed in the grant contract that are required to be filed, including an annual budget, that were not prepared and submitted to the Department of Juvenile Justice. We spoke with the Department of Juvenile Justice regarding these reports, and the Department of Juvenile Justice did not request them from the School. We recommend that any reports that are required by the contract be prepared and submitted to the Department of Juvenile Justice. We also recommend that management develop and implement policies related to the grant for the preparation, review and approval, and submission of such reports.

This report is intended solely for the information and use of the Board of Directors, management and others within the Organization.

We have enjoyed this opportunity to work with North Carolina Outward Bound School and its staff and look forward to working with you in the future.

If we can advise or help implement changes for the items mentioned above or help with any other matters, please let us know.

*Johnson Price Sprinkle PA*

September 29, 2014